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Office of Inspector General Report to The Congress for the Six Month Period

April 1, 1979 to September 30, 1979

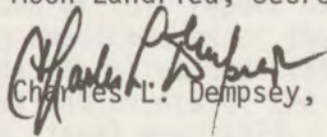
Pursuant to Public Law 95-452



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20410

October 31, 1979

TO : Moon Landrieu, Secretary, S

FROM :  Charles L. Dempsey, Inspector General, Z

SUBJECT: Semiannual Report on Activities of Office of Inspector General

Pursuant to section 5(b) of the Inspector General Act of 1978, I respectfully submit our semiannual report on the activities of the Office of Inspector General for the period April 1, 1979 to September 30, 1979.

Section 5(b) requires that you transmit this report to the appropriate committees or subcommittees of the Congress within thirty days after its receipt, together with your own report containing any comments you deem appropriate.

FOREWORD

This report, consisting of two parts, is the HUD Office of Inspector General's second semiannual report to Congress pursuant to section 5 of the Inspector General Act of 1978 (Public Law 95-452).

The purpose of this report is to not only address the individual reporting requirements of the Inspector General Act of 1978, but also to provide narrative and statistical summaries of the significant activities and events of the Office of Inspector General for the completed fiscal year 1979.

Part 1 provides information on Office of Inspector General activities for the six-month period April 1, 1979 to September 30, 1979 and is furnished in direct response to each of the specific reporting requirements of section 5 of the Inspector General Act of 1978.

Part 2, beginning on page 37, provides information on Office of Inspector General activities and special efforts for the entire fiscal year 1979 (October 1, 1978 to September 30, 1979).

Appropriate Appendices are included at the end of the report in order to provide additional background and lend further perspective to the matters disclosed in the body of the report.

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SUMMARY

PART 1: INFORMATION ON OIG ACTIVITIES FOR THE PERIOD APRIL 1, 1979 TO SEPTEMBER 30, 1979 FURNISHED IN RESPONSE TO REPORTING PROVISIONS OF THE INSPECTOR GENERAL ACT OF 1978

A. SIGNIFICANT PROBLEMS, ABUSES, DEFICIENCIES AND RECOMMENDATIONS (page 1)

During the period April 1, 1979 to September 30, 1979, we reported many important matters to HUD management with recommendations for corrective action. The former Secretary and HUD's other Primary Organization Heads responded favorably to such reports, and due to HUD's Audits Management System, all of our significant recommendations were either closed or were about to be closed at September 30, 1979. Because of its significance, however, we believe the review described below is worthy of mention to Congress.

Special Operational Survey - Section 8 Leased Housing Program

We performed a three-phase Special Operational Survey of the Section 8 Leased Housing Program on a nationwide basis which was designed to detect indications of program irregularities and to assess their magnitude. The results of this Survey indicated that there are serious weaknesses in the administration and delivery of the Section 8 Program. We based this conclusion on the extent of management and tenant irregularities identified, the extent of administrative deficiencies detected, and the number of Section 8 projects and units with violations of HUD's Housing Quality Standards, as well as the degree of their significance. With respect to the latter, we projected that the Department could be paying as much as \$23 million per month in housing assistance for Section 8 units which do not meet HUD's Housing Quality Standards.

In our final survey report, we made recommendations to HUD management designed to improve such areas as: project monitoring; project and tenant billing; verification of tenant income; sanctioning of program abusers; and dwelling unit quality. The Assistant Secretary for Housing-Federal Housing Commissioner agreed with our recommendations and initiated actions to correct the weaknesses disclosed. We are closely monitoring these actions and will report on their status in the next semiannual report.

B. OTHER SIGNIFICANT CONCERNS (page 9)

Need for HUD to Improve Its Monitoring of Program Participants

In our previous semiannual report to Congress, we indicated that HUD was experiencing problems in monitoring program participants. Our audit reports during the current reporting period once again disclosed instances wherein problems and deficiencies on the part of program participants were going undetected and uncorrected due to insufficient

on-site reviews by HUD Field personnel. In order to improve Departmental monitoring efforts, HUD's Committee on Fraud, Waste, and Mismanagement has initiated a project designed to establish better standards and procedures for monitoring HUD's program delivery. We are continuing our efforts to track HUD's progress in this area during the current fiscal year.

Reviews of Clifton Terrace Apartments (Washington, D.C.)

In early 1977, we initiated an audit of the Clifton Terrace Apartments project. We were, however, unable to complete a full audit of this Project due to the poor condition of the Project's books and records, which were incomplete, inaccurate, and in some instances unavailable. Based on the limited review made, we issued a report dated May 27, 1977, covering about a three-year period ending May 1, 1977. In our report, we disclosed examples of deficiencies in the financial management of the Project such as: improper and unnecessary costs charged to the Project; inadequate documentation in support of costs; and the lack of audited financial statements and properly maintained financial records. Our recommendations included, among other matters, that the Mortgagor, P.I. Properties, Inc., be required to reconstruct the Project's books and records and that consideration be given to the appointment of a new independent management agent for the Project.

Following the issuance of the report, the Washington Area Office worked with the Mortgagor to correct the reported deficiencies. However, the poor financial condition of the Project persisted and HUD subsequently acquired the Project through foreclosure on August 28, 1978.

Because of alleged improprieties, we initiated a subsequent audit of the Project in February 1979. Our examination of the available books and records of the Project, completed in September 1979, disclosed improper expenditures and other irregularities. The U.S. Attorney's Office in Washington, D.C., was briefed on the results of our audit. Investigation is ongoing under the guidance of the U.S. Attorney's Office.

Reviews of Controls Over Furniture and Equipment

Several of our audit reports issued during the current reporting period April 1, 1979 to September 30, 1979 have disclosed deficiencies in HUD's control and utilization of furniture and equipment. We are thus continuing our review of HUD's controls over the purchase, utilization, and disposition of furniture and equipment during FY 1980. Because this appears to be a governmentwide problem, we are participating with the Inspector General of the General Services Administration and other Inspectors General in a governmentwide review of this area.

C. SUMMARY AND RESULTS OF REFERRALS TO PROSECUTIVE AUTHORITIES (page 11)

Our Office of Investigation referred 410 investigation cases for prosecutive consideration during the period April 1, 1979 to September 30, 1979. Of these cases, 180 were referred directly to the FBI with no investigation on our part. Also, during this period, a total of 78 investigation cases resulted in the indictment, or indictment and conviction, or conviction of 121 persons/firms having business with HUD. Moreover, a total of 85 persons/firms were convicted during the six-month period. They received a total of 58 years imprisonment, 187 years probation, suspended sentences of 21 years, fines amounting to \$231,272 and were required to make restitution amounting to \$63,656.

D. REVIEW OF LEGISLATION AND REGULATIONS (page 19)

During the period April 1, 1979 to September 30, 1979, we reviewed, pursuant to section 4(a)(2) of the Inspector General Act, 44 proposed new regulations or revisions to existing regulations, an undetermined number of existing regulations and statutes in conjunction with our internal audits, and 70 proposed new legislative bills or revisions to existing bills. Although we had many important comments and concerns as a result of these reviews, we believe that our comments and concerns relative to three legislative proposals are particularly worthy of mention to Congress. The legislative proposals involved are the: (1) Criminal Code Revision Act of 1979; (2) S.904 - Federal Assistance Reform and Small Community Act of 1979; and (3) H.R. 5381 - To Amend the Federal Property and Administrative Services Act of 1949. Our comments on these bills are shown in section V.

E. AUDIT REPORTS COMPLETED (page 21)

During the period April 1, 1979 to September 30, 1979, we issued 730 external audit/accounting system evaluation reports and 56 internal audit/survey reports. These reports are individually listed in section VII.

PART 2: INFORMATION ON OIG ACTIVITIES DURING FY 1979

A. AUDIT OPERATIONS (page 37)

During FY 1979, our Office of Audit: (1) issued 1,061 external audit/accounting system evaluation reports and 147 internal audit/survey reports; (2) accepted 176 external audit reports covering HUD activities prepared by other Federal agencies; (3) reviewed and accepted 3,977 external audit reports prepared by non-Federal auditors; (4) reported 8,317 audit findings, including

monetized findings of \$19.8 million which were concurred in by HUD; (5) produced cash recoveries as a result of audits totaling \$6.2 million and achieved pricing proposal reductions of about \$428 thousand; (6) spent 26 direct audit staff years monitoring the work of Independent Public Accountants whose audits, in turn, resulted in \$11.4 million of monetized audit findings which were concurred in by HUD and cash recoveries of nearly \$6.9 million; (7) spent 10.3 direct audit staff years following up on the resolution of audit findings and resolved 7,679 audit findings, or about 99 percent of the 7,758 findings for which HUD's Audits Management System time frames for resolution had expired; (8) referred three mortgage companies to HUD's Mortgagee Review Board for appropriate action; and (9) devoted 9.2 direct audit staff years to assisting U.S. Attorneys in their prosecutions.

B. INVESTIGATION OPERATIONS (page 51)

During FY 1979, our Office of Investigation: (1) opened 2,008 investigation cases involving HUD personnel, or persons or firms doing business with HUD; (2) aided in the indictment of 207 persons or firms having business with HUD; (3) carried out investigations which led to the conviction of 182 persons or firms who received fines totaling over \$546 thousand and prison sentences totaling nearly 106 years; (4) conducted investigations which led to 250 debarments and 244 suspensions of persons or firms; (5) produced cash recoveries as a result of investigations amounting to \$1.8 million; (6) monitored, under HUD's personnel security program, 343 Full Field Investigations and 3,133 National Agency Checks and Inquiries, reinvestigated 72 incumbents and conducted 225 preappointment National Agency Checks; and (7) administered a document security program for HUD covering more than 575 classified documents.

C. FRAUD CONTROL OPERATIONS (page 58)

During FY 1979, our Fraud Control Division: (1) coordinated and conducted eight monthly meetings of HUD's Committee on Fraud, Waste, and Mismanagement and participated in ten Committee-sponsored projects; (2) established a HUD employee hotline and coordinated efforts with GAO hotline personnel and, in the process, received 267 hotline complaints; (3) implemented a Departmentwide Fraud Vulnerability Assessment System; (4) established a mechanism to include the evaluation of controls in all existing HUD programs on a continuing basis as a management goal in HUD's Executive Management Reporting System; (5) initiated a program involving the issuance of a series of Fraud Information Bulletins designed to alert HUD employees to the types of fraudulent or abusive schemes affecting HUD programs; (6) implemented a long-range project to prepare an

inventory of HUD programs and activities together with related management controls; (7) established liaison and working relationships with several Federal agencies and other state, local, or private entities relating to the detection and prevention of fraud and abuse in Federal programs.

D. OPERATIONAL SURVEY OPERATIONS (page 67)

During FY 1979, our Offices of Audit and Investigation: (1) issued ten Operational Survey reports covering the operations of HUD Field Offices which resulted in the opening of 92 investigation cases; (2) issued ten reports on administrative deficiencies as a result of Operational Surveys; and (3) issued a nationwide Operational Survey report covering the Section 8 Leased Housing Program which resulted in five major findings, numerous recommendations for corrective action, and the opening of 189 investigation cases.

E. OTHER OPERATIONS AND ACTIVITIES (page 70)

During FY 1979, we also: (1) processed 43,784 requests for information on the previous participation of individuals and firms applying to participate in HUD programs; (2) processed 147 requests for information under the Freedom of Information Act and 15 requests under the Privacy Act; (3) reviewed 101 proposed new regulations or revisions to existing regulations, an undetermined number of existing regulations and statutes in connection with internal audits, and 96 proposed legislative bills or revisions to existing legislation; and (4) had over 700 enrollments in formal training courses, seminars, and symposiums which resulted in over 2,700 workdays being devoted to employee training and development.

BACKGROUND

ESTABLISHMENT

The Office of Inspector General (OIG), Department of Housing and Urban Development (HUD), was established on January 29, 1972. The establishment of the OIG provided for the consolidation of the audit, investigation, and personnel security operations of HUD into one cohesive and independent organization headed by an Inspector General reporting directly to the Secretary.

The establishment of Offices of Inspector General became a matter of law with the signing of the Inspector General Act of 1978 on October 12, 1978. This Act provided for the establishment of such offices in 12 departments and agencies of the Executive Branch.

ROLE AND AUTHORITY

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

The Inspector General reports directly to the Secretary of HUD and is a member of the Secretary's Principal Staff. The Inspector General has authority to inquire into all programs and activities of HUD and the related activities of persons or parties performing under grants, contracts or other agreements with the Department. These inquiries may be in the form of audits, surveys, criminal and other investigations, personnel security checks, or such other inquiries as may be appropriate in the circumstances. The primary purpose of these inquiries is to assist all levels of HUD management by identifying and reporting on problem areas and weaknesses or deficiencies in procedures, policies, and employee conduct; and to recommend corrective actions when appropriate.

Pursuant to the Inspector General Act of 1978, the Inspector General is responsible for providing leadership, supervision and coordination; and for recommending policies for, activities and organizational relationships designed to promote economy, efficiency, and effectiveness in the administration of programs and operations, as well as to detect and prevent fraud and abuse in such programs and operations. In this regard, the Inspector General is responsible for keeping the Secretary and the Congress fully and currently informed about problems and deficiencies in the administration of HUD's programs and operations and the necessity for and progress of corrective action.

RELATIONSHIP TO OTHER PRINCIPAL HUD OFFICES

Full responsibility is vested with HUD Primary Organization Heads for establishing, executing and ensuring compliance with policies, plans and procedures; for proper protection and use of the Department's resources; and for appropriate action on conditions needing improvement, including those reported by the OIG. The operations of the OIG neither replace established lines of operating authority nor eliminate the need for HUD Primary Organization Heads to carry out reasonable measures to protect and enhance the integrity and effectiveness of their operations. All Primary Organization Heads in HUD are responsible for effectively monitoring and evaluating the programs entrusted to them.

In the context described, the role of the OIG is that of a departmentwide overseer and advisor in ensuring that management is carrying out their responsibilities to protect and enhance the integrity and effectiveness of the Department's operations.

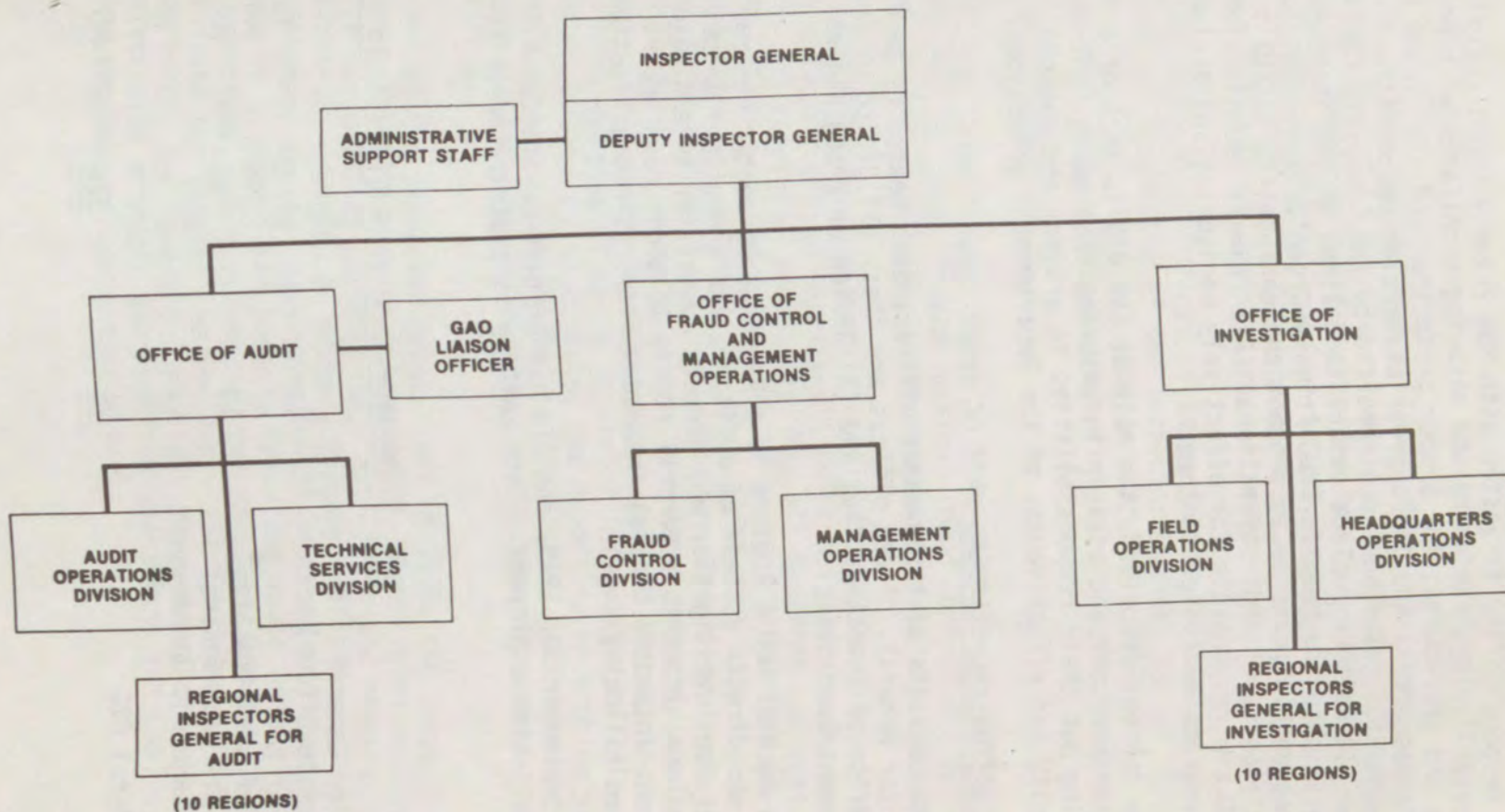
ORGANIZATION AND STAFFING

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

Within each of HUD's Regions is a Regional Inspector General for Audit who directs a staff of auditors, and a Regional Inspector General for Investigation who directs a staff of investigators. The Regional Inspectors General report to their counterpart Assistant Inspector General in Headquarters (see Organizational Chart on following page).

As of September 30, 1979, the OIG had a staff ceiling of 477 permanent full-time employees. This ceiling is distributed as follows:

	<u>Headquarters</u>	<u>Field</u>	<u>Total</u>
Inspector General (Immediate Office)	16	0	16
Office of Audit	47	296	343
Office of Investigation	19	82	101
Office of Fraud Control and Management Operations	<u>17</u>	<u>0</u>	<u>17</u>
Total OIG	<u>99</u>	<u>378</u>	<u>477</u>



V I I I

May 1979

RESOLUTION OF SIGNIFICANT PROBLEMS, AGENCIES AND
FUNCTIONS AND RECOMMENDATIONS FOR CONSTRUCTIVE
ACTION DURING THE REPORTING PERIOD

During the reporting period, the Office of Inspector General (OIG) conducted a comprehensive review of the activities of the Office of Management and Enterprise Services (OMES) and the Office of Information Systems (OIS). The review was conducted in accordance with the reporting provisions of the Inspector General Act of 1978.

The review identified several areas of concern, including the need for improved internal controls, the need for more effective communication, and the need for more efficient use of resources. The OIG has identified these areas of concern and has recommended specific actions to address them.

PART 1

INFORMATION ON
OFFICE OF INSPECTOR GENERAL ACTIVITIES
FOR THE PERIOD APRIL 1, 1979 TO SEPTEMBER 30, 1979
FURNISHED IN RESPONSE TO THE REPORTING PROVISIONS OF
THE INSPECTOR GENERAL ACT OF 1978

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I. DESCRIPTION OF SIGNIFICANT PROBLEMS, ABUSES AND DEFICIENCIES AND RECOMMENDATIONS FOR CORRECTIVE ACTION DURING THE CURRENT REPORTING PERIOD

Sections 5(a)(1) and (2) of the Inspector General Act of 1978 provide for a description of the significant problems, abuses, and deficiencies, as well as related significant recommendations with respect to the programs and operations of the Department, as disclosed by the OIG during the six-month reporting period.

During the six-month period April 1, 1979 to September 30, 1979, we reported many important matters to HUD management and made numerous recommendations for corrective action. In turn, the former Secretary and HUD's other Primary Organization Heads responded favorably to such reports. Moreover, due to HUD's Audits Management System (page 45), all of our significant recommendations were either closed or were about to be closed at September 30, 1979. However, during the current period, we reported the results of a particularly significant review to HUD management. The results of this review are worthy of mention and are therefore summarized below.

SPECIAL OPERATIONAL SURVEY - SECTION 8 LEASED HOUSING PROGRAM

1. PURPOSE AND SCOPE OF SURVEY

A Special Operational Survey of the Section 8 Leased Housing Program was performed in three phases (see Appendix 1 for a definition of an Operational Survey). The first phase covered the Loan Management portion of the Section 8 Program; the second phase covered the New Construction and Substantial Rehabilitation portion, while the third phase covered the Existing portion. The survey was designed to detect indications of program irregularities * and to assess their magnitude.

To enable timely corrective action to be taken, we provided the Assistant Secretary for Housing-Federal Housing Commissioner interim reports upon completion of field work for each phase of our survey. Our final report was issued to the Assistant Secretary on July 16, 1979 and was officially responded to in writing on September 4, 1979.

Through the use of statistical sampling techniques, we selected 591 occupied units for review in 514 of the 8,100 projects in the Section 8 Program. As part of the survey, we reviewed HUD Regional Office and Field Office docket files and interviewed HUD personnel responsible for

* An irregularity was defined as a strong indication of a serious and willful violation of specific HUD requirements, the violation being of sufficient magnitude to warrant the opening of an investigative case.

monitoring each of the projects we selected for review. At the projects, some of which were administered by Public Housing Agencies (PHAs), we interviewed tenants and reviewed the overall operations of the projects, including internal controls and tenant files.

2. STATISTICAL PROJECTIONS OF SURVEY RESULTS

The results of our Special Operational Survey indicated that there are serious weaknesses in the administration and delivery of the Section 8 Leased Housing Program. These weaknesses are described below. Because of the statistical sampling method used, our projections of the extent of deficiencies are made at a 95 percent confidence level.

a. Management Irregularities

Management irregularities involving project owners or managers and PHAs were found at 72 of the 514 projects reviewed. We projected that irregularities involving project owners or managers and PHAs are present in no less than 1,100 (14 percent) but no more than 1,300 (16 percent) of the 8,100 projects in the Section 8 Program.

The management irregularities included, but were not limited to:

- Project owners and managers requiring tenants to make side payments in excess of tenants' gross family contributions.
- Project owners and managers collecting assistance payments for vacant units or units occupied by other than Section 8 tenants.
- Project owners and managers working with or inducing tenants to falsely establish basic eligibility or to increase improperly the amount of assistance.
- Project owners and managers billing for Housing Assistance Payments for units occupied rent free by project employees.
- PHA employees certifying substandard units as standard, granting special rent increases or allowing rents in excess of Fair Market Rent limitations.

b. Tenant Irregularities

Tenant irregularities were found at 61 of the 514 projects reviewed. We projected that irregularities involving tenants are present in no less than 1,000 (12 percent) but no more than 1,400 (17 percent) of the 8,100 projects in the Section 8 Program. We also concluded that the number of Section 8 units involving tenant irregularities approximates 78,000 or 12 percent of the 650,000 occupied units in the Section 8 Leased Housing Program.

The tenant irregularities included, but were not limited to:

- Tenants understating reported income or not reporting all sources of income.
- Tenants falsifying family composition and income.
- Tenants not reporting all persons living in the unit.

c. Dwelling Unit Quality

HUD housing inspectors assisted us by inspecting units in randomly selected projects in the Existing portion of the Section 8 Program to determine if the units had Housing Quality Standards violations. Based on these inspections, we projected that no less than 1,900 (47 percent) but no more than 2,200 (53 percent) of the 4,100 projects in the Existing portion of the program have units which contain violations of HUD's Housing Quality Standards. We further concluded that the number of units containing such violations approximates 160,000 or 40 percent of the 400,000 occupied units in the program. Based on the average assistance for units in our sample, HUD could be paying as much as \$23 million per month in housing assistance for units which do not meet HUD's Housing Quality Standards.

The violations of HUD's Housing Quality Standards included, but were not limited to:

- Unsafe heating systems.
- No fire exit other than main entrance.
- Lead based paint hazards.
- Exterior doors and windows not lockable, even though easily accessible from outside.

In addition to Housing Quality Standards violations, we concluded that 124,000 or 31 percent of the 400,000 occupied units in the Existing portion of the Section 8 Program contain serious Housing Quality Standards violations. Based on the average assistance for units in our sample, we concluded that HUD could be paying as much as \$18 million per month for units containing serious Housing Quality Standards violations.

The serious violations of HUD's Housing Quality Standards included, but were not limited to:

- Outside walls leaning, buckling or sagging or otherwise seriously defective.

- Ceilings, walls and floors unsafe or unsound.
- Signs of leaks, sagging or buckling which indicated roofs were not weathertight.

d. Administrative Deficiencies

Our review also disclosed 5,166 administrative deficiencies at 466 projects. Because there were administrative deficiencies in 65 percent of the files and 90 percent of the projects reviewed, we believe there is good reason for serious concern regarding the administration of the Section 8 Leased Housing Program. This is particularly true in view of the fact that a large portion of such deficiencies will directly affect HUD's portion of the rent.

The administrative deficiencies included, but were not limited to:

- Projects using inadequate systems for verifying income, assets and expenses.
- Projects incorrectly calculating gross family contributions and housing assistance payments.
- Projects and PHAs not recertifying tenants on a timely basis.
- PHAs using obsolete or unapproved utilities schedules or incorrect computations of utility allowances.
- PHAs incorrectly calculating shopping incentives.
- PHAs improperly allowing contract rent plus utility allowance to exceed Fair Market Rent limitations.

3. FINDINGS OF MAJOR PROGRAM DEFICIENCIES

In addition to making statistical projections of irregularities disclosed by our survey, we also evaluated each major deficiency found during the survey. These deficiencies were grouped into five areas and are described in the following paragraphs.

a. Overbillings to HUD for Assistance Payments

Project owners and managers were overbilling HUD for assistance payments by understating gross family contributions (43 percent of projects reviewed), improperly billing for vacant units or units occupied by ineligible tenants (16 percent of projects), submitting billings with errors (12 percent of projects), and billing for two different HUD subsidies on the same unit (one percent of projects). The overbillings were not being detected because of inadequate HUD

and PHA reviews of the billings and penalties not being imposed when overbillings were detected.

b. Overpayments of Housing Assistance by HUD

Housing assistance paid by HUD for 14 percent of the 591 tenants reviewed was based on false data provided by the tenants. Nine percent of the tenants failed to report all sources of income. Three percent understated the amount of reported income, while two percent provided other false data related to marital status, unusual expenses, and income verifications. Of the 514 projects reviewed, 61 percent did not have adequate systems to verify data provided by tenants and 34 percent did not recertify tenants on a timely basis.

In addition, 15 percent of the projects housed tenants in units which were larger than the tenants' needs. This resulted in HUD paying more assistance than was needed to adequately house such tenants.

c. Overcharges to Tenants

Project owners, project managers and PHAs were overcharging tenants by requiring excessive security deposits (14 percent of projects reviewed), requiring improper side payments (four percent of projects), requiring unallowable application and credit report fees (four percent of projects), improperly withholding tenant utility allowances (one percent of projects), increasing rents without HUD approval (one percent of projects), and improperly charging tenants for normal maintenance of units (one percent of projects). These overcharges to tenants went undetected because HUD was not making adequate monitoring reviews and tenants were not notifying HUD when they were required to make such payments.

d. PHAs' Allowance of Unreasonable Rents

PHAs allowed project owners and managers to charge unreasonable rents by failing to make rent reasonableness determinations prior to approving project rents (21 percent of projects reviewed), allowing rents in excess of the established Fair Market Rent limitations (18 percent of projects), automatically increasing rents without owner requests for rent increases (six percent of projects), allowing owners to charge more rent for subsidized units than for similar unsubsidized units (4 percent of projects), and granting special rent increases to permit rents in excess of the Fair Market Rent limitations (2 percent of projects). We concluded that PHAs have no incentives to determine that rents charged by project owners and managers are reasonable. Also, no penalties are imposed by HUD when a PHA fails to make such determinations. The deficiencies went undetected due to the lack of adequate monitoring by HUD Field Offices.

e. PHAs' Permitting Substandard Units in the Section 8 Program

PHAs allowed project owners and managers to rent substandard units to tenants receiving Section 8 assistance by performing inadequate inspections (14 percent of the Existing projects reviewed), not performing the required inspections (11 percent of projects) and certifying substandard units as standard (three percent of projects). We determined that 31 percent of the units inspected had deficiencies which affected the health and safety of the tenants as well as the livability of the units. Inasmuch as PHAs receive an administrative fee for each unit rented, regardless of its quality, it is to a PHA's benefit to rent up as many units as it can. If a PHA is found to be renting substandard units, no penalty is assessed, although the unit may be removed from the program. These deficiencies went undetected because HUD Field Offices had not performed adequate monitoring reviews of PHAs' inspection procedures.

4. RECOMMENDATIONS

In response to the interim reports on our Special Operational Survey of the Section 8 Program, the Assistant Secretary for Housing-Federal Housing Commissioner initiated actions to correct the deficiencies we reported. In addition to these initiatives, we recommended in our final survey report that the Assistant Secretary also initiate the following actions:

- Assure that required monitoring visits to PHAs are made by HUD Field Offices and that these visits concentrate on the operating weaknesses disclosed by our survey.
- Increase and improve HUD and PHA reviews of project billings.
- Develop a system to detect dual subsidy billings by project owners and managers.
- Establish and publicize a toll free tenant complaint phone number so tenants can contact HUD directly when they are overcharged or when their units contain Housing Quality Standards violations.
- Establish and impose a range of penalties to include debarring participants who abuse the Section 8 Program.
- Consider requiring Section 8 tenants to sign waivers to allow HUD to obtain their tax returns for the purpose of verifying reported income.

During the next six months, we will thoroughly monitor all actions taken on our recommendations, and any inadequate progress will be reported in subsequent semiannual reports to Congress.

5. STATUS AT CLOSE OF SEMIANNUAL REPORTING PERIOD

In a memorandum dated September 4, 1979, the Assistant Secretary for Housing-Federal Housing Commissioner expressed full agreement with the validity of the findings and recommendations in our final survey report and outlined a number of steps to implement our recommendations. Actions initiated on the deficiencies disclosed in our report as of October 15, 1979 include, but are not limited to the following:

- HUD Field Offices were instructed to work with PHAs to: (1) repair units with Housing Quality Standards violations, abate the housing assistance payments or, if necessary, relocate families to more livable units; (2) inform all owners and tenants that HUD intends to refer cases of fraud or program abuse to the Inspector General for investigation purposes; and (3) correct other administrative deficiencies expeditiously.
- HUD Field Offices were provided with direction on the use of various sanctions in the case of non-performance by PHAs. A forthcoming PHA Administrative Guide will discuss penalties, including termination of both owners and tenants who abuse the Section 8 Existing Housing Program.
- An Intradepartmental Steering Committee was established to coordinate the efforts to solve the survey problems disclosed.
- A PHA Administrative Guide which provides procedures and controls covering many of the deficiencies disclosed will be printed and distributed shortly.
- Additional temporary resources for HUD Field Offices were identified to be used to assist in eliminating the backlog of inspections and to follow up on unit deficiencies. Work measurement standards for monitoring the Existing portion of the Section 8 Program will also be reassessed to justify additional permanent staff.
- Continued emphasis will be placed on tracking Section 8 monitoring goals via HUD's Executive Management Reporting system.
- Guidelines for HUD Field Office management reviews will be revised to cover priority items disclosed by our survey.
- A monitoring team is being used to test new monitoring procedures at a sample of PHAs with Section 8 Programs.
- PHA and Field staff workshops on Housing Quality Standards have been planned for early 1980.

II. UNRESOLVED SIGNIFICANT RECOMMENDATIONS DISCLOSED IN PRIOR SEMIANNUAL REPORTS

Section 5(a)(3) of the Inspector General Act of 1978 provides for the reporting of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.

In our prior semiannual report to Congress we reported resolved significant recommendations for informational purposes; we did not report any significant recommendations that required resolution. Therefore, based on the recommendations included in our prior semiannual report, we have no unresolved significant recommendations to report for the current reporting period April 1, 1979 to September 30, 1979.

In those instances where the Department is not making adequate progress in implementing our significant recommendations, it is our policy to disclose such recommendations in our semiannual reports to Congress. We believe this policy is in keeping with the intent of the Inspector General Act.

As indicated in Section I, we regularly report important matters to HUD management, along with numerous recommendations designed to correct operating problems, program abuses and deficiencies. The Department's Audits Management System, however, provides for HUD management's quick response to reported audit findings and recommendations (page 45). This system has been instrumental in adequately resolving our audit recommendations and ensuring prompt action on reported problems, program abuses and deficiencies.

III. OTHER SIGNIFICANT CONCERNS

The matters below are a description of our significant concerns relative to ongoing matters as of the close of the reporting period.

A. NEED FOR HUD TO IMPROVE ITS MONITORING OF PROGRAM PARTICIPANTS

In our prior semiannual report to Congress covering the period October 1, 1978 to March 31, 1979, we reported that HUD was not sufficiently monitoring its program participants. We indicated that the lack of monitoring of such participants was not confined to any single program participant, but instead, included mortgagees, mortgagors, area management brokers, and Community Development Block Grant recipients, among others. Inadequate monitoring and insufficient on-site reviews of HUD program participants have seriously jeopardized HUD's interests and have allowed waste and mismanagement to go unchecked.

During the current semiannual reporting period April 1, 1979 to September 30, 1979, we continued to disclose matters in our audit reports relating to HUD's inadequate monitoring of program participants (examples are shown on pages 5 and 6). In response to the Department's monitoring problems disclosed in our audit reports, HUD's Committee on Fraud, Waste, and Mismanagement has initiated a project designed to establish better standards and procedures for monitoring HUD's delivery of programs (page 61). The Committee will further analyze HUD's current monitoring efforts and will determine the most effective way to use staff resources to carry out the monitoring function. During FY 1980, we will continue to review HUD monitoring efforts in our audits and will track the progress being made by HUD to improve its efforts in this vital area.

B. REVIEWS OF CLIFTON TERRACE APARTMENTS -P.I. PROPERTIES, INC.(MORTGAGOR)

In early 1977, at the request of the Washington, D.C. Area Office Director, we initiated an audit of the Clifton Terrace Apartments project (Washington, D.C.). We were, however, unable to complete a full audit of the Project due to the poor condition of the Project's books and records, which were incomplete, inaccurate, and in some instances, unavailable. Based on the limited review made, we issued a report dated May 27, 1977 covering activities during the period May 16, 1974 through May 1, 1977. This report disclosed examples of various types of deficiencies in the financial management of the Project such as: (1) costs charged to the Project which should have been charged to other multifamily projects managed by the Mortgagor (P.I. Properties, Inc.); (2) costs charged to the Project which were unnecessary for the operation of the Project; (3) inadequate documentation in support of costs; and (4) the lack of audited financial statements and properly

maintained financial records. We concluded that the Mortgagor, P.I. Properties, Inc. had not provided for the proper financial management of the Project and that this contributed to the Mortgagor being in default on the mortgage by \$192,908.72 at May 1, 1977.

Our reports also advised the Director of the Washington, D.C. Area Office, that because of our limited review, the cited deficiencies should only be considered as examples, and not as all inclusive of the deficiencies pertaining to the Project. Therefore, our report recommended, among other matters, that the Mortgagor be required to reconstruct the Project's books and records and that consideration be given to the appointment of a new independent management agent for the Project. Following issuance of the report, the Washington Area Office worked with the Mortgagor to correct these deficiencies. However, the poor financial condition of the Project persisted and HUD subsequently acquired the Clifton Terrace Apartments project through foreclosure on August 28, 1978.

Due to alleged improprieties in the management and financial affairs of the Project, we initiated another audit of Clifton Terrace Apartments in February 1979. Our purpose was to determine if the Project's failure was attributable to any improper activities of the Mortgagor, who also served as the Project's management agent. Our examination of the books and records made available to us was completed in September 1979 and disclosed improper expenditures and other irregularities. In June, July and August, meetings were held with representatives of the Criminal Division, Department of Justice, to discuss our findings and seek their guidance. On September 5, 1979, the United States Attorney's Office, Washington, D.C., was briefed on the results of our audit and was provided a copy of the draft audit report and related documents. Investigation is ongoing under the guidance of the United States Attorney's Office.

C. REVIEW OF CONTROLS OVER FURNITURE AND EQUIPMENT

There has been some media coverage about suspected deficiencies in the Federal Government's control over the purchase and disposition of furniture and equipment. Several of our audit reports issued during the period April 1, 1979 to September 30, 1979 have disclosed deficiencies in HUD's control and utilization of furniture and equipment. We are currently continuing our review of HUD's control over the purchase, utilization, and disposition of furniture and equipment. Because this appears to be a governmentwide problem, the General Services Administration's Inspector General has requested the cooperation of each of the Inspectors General of the major Federal departments and agencies in making a governmentwide review of controls over furniture and equipment so that any necessary corrective actions can be implemented promptly and consistently throughout the Executive Branch of the Federal Government. We are participating in this cooperative effort.

IV. SUMMARY OF MATTERS REFERRED TO PROSECUTIVE AUTHORITIES AND PROSECUTIONS AND CONVICTIONS DURING CURRENT REPORTING PERIOD

In response to Section 5(a)(4) of the Inspector General Act of 1978, the following is a summary of matters referred to prosecutive authorities and resulting prosecutions and convictions during the period April 1, 1979 to September 30, 1979:

A. CASES REFERRED FOR PROSECUTION

During the period April 1, 1979 to September 30, 1979, we referred 410 investigation cases for prosecutive consideration (Table 1). Refer to page 54 for a description of the various processes for referring matters for prosecutive consideration.

<u>Referred Directly by OIG to:</u>	<u>No. of Cases</u>
FBI (No Investigation by OIG)	180
FBI (Prima Facie Investigation by OIG)	128
Department of Justice	<u>102</u>
TOTAL	<u>410</u>

Table 1. Investigation Cases Referred for Prosecutive Consideration-April 1, 1979 to September 30, 1979

Although the FBI is not a prosecutive authority, referrals to it are ultimately presented for prosecutive consideration.

Table 2 provides a breakdown of the 410 investigation cases by major HUD organizational component. As shown, 362 or 88 percent of the referred cases are in the Housing programs area.

<u>Organization</u>	<u>No. of Cases</u>	<u>Percent</u>
Housing Management	178	43%
Housing Production (Not Title I)	98	24%
Housing Production (Title I)	86	21%
Community Planning & Develop.	29	7%
Miscellaneous	<u>19</u>	<u>5%</u>
TOTAL	<u>410</u>	<u>100%</u>

Table 2. Investigation Cases Referred for Prosecution by Organization - April 1, 1979 to September 30, 1979

Table 3 provides a breakdown of the 410 investigation cases by category of investigation. As shown, 249 or 61 percent of the referred cases relate to fraud and involve some type of false statement (e.g., false certification of income and/or misstating family composition on various housing assistance applications).

<u>Category of Investigation</u>	<u>No. of Cases</u>	<u>Percent</u>
False Statements	249	61%
FHA Title I	86	21%
Other	<u>75</u>	<u>18%</u>
TOTAL	<u>410</u>	<u>100%</u>

Table 3. Investigation Cases Referred for Prosecution by Category of Investigation - April 1, 1979 to September 30, 1979

The "Other" category shown in Table 3 consists of embezzlement (11 cases), theft of government property (13 cases), and miscellaneous subjects (kickbacks, conflicts of interest, bribery, etc.).

B. PROSECUTIONS AND CONVICTIONS

During the period April 1, 1979 to September 30, 1979, a total of 78 investigation cases resulted in the indictment, or indictment and conviction, or conviction of 121 persons/firms having business with the Department (Table 4). Of the 121 persons/firms, 67 were the result of investigations that we referred to prosecutive authorities/FBI, and 48 were the result of investigations initiated by the FBI. In addition, six investigations relating to interstate land sales were referred by the Postal Service to the FBI.

	<u>Cases Referred by OIG</u>		<u>Initiated By</u>		<u>Total</u>
	<u>Prior to 4/1/79</u> <u>Persons/Firms</u>	<u>4/1/79-9/30/79</u> <u>Persons/Firms</u>	<u>FBI</u>	<u>Postal Service</u>	
Indictment	11	3	16	6	36
Indictment & Conviction	31	2	24	-	57
Conviction	<u>20</u>	<u>-</u>	<u>8</u>	<u>-</u>	<u>28</u>
TOTALS	<u>62</u>	<u>5</u>	<u>48</u>	<u>6</u>	<u>121</u>

Table 4. Indictments, Indictments and Convictions, and Convictions - April 1, 1979 to September 30, 1979

Of the 67 persons/firms indicted, convicted, or both as a result of our referrals, 62 were the result of 30 investigation cases referred to prosecutive authorities/FBI prior to April 1, 1979; the remainder, or 5 persons/firms, were the result of 5 cases referred during the period April 1, 1979 to September 30, 1979.

A total of 85 persons/firms were convicted during the period April 1, 1979 to September 30, 1979. They received a total of 58 years imprisonment, 187 years probation, suspended sentences of 21 years, fines amounting to \$231,272 and were required to make restitution amounting to \$63,656.

Prosecution was declined on 492 investigation cases during the period April 1, 1979 to September 30, 1979. However, the average universe of HUD investigation cases in the hands of prosecutive authorities during this period is not readily determinable; therefore, the rate of declinations cannot be determined.

C. DESCRIPTION OF PROSECUTIVE ACTIONS DURING REPORTING PERIOD ON INVESTIGATION CASES REFERRED AFTER APRIL 1, 1979

Below is a brief description of the indictments and/or convictions which occurred during the period April 1, 1979 to September 30, 1979, relating to investigation cases which were referred to prosecutive authorities during this period (all cases are in the Housing programs area). The cases described are based on the latest information we have in our files and may not include information on where the cases stand in terms of the status of trial proceedings, pleadings or sentencings.

Executive Director of a Public Housing Authority Pleads No Contest to Accepting Kickback

A longtime executive director of a public housing authority pled no contest to accepting a \$1,000 kickback from a contractor for a formerly Secretary-owned multifamily project. He was found guilty on June 6, 1979, and was given a \$1,000 fine and placed on probation for two years. The executive director was a former state president of the National Association of Housing and Redevelopment Officials and a member of its State Executive Board. He retired as executive director of the public housing authority subsequent to his indictment.

Mortgagor Indicted for Submitting False Statements Regarding Income and Family Composition

On July 10, 1979, a two-count indictment was returned against a Section 235 mortgagor. The indictment charged the mortgagor with submitting false statements on recertifications regarding income and family composition. Subsidy overpayments amounted to \$1,375.

Multifamily Project Tenant Indicted for
Making False Statements Regarding Income

On July 10, 1979, a tenant in a HUD-financed multifamily project was indicted for making false statements regarding her income. Overpayments in assistance amounted to \$2,000.

Realty Company Indicted for Submitting False
Statements and Influencing Grand Jury Witnesses

A realty company owner was indicted on August 2, 1979 on five counts of submitting false statements to HUD and three counts of attempting to influence three Grand Jury witnesses to give false testimony. The individual was alleged to have falsified owner/occupancy status, employment and financial information with respect to five applications for FHA single-family mortgage insurance.

Rent Supplement Applicant Indicted
for Falsifying Household Income

On August 14, 1979, an applicant for rental assistance under HUD's Rent Supplement Program was indicted for making false statements to HUD regarding his total annual household income.

D. DESCRIPTION OF PROSECUTIVE ACTIONS DURING REPORTING PERIOD
ON INVESTIGATION CASES REFERRED PRIOR TO APRIL 1, 1979

Below is a brief description of the indictments and/or convictions which occurred during the period April 1, 1979 to September 30, 1979, relating to selected investigation cases which were referred to prosecutive authorities prior to April 1, 1979. The cases described are based on the latest information we have in our files and may not include information on where the cases stand in terms of the status of trial proceedings, pleadings or sentencings.

HOUSING

Loan Recipients and Others Found Guilty in
Illegal Title I Home Improvement Loan Scheme

On January 16, 1979, a Federal Grand Jury indicted two Title I loan recipients, along with a home improvement contractor and a former branch manager of a credit association on charges of conspiracy and filing false applications with the government. The branch manager was charged with accepting between \$2,500 and \$3,000 from the home improvement contractor for approving 17 direct Title I loans of \$7,500 each or a total of \$127,500. On September 4, 1979, the Title I loan recipients were found guilty (sentencing is pending). The home improvement contractor was found guilty and was sentenced to five years in prison. The branch manager was found guilty but has not yet been sentenced.

Former Executive Director of Redevelopment
and Housing Authority and Others Indicted
for Conspiracy, Racketeering, and Other Charges

On May 25, 1979, a former executive director, director of finance and accounts and two business relocation claims assistants for a Redevelopment and Housing Authority were indicted on 31 counts of racketeering, extortion, conspiracy and income tax charges. The four persons were involved in a kickback scheme from 1969 to 1979 which required relocatees to make kickback payments to obtain relocation payments to which they were entitled. Moving companies and appraisers were also forced to make kickback payments to obtain contracts for relocation movements and appraisals.

Insurance Adjuster Convicted and
Sentenced for Misappropriating Funds

An insurance adjuster, representing a mortgagor in an insurance settlement, misappropriated funds amounting to \$8,375 resulting from the settlement. These funds were pledged to a HUD purchase money mortgage. The individual was convicted and sentenced on June 27, 1979, to four years confinement at a Federal prison.

Former Executive Director of a Housing
Authority Sentenced for Embezzling Funds

A former executive director of a public housing authority pled guilty on February 23, 1979, to embezzling approximately \$15,000 of the authority's funds. He was sentenced to one year in prison. During his tenure as director, this official converted monthly rental receipts for his personal use and did not report them until the following month. The difference was made up from cash received in the following month. This process continued until the difference between cash receipts turned in and cash embezzled grew to such an extent that an audit of the authority's books and records was ordered.

Contractor and Executive Director of a Public
Housing Authority Sentenced for Embezzling Funds

On August 10, 1979, the executive director of a public housing authority and a contractor were sentenced for embezzling funds from the housing authority. The contractor supplied the executive director with false invoices listing services and materials which were paid with housing authority funds. The executive director converted the materials and funds to her own use and the contractor received overpayment from the housing authority for his role in the scheme. The executive director was sentenced to six months in prison and 30 months probation and was fined \$5,000. The contractor received three years probation and was also fined \$5,000.

President of a Management Agent Firm
Found Guilty of Equity Skimming

On April 16, 1979, the president of a management agent firm responsible for managing a HUD-financed multifamily project pled no contest in behalf of the firm to a two-count indictment charging his firm with equity skimming. Restitution was made in the amount of \$30,000. On May 21, 1979, the management agent firm was found guilty on two counts of equity skimming and was fined \$5,000 on each count.

Former Housing Authority Director Indicted for
Filing Fraudulent Applications and Payment Vouchers

A former director of the Section 8 Program administered by a public housing authority was indicted on September 12, 1979. The 10-count indictment involved fraudulent applications and payment vouchers for Section 8 subsidies.

Two Contractors Sentenced for Perjury

On June 22, 1979, two contractors were found guilty of perjury. One of the contractors had previously been indicted in connection with his testimony before a Federal Grand Jury concerning floor repair contracts that he had with a public housing authority. The other contractor's perjury stemmed from his denial that he had been involved in any form of bid rigging in connection with roof repairs made to the public housing authority's projects. One of the contractors was sentenced to 60 days of imprisonment and one year of probation; the other was sentenced to serve six months in prison and two years of probation.

Builder/Developer Sentenced for
Making False Statements to HUD

An owner/contractor for six HUD-insured multifamily projects pled guilty and was sentenced on April 24, 1979 for submitting false cost certifications to HUD. The sentence included a \$5,000 fine on each of two counts and three years probation.

Housing Authority Maintenance Superintendent
Indicted for Embezzling Funds

A maintenance superintendent for a public housing authority was indicted on April 25, 1979 and charged with embezzling and misapplying goods and services totaling \$4,330. He was also charged with submitting false financial operating statements totaling \$114,376. These statements were submitted to HUD and indicated amounts had been spent for labor, materials and contract costs; however, the funds had not been spent for these purposes.

Former HUD Contractor Sentenced
for Filing False Vouchers

On July 31, 1979, a former president of a general contracting company for a HUD-financed project was sentenced to two years in prison and fined \$5,000. He was found guilty of submitting false vouchers in the amount of \$42,000.

Housing Allowance Recipient Found Guilty
of Submitting False Recertifications

A housing allowance recipient was found guilty on June 6, 1979 of submitting false information in order to qualify for rental assistance under the Housing Allowance Program. The recipient claimed residence at one address while actually living at another location which had previously been found unsuitable for the program. The false recertifications resulted in an overpayment by HUD of \$1,886. The recipient was placed on probation for one year and was required to make full restitution.

Businessman Indicted for
False Relocation Claim

On April 13, 1979, the owner of a laundry and cleaning plant was indicted for filing a false relocation expense claim with HUD. The claim included the value of certain equipment which the owner retained and installed at a new plant, rather than having it junked as certified. The value of the equipment was estimated at \$16,400.

Former HUD Realty Specialist Pleads Guilty
to Submitting False Statements to HUD

A former HUD realty specialist pled guilty on April 2, 1979, to one count of submitting false statements to HUD. Acting in an official capacity as a HUD Field Office employee, this individual used a friend as a strawbuyer to purchase HUD property on which he had set the sales price. The realty specialist was fined \$500.

COMMUNITY PLANNING AND DEVELOPMENT

Mayor and City Manager Found Guilty of Kickback Conspiracy
Involving Community Development Block Grant Funds

A mayor and city manager were each sentenced to two years imprisonment on September 6, 1979. They received \$7,000 in kickbacks from a paving contractor who had been awarded contracts under the Community Development Block Grant Program.

County Administrator Pleads
Guilty to Embezzling Federal Funds

A former county Federal funds administrator was indicted on nine counts of embezzling Federal funds and one count of misappropriating funds. He entered a plea of guilty on May 22, 1979, to all counts of the indictment and made complete restitution in the amount of \$17,000. The administrator was charged with placing a portion of the Federal grant funds earmarked for administration into secret bank accounts and later appropriating these funds for his own use. Community Development Block Grant funds controlled by the administrator consisted of 1976 and 1977 discretionary grants totaling \$402,000.

NEIGHBORHOODS, VOLUNTARY ASSOCIATIONS
AND CONSUMER PROTECTION

Real Estate Developers Indicted
for Misrepresentations to Land Purchasers

On March 21, 1979, two real estate developers were indicted for implementing a scheme to defraud by means of false and fraudulent pretenses, representations and promises to HUD and private investors. The developers lured at least 120 private investors to purchase real estate represented to be in a particular county which the developers knew was actually in a different county. The developers and coconspirators received approximately \$280,208 in funds from the scheme in addition to other undetermined monies and consideration.

V. REVIEW OF LEGISLATION AND REGULATIONS

Section 4(a)(2) of the Inspector General Act of 1978 requires the Inspector General to review existing and proposed legislation and regulations relating to programs and operations of the Department and to make recommendations in the semiannual reports to Congress concerning the impact of such legislation and regulations on the economy and efficiency in the administration of programs and operations or the prevention and detection of fraud and abuse in such programs and operations.

During the reporting period April 1, 1979 to September 30, 1979, we reviewed 44 proposed regulations or revisions to existing regulations, an undetermined number of existing regulations and statutes in conjunction with our internal audits, and 70 proposed new legislative bills or revisions to existing bills. On the basis of these reviews, we had many important comments and concerns. Particularly noteworthy are the legislative comments shown below. We believe they are worthy of mention to Congress in view of the fact that the involved legislative provisions directly impact on the economy, efficiency and effectiveness of OIG operations.

A. CRIMINAL CODE REVISION ACT OF 1979

We reviewed the Subcommittee on Criminal Justice's Working Draft of the Criminal Code Revision Act of 1979. Our concerns with this Draft were communicated to the Chairman of the Subcommittee on October 22, 1979 and were also discussed with Subcommittee staff members (Appendix 4).

We are primarily concerned that the proposed bill be drafted to preserve the ability of HUD to protect the integrity of its programs through successful prosecutions of fraud. We recommended changes in the provisions of the proposed bill concerning false statements, conspiracy to defraud the United States, and related matters. We believe the bill, as currently drafted, would severely impair HUD's ability to rectify the results of past fraudulent practices and to deter similar occurrences in the future.

Under current law the two primary statutes utilized by the Department to combat fraud are 18 U.S.C. section 371 (Conspiracy to Defraud the United States) and 18 U.S.C. section 1010 (False Statements). The bill eliminates the former, and reclassifies the latter as a Class A misdemeanor. This situation is exacerbated by the fact that section 707(a) would make the statute of limitations for misdemeanors two years. We recommended that the Subcommittee reinstate the fraud provision in substantially its present form and reclassify the false statement offense as a felony. In addition, we recommended section 707(a) be amended to make the statute of limitations five years for both felonies and misdemeanors. Finally, we recommended the addition of a jurisdictional basis which clearly encompasses government loan, insurance, or grant programs, for each fraud-related offense in the new bill.

B. S. 904-FEDERAL ASSISTANCE REFORM AND SMALL COMMUNITY ACT OF 1979

Section 304(b) of S.904 provides for states and localities to assume the responsibility for financial and compliance audits, while section 304(c) states that the Federal Government is responsible for economy, efficiency and program results audits. We believe it is both impractical and inappropriate to draw such a fine distinction among these areas since they are all interrelated and overlapping. As drafted, the proposed provisions will result in considerable confusion and duplication of audit efforts between Federal agencies and states/localities.

We are of the opinion that each Federal agency should have the expressed authority to make any audits of recipients of Federal financial assistance it deems necessary or appropriate, whether these audits be in the nature of financial, compliance, economy, efficiency or program results audits. This authority needs to be specifically provided for in the proposed legislation.

C. H.R. 5381-FEDERAL PROPERTY AND ADMINISTRATIVE SERVICES ACT OF 1949

Section 2 (Improved Procurement Practices) of H.R. 5381 calls for the Inspector General to routinely include in the semiannual report to Congress the contract audit and investigative matters referred to him or her by GSA as well as the actions taken on such matters. The intent of the Inspector General Act of 1978 (P.L. 95-452), however, was to give the Inspector General of each agency complete discretion as to the problems, abuses and deficiencies that are to be included in each semiannual report to Congress. This provision would reduce this discretion and could open the door to other mandatory reporting of problems, abuses and deficiencies. It might also result in including relatively insignificant matters in the semiannual report since the legislative provisions make no distinction as to the significance of the matters to be reported.

In addition, section 3 (Required Audit Procedures) of H.R. 5381 calls for the Inspector General to audit contracts in excess of \$1,000. We believe this low limit will place an unreasonable burden on existing OIG staff resources without a commensurate return in the way of benefits. Even if staff resources were made available to handle the increased audit workload resulting from this provision, it is doubtful whether the expected return would be comparable to the additional staffing costs.

Also, section 3 provides that the Inspector General of an agency include in his or her semiannual report to Congress an evaluation of the availability and allocation of staff to audit contracts. We are of the opinion that such an evaluation should be part of the normal budget justification process. It should be optional, not mandatory, that this matter be included in the Inspector General's semiannual report to Congress.

VI. SUMMARY OF EACH REPORT TO THE SECRETARY
ON UNREASONABLE REFUSAL OR NON-PROVISION
OF REQUESTED INFORMATION OR ASSISTANCE

Section 5(a)(5) of the Inspector General Act of 1978 provides for including in each Inspector General semiannual report to Congress a summary of each report made to the head of the agency concerning information or assistance requested by the Inspector General which, in the judgment of the Inspector General, was unreasonably refused or not provided.

During the period April 1, 1979 to September 30, 1979, there were no instances reported to the Secretary of HUD wherein information or assistance requested by the Inspector General was unreasonably refused or not provided.

To better assist in tracking and evaluating instances of refusal or non-provision of requested information or assistance, we issued related procedural instructions to our employees during the current semiannual reporting period (see Appendix 3). We believe these instructions will be instrumental in screening out those matters related to requested information or assistance which are appropriate for reporting to the Secretary and Congress.

VII. LISTING OF EACH OIG-COMPLETED AUDIT REPORT
DURING THE CURRENT REPORTING PERIOD

Section 5(a)(6) of the Inspector General Act of 1978 provides for a listing of each audit report completed by the OIG during the reporting period.

During the current semiannual reporting period April 1, 1979 to September 30, 1979, we issued 56 internal audit/survey reports and 730 external audit and accounting system evaluation reports. These reports are listed below.

INTERNAL AUDIT AND SURVEY REPORTS

<u>DESCRIPTION OF AUDIT</u>	<u>ISSUING OFFICE</u>
<u>HOUSING (Total 18)</u>	
Diversion of Insured Multifamily Project Funds	Region I, IX
Feasibility Determinations for Multifamily Project Sites - Survey Report	Region I
Assignment of Defaulted Mortgages to the Secretary	Region II
Previous Participation and Clearance Procedures	Region III,VI,X
Section 8 Application Processing - New and Substantial Rehabilitation	Region III
Monitoring Section 8 Housing Assistance Payments (Louisville Area Office)	Region IV
Single Family Acquired Property Sales, Pricing and Delays in Closing	Region IV,V,VI
Review of Processing Turnkey Project XX-11-5 by San Antonio Area Office	Region VI
Rent Increases for Section 236 Projects in Rapid City, South Dakota - Survey Report	Region VIII
Property Taxes on Multifamily Subsidized Projects - Survey Report	Region X
Section 245 Graduated Payment Program - Survey Report	Region X
Multifamily Tenant Eligibility and Assistance Payments	Headquarters
Section 8 Program - Special Operational Survey	Headquarters
 <u>COMMUNITY PLANNING AND DEVELOPMENT (Total 6)</u>	
Application Review, Monitoring, and Closeout of CDBG Programs	Region I,IV,VI,IX
Review of Social Service Expenditures in the CDBG Programs	Region IX,X

<u>DESCRIPTION OF AUDIT</u>	<u>ISSUING OFFICE</u>
<u>ADMINISTRATION (Total 13)</u>	
Adequacy of Controls Over Receipt and Deposit of Funds	Region I,VII,VIII
Cash Disbursement Functions	Region III
Fund Obligation - Section 8	Region III
Selected Aspects of Personnel Management	Region III,VIII
Observation of Physical Inventory (Capitalized Personal Property)	Region IV,VIII (2 reports)
Report on Examination of the Rental Housing Assistance Fund's Financial Statement	Headquarters
Financial Audit of the New Communities Guarantee Fund	Headquarters
Financial Audit of the College Housing Revolving Fund	Headquarters
<u>DEPARTMENT-WIDE ASSISTANCE (Total 16)</u>	
Field Office Control and Utilization of IPA Audit Reports Which are not Subject to RIGA Review and Acceptance	Region I,IV,V,VI,VII VIII,IX,X
Durham, North Carolina Redevelopment Commission (Hotline Complaint)	Region IV
City of Covington, Kentucky (Hotline Complaint)	Region IV
Administrative Deficiencies Disclosed in Operational Survey - Caribbean Area Office	Region II
Operational Survey of Administrative Deficiencies of Detroit Area Office	Region V
Report on Needed Administrative Improvements in Program Management Disclosed by Operational Survey of San Antonio Area Office	Region VI
Administrative Deficiencies Disclosed in Operational Survey of the Des Moines Insuring Office	Region VII
Administrative Deficiencies Disclosed in Operational Survey of the San Diego Service Office	Region IX
Report on Administrative Deficiencies Disclosed by Operational Survey of the Portland Area Office	Region X
<u>NEW COMMUNITIES (Total 2)</u>	
Report of Maumelle, St. Charles, Shenandoah New Communities Project	Headquarters
Review of Newfields New Community Project	Headquarters
<u>FEDERAL INSURANCE ADMINISTRATION (Total 1)</u>	
Survey of EDS Federal Corporation's (EDSF) System of Controls and Federal Insurance Administration's (FIA) Monitoring of EDSF	Headquarters

GRAND TOTAL - INTERNAL AUDIT AND SURVEY REPORTS - 56

EXTERNAL AUDIT AND ACCOUNTING SYSTEM EVALUATION REPORTS

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>HOUSING (Total 106)</u>		
Eastgate II	Waterbury, CT	5/03/79
Hadley West	Haverhill, MA	9/26/79
Georgetown Houses I	Boston, MA	5/30/79
Georgetown Houses II	Boston, MA	5/30/79
Jefferson Gardens	New London, CT	6/12/79
AMIFF Housing	Roxbury, MA	9/05/79
Countryside Village	Marlborough, MA	9/10/79
Charles River Park "D"	Boston, MA	9/26/79
Fidelity Guarantee & Trust Co.	Boston, MA	7/13/79
Hartford Housing Authority	Hartford, CT	9/04/79
Boston Housing Authority(Special)	Boston, MA	6/28/79
SEBCO I	Bronx, NY	4/23/79
Dayton Seaside	Rockaway, NY	4/10/79
J.F.K. Houses of Rahway	Rahway, NJ	5/03/79
Cooperativa De Viviendas	Rio Piedras, PR	5/22/79
Continental Resources	San Juan, PR	4/20/79
Golden Mortgage Corporation	Bayamon, PR	5/02/79
Empbanque Capital Corporation	Bronx, NY	8/13/79
United Mortgage Corporation	Rio Piedras, PR	9/26/79
Suburban Coastal Corporation	Wayne, NJ	9/26/79
Federation Apartments	Philadelphia, PA	7/09/79
Guaranty S&L (two reports)	Pittsburgh, PA	6/08/79 7/09/79
Steed Mortgage Company	Wheaton, MD	8/03/79
Ryan Financial Services	Pittsburgh, PA	7/27/79
Mercantile Trust	Baltimore, MD	8/30/79
County of Armstrong Housing Authority	Kittanning, PA	4/11/79
Wilmington Housing Authority (two reports)	Wilmington, DE	4/26/79 6/28/79
Cherry Hill Apartments, a/k/a Chastain Apartments	Columbus, GA	6/27/79
Lauderhill Arms, d/b/a/ Villas of Lauderhill	Lauderhill, FL	7/19/79
Valley Estates, Ltd.; Valley and Fort Homes	East Point, GA	8/14/79
Percy Galbreath and Son, Inc.	Memphis, TN	4/03/79
Wachovia Mortgage Co. (two reports)	Winston-Salem, NC	6/18/79 9/28/79
Johnson and Associates Mortgage Co.	Birmingham, AL	6/28/79
Mid Florida Mortgage Co.	Orlando, FL	7/02/79
Colonial Mortgage Co.	Montgomery, AL	7/24/79
Holland's Realty	Pascagoula, MS	4/20/79
Arrington Manor	Columbia, SC	5/10/79
Hermitage Farms Mobile Home Pks.	Camden, SC	5/10/79
Churchill Mortgage Company	Atlanta, GA	9/28/79
Lanett Housing Authority	Lanett, AL	7/27/79
Augusta Housing Authority	Augusta, GA	7/30/79
Bob Roberts Realty Co.	Macon, GA	4/13/79
Holland's Realty, Belle View Place Aptartments	Pascagoula, MI	4/20/79
Jack Johnson and Co.	Jacksonville, FL	7/11/79
Collinson Construction Co. for Franklin Club Apts.	Southfield, MI	9/07/79
Victory Highway Village	Mankato, MN	4/12/79
840 W. Sunnyside Apartments	Chicago, IL	5/30/79
Hill Crest Apartments	Aurora, IL	7/26/79
Torre De San Miquel Homes, Inc.	St. Paul, MN	8/09/79

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>HOUSING (Continued)</u>		
Economy Savings & Loan Assoc.	Chicago, IL	5/04/79
American First Mortgage Corp.	Akron, OH	5/04/79
St. Louis County Federal Savings & Loan Assoc.	Duluth, MN	5/15/79
Inland Mortgage Company, Inc.	Indianapolis, IN	5/25/79
Chesterton Apartments (Hogan & Farwell/Marken Realty Group)	Chicago, IL	7/26/79
City of Muncie	Muncie, IN	4/06/79
Cuyahoga Metropolitan Housing Authority	Cleveland, OH	9/28/79
St. Paul Public Housing Authority	St. Paul, MN	9/14/79
James Buchanan Realty	Indianapolis, IN	5/02/79
Lawrence J. Handel	Youngstown, OH	5/25/79
Bradley Real Estate, Inc.	Chicago, IL	6/08/79
Universal 21 Realty	Chicago, IL	9/24/79
Acadia Park Apartments	Houma, LA	6/04/79
American Mortgage and Investment Co.	Oklahoma City, OK	8/24/79
Loper Mortgage Co.	San Antonio, TX	9/26/79
Mississippi County Public Housing Agency	Blytheville, AR	4/18/79
Housing Authority of Santa Fe	Santa Fe, NM	5/10/79
Associated Properties, Inc.	Stillwater, OK	7/09/79
Springdale Garden Apts.	Austin, TX	7/20/79
Mason Manor Apts.	Austin, TX	7/20/79
Wesley Chapel Apts.	Baton Rouge, LA	9/06/79
Garden Village Apts.	Fort Dodge, IA	5/15/79
Whisper Hollow, Phase II	St. Louis, MO	9/11/79
Boaz Apartments	Kinloch, MO	5/23/79
Friendship Village Apts.	Kansas City, MO	6/06/79
Alexandria Apartments	Kansas City, MO	7/27/79
Nuring Inn of St. Louis	St. Louis, MO	8/28/79
Mercantile Mortgage	St. Louis, MO	9/28/79
Charles F. Curry	Kansas City, MO	9/28/79
Keokuk Housing Authority	Keokuk, IA	7/20/79
Wichita Housing Authority	Wichita, KS	7/27/79
Oakbrook I Apartments	Fort Collins, CO	4/09/79
Big Boulder Housing Corp.	Boulder, MT	7/23/79
American Lutheran Homes, Inc.	Fargo, ND	8/28/79
Jones-Healy Management Co., Easthill Park Apts.	Colorado Springs, Co	4/23/79
Housing Authority of the City of Loveland	Loveland, CO	4/17/79
Howe Avenue Properties, Ltd.- The Village (Vanguard Prop.)	Sacramento, CA	9/21/79
Bob Yandell Realty-Jensen Apts.	San Bernardino, CA	6/21/79
Bigby Villa	Fresno, CA	6/15/79
Advisory Report on Contract Termination Costs Submitted by Roofing Constructors, Inc., d/b/a Western Roofing Service	San Francisco, CA	7/13/79
Shiloh Arms, Inc.	Sacramento, CA	9/10/79
Greater Suburban Mortgage Co.	Lafayette, CA	5/17/79
Funders Mortgage Co.	Resada, CA	5/29/79
The Colwell Co.	Los Angeles, CA	6/04/79
Arden Mortgage Service Corp.	Lafayette, CA	9/27/79
River City Property Mgmt. Co.	Sacramento, CA	5/18/79
Butte County Housing Authority	Gridley, CA	5/11/79
Arizona Joint Funding Project	Phoenix, AZ	7/27/79
Northern Pueblos Housing Auth.	Pojoaque, NM	8/16/79
Everett Country Club Apts.	Everett, WA	5/16/79

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>HOUSING (Continued)</u>		
Terrace and Crestview Manor	Ellensburg, WA	5/25/79
Park Shore Retirement Residence	Seattle, WA	6/27/79
Peoples Mortgage Company	Seattle, WA	9/26/79
Bremerton Housing Authority	Bremerton, WA	9/28/79
<u>COMMUNITY PLANNING AND DEVELOPMENT (Total 519)</u>		
City of New Britain	New Britain, CT	4/23/79
City of Salem	Salem, MA	9/17/79
City of Glastonbury	Glastonbury, CT	9/25/79
Town of Provincetown	Provincetown, MA	4/23/79
Town of Plainfield	Plainfield, CT	5/14/79
Town of Auburn	Auburn, MA	5/29/79
Town of Warren	Warren, MA	5/30/79
Town of Millis	Millis, MA	5/22/79
Town of Georgetown	Georgetown, MA	5/22/79
Town of Westerly	Westerly, RI	5/31/79
Town of Danvers	Danvers, MA	5/29/79
Town of North Attleborough	North Attleborough, MA	5/29/79
Town of Montague	Montague, MA	5/31/79
Town of Pittsfield	Pittsfield, MA	6/06/79
Town of Derry	Derry, NH	6/07/79
Town of Ossipee	Ossipee, NH	6/11/79
Town of Windsor	Windsor, VT	6/20/79
Town of Groveton	Groveton, CT	7/03/79
Town of Brookfield	Brookfield, CT	7/03/79
County of Lincoln	Wiscassih, ME	7/03/79
Town of Skowhegan	Skowhegan, ME	7/06/79
Town of Northumberland	Northumberland, NH	7/02/79
New Haven	New Haven, CT	4/20/79
New Haven	New Haven, CT	4/13/79
Glastonbury Redevelopment Authority	Glastonbury, CT	9/25/79
Newark Model Cities	Newark, NJ	5/29/79
City of Amsterdam	Amsterdam, NY	4/10/79
City of Passaic	Passaic, NJ	4/30/79
City of Greenburgh	Greenburgh, NY	6/13/79
City of Cohoes	Cohoes, NY	9/28/79
Mount Morris	Mount Morris, NY	9/26/79
Town of Kent	Kent, NY	8/08/79
Village of Highland Falls	Highland Falls, NY	8/08/79
Village of Warwick	Warwick, NY	8/29/79
Town of Fallsburg	Fallsburg, NY	8/29/79
Village of New Square	New Square, NY	8/30/79
City of Beacon	Beacon, NY	8/30/79
Town of Riverhead	Riverhead, NY	8/30/79
Albany County	Albany, NY	9/04/79
Lima County	Lima, NY	9/21/79
Village of Herkimer	Herkimer, NY	9/05/79
Town of Saratoga	Schuylerville, NY	9/25/79
Town of Nelson	Nelson, NY	9/07/79
Village of Bolivar	Bolivar, NY	9/25/79
Village of Tupper Lake	Tupper Lake, NY	9/25/79
Village of South Dayton	South Dayton, NY	9/24/79
Village of Celoron	Celoron, NY	9/24/79
Town of Queensbury	Lake George, NY	9/25/79
Town of Southampton	Southampton, NY	9/26/79
City of Syracuse	Syracuse, NY	7/27/79
Housing Authority of the City of Camden	Camden, NJ	4/17/79

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>COMMUNITY PLANNING AND DEVELOPMENT (Continued)</u>		
New York Department of Housing, Housing, Preservation and Development (5 reports)	New York, NY	5/04/79 5/21/79 5/30/79 6/01/79 6/08/79 5/21/79
Rome Urban Renewal Agency	Rome, NY	5/25/79
Poughkeepsie Urban Renewal Agency	Poughkeepsie, NY	6/11/79
Buffalo Urban Renewal Agency (2 reports)	Buffalo, NY	6/23/79
Potsdam Urban Renewal Agency	Potsdam, NY	6/20/79
Morristown Urban Renewal Agency	Morristown, NJ	6/27/79
Ogdensburg Urban Renewal Agency	Ogdensburg, NY	8/09/79
Binghamton Urban Renewal Agency (2 reports)	Binghamton, NY	9/26/79
Niagara Falls Urban Renewal Agency	Niagara Falls, NY	9/28/79
City of Rome	Rome, NY	4/24/79
City of Jersey City	Jersey City, NJ	5/25/79
City of East Orange	East Orange, NJ	6/18/79
City of Paterson	Paterson, NY	8/14/79
Corapolis	Corapolis, PA	4/09/79
Gordonsville	Gordonsville, VA	6/26/79
Warren County	Fort Royal, VA	6/27/79
Berlin	Berlin, MD	6/27/79
Connellsville	Connellsville, VA	4/17/79
Smithfield	Smithfield, VA	5/31/79
Easton	Easton, MD	5/18/79
Halifax	Halifax, VA	7/19/79
Glade Springs	Glade Springs, VA	7/17/79
Coeburn	Coeburn, VA	7/19/79
Dungannon	Dungannon, VA	7/17/79
Philadelphia Redevelopment Authority	Philadelphia, PA	7/31/79
Savannah	Savannah, GA	5/03/79
Lee County	Beattyville, KY	5/09/79
Hamilton	Hamilton, AL	9/24/79
City of Elizabethton	Elizabethton, TN	7/13/79
Santa Rosa County	Milton, FL	5/18/79
Moore County	Carthage, NC	4/03/79
City of LaFayette	LaFayette, GA	4/04/79
Town of Navassa	Navassa, NC	4/03/79
City of Jacksonville	Jacksonville, NC	4/03/79
Town of Waxhaw	Waxhaw, NC	4/05/79
Town of Greenevers	Greenevers, NC	4/06/79
Town of Maxton	Maxton, NC	4/09/79
Anson County	Wadesboro, NC	4/06/79
Town of Winterville	Winterville, NC	4/09/79
Town of Farmville	Farmville, NC	4/12/79
Town of Franklinton	Franklinton, NC	4/12/79
Town of Bethel	Bethel, NC	4/09/79
Town of Fountain	Fountain, NC	4/09/79
Town of Robersonville	Robersonville, NC	4/12/79
Town of Warsaw	Warsaw, NC	4/12/79
Morehead City	Morehead City, NC	4/12/79
City of Rockingham	Rockingham, NC	4/16/79
Town of Wendell	Wendell, NC	4/12/79
Craven County	New Bern, NC	4/12/79
City of Shelbyville	Shelbyville, KY	4/16/79
City of Lebanon	Lebanon, KY	4/16/79
Town of Ethel	Ethel, MS	4/17/79
Town of Arcola	Arcola, MS	4/19/79
Town of Sunflower	Sunflower, MS	4/17/79
Town of Beulah	Beulah, MS	4/19/79
Town of Metcalfe	Metcalfe, MS	4/20/79

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>COMMUNITY PLANNING AND DEVELOPMENT (Continued)</u>		
Town of Pace	Pace, MS	4/19/79
Attala County	Kosciusko, MS	4/18/79
Town of Union	Union, MS	4/19/79
Town of Winstonville	Winstonville, MS	4/20/79
Smith, Jefferson Davis & Wilkinson Counties	Smith, Jefferson Davis & Wilkinson Counties, MS	4/25/79
McDuffie County	Dearing & Thomson, GA	5/04/79
Vidalia	Vidalia, Ga	5/10/79
Belhaven	Belhaven, NC	5/02/79
Estill County	Irvine, KY	5/04/79
Whitakers	Whitakers, NC	5/04/79
Town of Creswell	Creswell, NC	5/02/79
Town of Scotland Neck	Scotland Neck, NC	5/02/79
Town of Jamesville	Jamesville, NC	5/04/79
Town of Valdese	Valdese, NC	5/23/79
Town of Sylva	Sylva, NC	5/16/79
Town of East Spencer	East Spencer, NC	5/15/79
City of Barbourville	Barbourville, KY	5/09/79
Town of Hot Springs	Hot Springs, NC	5/23/79
Town of Wingate	Wingate, NC	5/09/79
Whitley County	Williamsburg, KY	5/11/79
Grovetown	Grovetown, GA	5/24/79
Lee County	Beattyville, KY	5/09/79
City of Canton	Canton, MS	4/24/79
City of Bay St. Louis	Bay St. Louis, MS	4/24/79
Town of Waveland	Waveland, MS	4/24/79
Town of Shubuta	Shubuta, MS	4/23/79
City of Bay Springs	Bay Springs, MS	4/23/79
Town of Centreville	Centreville, MS	4/23/79
City of Bessemer City	Bessemer City, NC	4/27/79
Town of Maiden	Maiden, NC	4/27/79
Town of Davidson	Davidson, NC	4/27/79
Edgecombe County	Tarboro, NC	4/30/79
Livermore	Livermore, KY	6/04/79
Marion	Marion, KY	6/08/79
Sparta	Sparta, NC	6/07/79
Oxford	Oxford, NC	6/07/79
Smith Grove	Smith Grove, KY	6/08/79
Hardin	Hardin, KY	6/13/79
Edwards	Edwards, MS	6/15/79
Hazel	Hazel, KY	6/15/79
LaCenter	LaCenter, KY	6/15/79
Quitman	Quitman, MS	6/15/79
Snow Hill	Snow Hill, NC	6/12/79
Great Falls	Great Falls, SC	6/12/79
Darlington County	Darlington, SC	6/12/79
Pamplico	Pamplico, SC	6/21/79
Davidson County	Lexington, NC	6/21/79
Goose Creek	Goose Creek, SC	6/21/79
Walhalla	Walhalla, SC	6/22/79
Whiteville	Whiteville, NC	6/27/79
Bowman	Bowman, SC	6/27/79
Town of Blackville	Blackville, SC	7/13/79
Town of Yemassee	Yemassee, SC	7/18/79
Town of Wellford	Wellford, SC	7/18/79
Town of Pendleton	Pendleton, SC	7/18/79
Town of Lynchburg	Lynchburg, SC	7/18/79
City of Hazelhurst	Hazelhurst, MS	8/06/79
Bolivar County	Cleveland, MS	8/06/79
City of Seiverville	Seiverville, TN	8/15/79
Grainger County	Rutledge, TN	8/15/79
City of Rogersville	Rogersville, TN	8/15/79
Town of Mason	Mason, TN	8/15/79

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>COMMUNITY PLANNING AND DEVELOPMENT (Continued)</u>		
Town of Ripley	Ripley, TN	8/15/79
Town of Bells	Bells, TN	8/16/79
City of Winchester	Winchester, TN	8/17/79
Greene County	Greenville, TN	8/20/79
City of Jonesboro	Jonesboro, TN	8/21/79
City of Sweetwater	Sweetwater, TN	8/21/79
City of Caryville	Caryville, TN	8/30/79
Sullivan County	Blountsville, TN	8/31/79
City of Landrum	Landrum, SC	9/14/79
City of Lake City	Lake City, TN	9/18/79
County of Loudon	Loudon, TN	9/18/79
Winston-Salem	Winston-Salem, NC	5/23/79
Atlanta Housing Authority	Atlanta, GA	9/18/79
City of Cumberland	Cumberland, KY	7/08/79
Mecklenburg County	Charlotte, NC	9/14/79
City of Highland Park	Highland Park, MI	6/25/79
City of Muskegon	Muskegon, MI	4/27/79
City of Madison	Madison, WI	6/12/79
City of Brookston	Brookston, MN	9/04/79
City of Marion	Marion, IN	9/28/79
City of Elroy	Elroy, WI	6/15/79
County of Grant	Grant County, WI	6/15/79
Village of Mazomanie	Mazomanie, WI	6/15/79
City of Chilton	Chilton, WI	6/18/79
Township of Erie	Erie, MI	7/12/79
Township of Ypsilanti	Ypsilanti, MI	7/20/79
Township of Northfield	Whitmore Lake, MI	7/16/79
City of Amery	Amery, WI	7/17/79
Village of Luck	Luck, WI	7/16/79
Sawyer County Housing Authority	Haywood, WI	7/16/79
Village of South Rockwood	South Rockwood, MI	7/17/79
Marquette County	Marquette Co., WI	7/11/79
City of Marshfield	Marshfield, WI	7/11/79
Village of Mattoon	Mattoon, WI	7/11/79
City of Hartford	Hartford, WI	7/12/79
City of Hartford	Hartford, IN	7/20/79
DeKalb County	DeKalb Co., IN	7/20/79
Rome City	Rome City, IN	7/27/79
City of Altoona	Altoona, WI	7/20/79
Saint Clair County	Port Huron, MI	7/17/79
Town of Thorntown	Thorntown, IN	7/26/79
Town of Farmersburg	Farmersburg, IN	7/26/79
Town of Cannelburg	Cannelburg, IN	7/26/79
Town of Georgetown	Georgetown, IN	7/26/79
City of Ithaca	Ithaca, MI	7/31/79
Township of Battle Creek	Battle Creek, MI	7/31/79
Villages of Readstown and Ontario (1 report)	Readstown and Ontario, WI	7/31/79
Village of South Wayne	South Wayne, WI	7/31/79
City of Owosso	Owosso, MI	7/31/79
City of Bad Axe	Bad Axe, MI	8/03/79
Forest Co. Potawatomi Community	Crandon, WI	8/09/79
Region II Planning Commission	Jackson, MI	8/19/79
Kalamazoo Township	Kalamazoo, MI	8/19/79
Village of Augusta	Augusta, MI	8/03/79
Village of Batavia	Batavia, OH	8/15/79
Brown County	Georgetown, OH	8/03/79
LaCrosse County	LaCrosse Co., WI	8/03/79
Sokaogon Chippewa Community	Crandon, WI	8/06/79
City of Kewanee	Kewanee, IL	8/13/79
Village of Clayton	Clayton, IL	8/09/79
Village of Washburn	Washburn, IL	8/03/79
City of Flora	Flora, IL	8/03/79
City of Vandalia	Vandalia, IL	8/15/79

AUDITEELOCATIONDATE REPORT
ISSUEDCOMMUNITY PLANNING AND DEVELOPMENT (Continued)

City of Otsego	Otsego, MI	8/09/79
City of Centralia	Centralia, IL	8/15/79
Whiteside County	Whiteside County, IL	8/16/79
Becker County	Becker County, MN	8/23/79
Wright County	Wright County, MN	8/15/79
Village of Ellisville	Ellisville, IL	8/15/79
Villages of Creve Coeur and South Pekin	Creve Coeur and South Pekin, IL	8/14/79
City of Christopher	Christopher, IL	8/15/79
City of Marion	Marion, IL	8/16/79
Village of Royalton	Royalton, IL	8/14/79
City of Lawrenceville	Lawrenceville, IL	8/21/79
Village of Sims	Sims, IL	8/22/79
City of Reading	Reading, MI	8/22/79
City of Waverly	Waverly, OH	8/24/79
City of Wellston	Wellston, OH	8/31/79
City of Circleville	Circleville, OH	8/16/79
Village of Clarksburg	Clarksburg, OH	8/21/79
City of Breckenridge	Breckenridge, MN	8/22/79
City of Slayton	Slayton, MN	8/30/79
City of Blue Earth	Blue Earth, MN	8/31/79
City of Crosby	Crosby, MN	9/05/79
City of New Ulm	New Ulm, MN	9/05/79
County of Greene	Greene County, IL	9/07/79
Township of Howard	Howard Township, MI	9/10/79
Arrowhead Economic Opportunity Agency	Virginia, MN	9/11/79
Village of Dahlgren	Dahlgren, IL	9/11/79
Koochiching County	Grand Rapids, MN	9/11/79
Everett Township	White Cloud, MI	9/11/79
County of Blue Earth	Mankato, MN	9/05/79
City of Clyde	Clyde, OH	9/17/79
Village of Grafton	Grafton, OH	9/19/79
Village of Pomeroy	Pomeroy, OH	9/11/79
County of Cass	Walker, MN	9/14/79
Newaygo County	White Cloud, MI	9/12/79
City of Clairsville	Clairsville, OH	9/07/79
Village of Middleport	Middleport, OH	9/18/79
Tuscarawas County	New Philadelphia, OH	9/12/79
City of Gallipolis	Gallipolis, OH	9/18/79
County of Brown	St. Peter, MN	9/18/79
County of Waseca	Waseca County, MN	9/20/79
City of New Prague	New Prague, MN	9/18/79
Village of Union City	Union City, OH	9/18/79
Calvin Township	Cassopolis, MI	9/10/79
City of Savage	Savage, MN	9/11/79
City of Cottage Grove	Cottage Grove, MN	9/20/79
City of Eaton	Eaton, OH	9/20/79
County of Chippewa	Sault Ste Marie, MI	9/14/79
City of Dilworth	Dilworth, MN	9/11/79
City of Fremont	Fremont, OH	9/14/79
County of Baraga	L'Anse, MI	9/18/79
Village of Nichols	Nichols, WI	9/20/79
Board of Lucas County Commissioner	Toledo, OH	9/11/79
Village of Mt. Orab	Mt. Orab, OH	9/18/79
Alger County	Munising, MI	9/18/79
County of Fairfield	Fairfield County, OH	9/12/79
Village of Salesville	Salesville, OH	9/20/79
City of Bessemer	Bessemer, MI	9/18/79
Village of Campbell Hill	Campbell Hill, IL	9/24/79
City of Dennison	Dennison, OH	9/20/79
City of Kent	Kent, OH	9/18/79
City of Willard	Willard, OH	9/18/79

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>COMMUNITY PLANNING AND DEVELOPMENT (Continued)</u>		
City of Ravenna	Ravenna, OH	9/19/79
City of Kenton	Kenton, OH	9/19/79
Village of McConnelsville	McConnelsville, OH	9/25/79
Village of Barnesville	Barnesville, OH	9/26/79
City of Princeton	Princeton, MN	9/20/79
City of Elk River	Elk River, MN	9/20/79
City of Maplewood	Maplewood, MN	9/24/79
Board of Vinton County Commissioners	McArthur, OH	9/20/79
Mahoning County	Mahoning County, OH	9/20/79
City of Ironwood	Ironwood, MI	9/28/79
City of Norwood	Norwood, MI	9/28/79
Stevens County	Stevens County, MN	9/28/79
Rice County	Rice County, MN	9/28/79
City of Wabasso	Wabasso, MN	9/28/79
City of Mena	Mena, AR	5/01/79
City of Austin	Austin, TX	9/07/79
City of Ada	Ada, OK	9/26/79
County of Pulaski	Pulaski, AR	9/21/79
Independence County	Independence County, AR	4/23/79
Grosse Tete	Grosse Tete, LA	4/02/79
City of Mindon	Mindon, LA	4/06/79
Miami Tribe of Indians of Oklahoma	Miami, OK	4/23/79
Creek Nation	Okmulgee, OK	4/17/79
Sac & Fox Tribe	Stroud, OK	4/18/79
Citizen Band Pottawatomie Tribe of Indians	Shawnee, OK	4/23/79
Kickapoo Tribe of Oklahoma	McCloud, OK	4/23/79
Tahlequah	Tahlequah, OK	4/26/79
Slick	Slick, OK	4/23/79
CDBG Recipients subject to Evaluation of Financial Management System (covered 11 grantees)	State of OK	4/23/79
Wolfe City	Wolfe City, TX	4/30/79
Denton	Denton, TX	4/10/79
Del Rio	Del Rio, TX	4/25/79
Santa Rosa	Santa Rose, TX	4/25/79
LaJoya	LaJoya, TX	4/25/79
Starr County	Starr County, TX	4/25/79
San Diego	San Diego, TX	4/25/79
Seminole Nation of Indians	Wewoka, OK	5/01/79
City of Okmulgee	Okmulgee, OK	5/01/79
City of Franklin	Franklin, LA	5/03/79
Town of Colfax	Colfax, LA	5/04/79
Livingston Parish Police Jury	Livingston, LA	5/04/79
City of Paris	Paris, TX	5/09/79
City of Calvert	Calvert, TX	5/09/79
East Feliciana Parish Policy Jury	Clinton, LA	5/10/79
Village of Folsom	Folsom, LA	5/10/79
City of Kountze	Kountze, TX	5/14/79
City of Woodville	Woodville, TX	5/14/79
City of Pittsburg	Pittsburg, TX	5/14/79
City of Crockett	Crockett, TX	5/15/79
City of Jefferson	Jefferson, TX	5/15/79
Cities of Alma & Hartford	Alma & Hartford, AR	5/15/79
City of Gatesville	Gatesville, TX	5/17/79
City of Wortham	Wortham, TX	5/18/79
City of Gilmer	Gilmer, TX	5/24/79
City of Tollette	Tollette, AR	5/30/79
Town of Grand Coteau	Grand Coteau, LA	6/01/79

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>COMMUNITY PLANNING AND DEVELOPMENT (Continued)</u>		
7 Grantees Assisted by the White River Planning and Development District	Batesville, AR	6/05/79
City of Pangburn	Pangburn, AR	6/07/79
Town of Jena	Jena, LA	6/20/79
City of Pineville	Pineville, LA	9/20/79
Town of Tullos	Tullos, LA	6/21/79
Parish Police Jury of Avoyelles Parish	Avoyelles Parish, LA	6/21/79
City of Carthage	Carthage, TX	7/02/79
County of Polk	Polk, TX	7/02/79
City of Cooper	Cooper, TX	7/07/79
City of Franklinton	Franklinton, LA	7/10/79
City of Rayville	Rayville, LA	7/16/79
City of Richwood	Richwood, LA	7/16/79
Parish of DeSoto	DeSoto, LA	7/16/79
City of Delhi	Delhi, LA	7/16/79
City of Bastvare	Bastvare, TX	7/23/79
County of Grayson	Grayson, TX	7/24/79
City of Hubbard	Hubbard, TX	7/30/79
City of Tahoka	Tahoka, TX	7/31/79
City of McGregor	McGregor, TX	7/31/79
County of Eddy	Eddy, NM	7/31/79
City of Huntington	Huntington, TX	8/08/79
City of Des Moines	Des Moines, NM	8/10/79
City of Crowell	Crowell, TX	8/16/79
City of Vernon	Vernon, TX	8/16/79
City of Brooksville	Brooksville, OK	8/17/79
City of Hughes Springs	Hughes Springs, TX	8/22/79
County of Angelina	Angelina, TX	8/30/79
Alamo	Alamo, TX	9/04/79
Cross Plains	Cross Plains, TX	9/04/79
Willacy County	Willacy County, TX	9/04/79
Floydada	Floydada, TX	9/06/79
Duval County	Duval County, TX	9/11/79
Hooks	Hooks, TX	9/13/79
Kosse	Kosse, TX	9/14/79
Poth	Poth, TX	9/14/79
Karnes City	Karnes City, TX	9/14/79
Port Lavaca	Port Lavaca, TX	9/14/79
Deal Smith County	Deal Smith County, TX	9/21/79
Prairie View	Prairie View, TX	9/21/79
El Campo	El Campo, TX	9/26/79
Bay City	Bay City, TX	9/26/79
Wapanuka	Wapanuka, OK	9/26/79
Travis County	Travis County, TX	9/26/79
San Miguel County	San Miguel County, NM	9/27/79
Houston	Houston, TX	9/04/79
City of Kansas City	Kansas City, MO	4/13/79
City of Sioux City	Sioux City, IA	5/03/79
City of Manhattan	Manhattan, KS	9/28/79
City of Carthage	Carthage, MO	9/27/79
City of Mountain Grove	Mountain Grove, MO	9/27/79
Land Clearance for Redevelopment Authority	Kansas City, MO	6/14/79
City of Wichita	Wichita, KS	7/31/79
City of Colorado Springs	Colorado Springs, CO	5/18/79
City of Lakewood	Lakewood, CO	6/27/79
City of White Sulphur Springs	White Sulphur Springs, MT	4/20/79
Town of Neihart	Neihart, MT	4/20/79
City of Alamosa	Alamosa, CO	4/20/79
County of Alamosa	Alamosa, CO	4/20/79
City of Monte Vista	Monte Vista, CO	4/23/79

AUDITEELOCATIONDATE REPORT
ISSUEDCOMMUNITY PLANNING AND DEVELOPMENT (Continued)

Town of Del Norte	Del Norte, CO	4/23/79
Goshen County	Torrington, WY	4/24/79
Town of Douglas	Douglas, WY	4/24/79
City of Maddock	Maddock, ND	5/08/79
City of Cooperstown	Cooperstown, ND	5/09/79
City of Inkster	Inkster, ND	5/09/79
City of Pisek	Pisek, ND	5/11/79
City of Farmington	Farmington, UT	5/11/79
City of North Ogden	North Ogden, UT	5/14/79
City of South Ogden	South Ogden, UT	5/14/79
City of Roy	Roy, UT	5/14/79
City of Summit	Summit, SD	5/23/79
City of St. George	St. George, UT	5/23/79
City of Garretson	Garretson, SD	5/24/79
City of Watertown	Watertown, SD	5/24/79
City of Valley City	Valley City, ND	5/25/79
City of Lisbon	Lisbon, ND	5/25/79
City of Ellendale	Ellendale, ND	6/12/79
City of Sterling	Sterling, CO	6/12/79
City of Wyndmere	Wyndmere, ND	6/14/79
City of Lead	Lead, SD	6/27/79
County of Big Horn	Hardin, MT	6/27/79
City of Park City	Park City, UT	6/28/79
City of Glasgow	Glasgow, MT	6/28/79
City of Poplar	Poplar, MT	6/28/79
City of Winner	Winner, SD	6/29/79
Carbon County	Carbon County, UT	7/03/79
Town of Stockton	Stockton, UT	7/09/79
Town of Cedar Fort	Cedar Fort, UT	7/19/79
City of Troy	Troy, MT	7/12/79
City of San Leandro	San Leandro, CA	5/15/79
City of Oakland	Oakland, CA	6/15/79
County of Orange	Santa Ana, CA	8/10/79
City of Tucson	Tucson, AZ	9/25/79
County of Trinity	Weaverville, CA	9/27/79
Manchester Point Arena Community Council	Manchester, CA	4/18/79
City of Woodlake	Woodlake, CA	6/22/79
City of Folsom	Folsom, CA	6/22/79
City of Galt	Galt, CA	6/22/79
County of Nye	Tonopah, NV	6/28/79
County of Mineral	Hawthorne, NV	6/28/79
County of Lyon	Yerington, NV	6/28/79
Fort McDermitt Paiute Shoshone Tribe	McDermitt, NV	8/08/79
Pit River Tribal Council	Burney, CA	8/31/79
Cuyapaipe Indian Reservation	Campo, CA	9/11/79
Reno-Sparks Indian Colony	Reno, NV	9/11/79
City of Montague	Montague, CA	9/11/79
Bridgeport Indian Reservation	Bridgeport, CA	9/12/79
San Manuel Indian Reservation	Highland, CA	9/12/79
Torres-Martinez Indian Reservation	Banning, CA	9/13/79
County of San Diego	San Diego, CA	9/28/79
City of Richmond Redevelopment Agency	Richmond, CA	4/17/79
County of Snohomish	Everett, WA	9/14/79
City of Hansen	Hansen, ID	6/25/79
City of Buhl	Buhl, ID	6/25/79
City of Rupert	Rupert, ID	6/26/79
City of Caldwell	Caldwell, ID	6/27/79
Muckleshoot Indian Tribe	Auburn, WA	7/02/79
Nisqually Indian Tribe	Olympia, WA	7/02/79
Okanogan County	Okanogan, WA	7/02/79
Yakima County	Yakima, WA	7/02/79

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>COMMUNITY PLANNING AND DEVELOPMENT (Continued)</u>		
City of Moses Lake	Moses Lake, WA	7/02/79
City of Pendleton	Pendleton, OR	7/03/79
Yamhill County	McMinnville, OR	7/03/79
Port Gamble Klallam Tribe	Kingston, WA	7/03/79
City of Chehalis	Chehalis, WA	7/03/79
City of Kelso	Kelso, WA	7/03/79
City of Centralia	Centralia, WA	7/03/79
City of South Bend	South Bend, WA	7/05/79
City of Florence	Florence, OR	7/06/79
Benton County	Corvallis, OR	7/06/79
City of Myrtle Point	Myrtle Point, OR	7/06/79
Jefferson County	Port Townsend, WA	7/06/79
Upper Skagit Indian Tribe	Burlington, WA	7/13/79
City of Veneta	Veneta, OR	7/18/79
City of Creswell	Creswell, OR	7/18/79
Polk County	Dallas, OR	7/19/79
Spokane Tribe of Indians	Wellpinit, WA	7/24/79
City of Wasilla	Wasilla, AK	7/24/79
City of Milton-Freewater	Milton-Freewater, OR	7/25/79
Asotin County	Asotin, WA	7/25/79
Wahkiakum County	Cathlamet, WA	8/07/79
City of Priest River	Priest River, ID	8/07/79
City of St. Anthony	St. Anthony, ID	8/07/79
City of Oakridge	Oakridge, OR	8/07/79
Columbia County	St. Helens, OR	8/08/79
Bonneville County	Idaho Falls, ID	8/08/79
Latah County	Moscow, ID	8/08/79
Tillamook County	Tillamook, OR	8/08/79
Clatsop County	Astoria, OR	8/10/79
Matanuska-Susitna Borough	Palmer, AK	8/16/79
City of Barrow	Barrow, AK	8/16/79
Old Harbor Tribal Council	Old Harbor, AK	8/16/79
Ouzinkie Tribal Council	Ouzinkie, AK	8/16/79
City of La Grande	La Grande, OR	8/17/79
City of Ketchikan	Ketchikan, AK	8/23/79
Malheur County	Vale, OR	8/23/79
Hughes Community Council	Hughes, AK	8/28/79
Ruby Village Council	Ruby, AK	8/28/79
Shumagin Corporation	Sand Point, AK	8/28/79
Angoon Community Association	Angoon, AK	8/29/79
Hoonah Indian Association	Hoonah, AK	8/29/79
Ketchikan Indian Corporation	Ketchikan, AK	8/29/79
Ambler IRA Council	Ambler, AK	8/31/79
State of Oregon Executive Department	Salem, OR	7/26/79

FEDERAL DISASTER ASSISTANCE (Total 20)

Department of Transportation	San Juan, PR	4/17/79
County of Middlesex	Middlesex, NJ	4/18/79
Pennsylvania Department of Transportation	Harrisburg, PA	4/30/79
Luzerne County	Luzerne County, PA	5/16/79
Pennsylvania Department of Natural Resources (2 reports)	Harrisburg, PA	5/04/79
Plymouth Borough	Plymouth, PA	5/07/79
Nesbitt Memorial Hospital	Wilkes-Barre, PA	9/26/79
City of Richmond	Richmond, VA	9/12/79
Mercy Hospital	Wilkes-Barre, PA	7/23/79
Blount County	Oneonta, AL	4/06/79
State of Kentucky	Frankfort, KY	6/08/79
State of Alabama	Montgomery, AL	7/02/79

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>FEDERAL DISASTER ASSISTANCE (Continued)</u>		
Floyd County	Prestonburg, KY	8/17/79
Clay County	Moorhead, MN	4/27/79
Detroit	Detroit, MI	5/29/79
Omaha	Omaha, NE	5/10/79
Montgomery County	Montgomery County, KS	7/17/79
State of Montana, IFG	Helena, MT	7/24/79
Audit of the Claim for Disaster Relief Under Federal-State (Arizona) Disaster Assistance	Arizona State Univ., Tempe, AZ	7/17/79

ADMINISTRATION (Total 85)

Frederick O'R Hayes	Boston, MA	8/21/79
Dufresne-Henry Engineering	Boston, MA	8/31/79
Putman, Hayes and Bartlett	Newton, MA	5/27/79
Novatek, Inc.	Boston, MA	8/06/79
National Fire Protection Association	Boston, MA	8/06/79
Urban Dynamics for Management	New York, NY	5/15/79
Dynamic Programs, Inc.	Trenton, NJ	5/16/79
National Development Council	New York, NY	8/23/79
Erdman and Anthony	Rochester, NY	8/30/79
Lawler, Matusky and Skelly	Pearl River, NY	9/24/79
Richard Brown Association	Wayne, NJ	9/13/79
GEOD Aerial Mapping	Oak Ridge, NJ	9/28/79
Aerial Data Reduction	Pennsauken, NJ	9/28/79
Delaware River Basin Commission	Trenton, NJ	6/01/79
Cresap, McCormick and Paget, Inc.	New York, NY	6/13/79
Institute of Architecture and Urban Studies	New York, NY	7/13/79
Council of State Community Affairs	Washington, DC	4/13/79
Council of State Planning Agencies	Washington, DC	4/12/79
Council of State Community Affairs	Washington, DC	4/12/79
National Institute of Building Sciences	Washington, DC	4/24/79
AIA	Washington, DC	5/10/79
Council for Urban Economic Development	Washington, DC	5/15/79
Gladstone Associates	Washington, DC	5/16/79
AIA	Washington, DC	5/17/79
National Training and Development	Washington, DC	5/29/79
Kappa Systems, Inc.	Washington, DC	5/30/79
AIA	Washington, DC	6/06/79
National Corporation for Housing Ptrn.	Washington, DC	6/27/79
American Management Systems	Arlington, VA	6/27/79
K. S. Sweets	King of Prussia, PA	7/03/79
Dewberry, Nealon and Davis (Sub to Informatics)	Philadelphia, PA	8/16/79
International Data and Development (Sub to Informatics)	Philadelphia, PA	8/16/79
Aspen Systems Corporation	Philadelphia, PA	8/17/79
Educational Development Resources	Philadelphia, PA	8/23/79
Huth Engineers	Philadelphia, PA	8/29/79
Culpepper Associates	Philadelphia, PA	8/10/79
Positive Futures	Washington, DC	5/31/79
Huth Engineers	Lancaster, PA	9/29/79

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>ADMINISTRATION (Continued)</u>		
International City Mgmt. Assoc.	Washington, DC	9/04/79
AIA Research	Washington, DC	9/12/79
Scotland	Washington, DC	5/17/79
Positive Futures, Inc.	Washington, DC	5/30/79
National Training and Development	Washington, DC	5/31/79
AIA Research Corporation	Washington, DC	5/30/79
Potomac Scheduling	Washington, DC	6/14/79
Decision Tech.	Washington, DC	6/14/79
AIA	Washington, DC	5/29/79
C. J. Hughes Construction Company	Philadelphia, PA	8/10/79
National Hispanic Coalition	Washington, DC	7/02/79
Public Systems, Inc.	Huntsville, AL	4/24/79
Bron Cleveland Associates	Atlanta, GA	4/26/79
Miller, Stevenson and Steinichen, Inc.	Atlanta, GA	4/25/79
Greenville	Greenville, SC	7/13/79
Lowe Engineers, Inc.	Atlanta, GA	8/10/79
Mayes, Sudderth and Etheredge	Atlanta, GA	9/18/79
Moore, Gardner and Associates	Ashboro, NC	9/18/79
G. Reynolds Watkins	Lexington, KY	9/25/79
Mayes, Sudderth and Etheredge	Lexington, KY	5/31/79
Metro Dade County, Department of Housing and Urban Development	Miami, FL	7/13/79
State of Florida	Tallahassee, FL	9/19/79
City of Eveleth	Eveleth, MN	5/15/79
National Training and Development Service	Columbus, OH	5/16/79
R. L. Polk and Company	Detroit, MI	5/31/79
Community Methods, Inc.	Toledo, OH	8/06/79
Howard, Needles, Tammen and Bergendoff	Indianapolis, IN	8/17/79
Harza Engineering Company	Chicago, IL	8/23/79
Academy for Contemporary Problems	Columbus, OH	8/23/79
Carl C. Crane, Inc.	Madison, WI	8/23/79
Donahue and Associates	Sheboygan, WI	8/23/79
Clyde E. Williams and Associates, Inc.	South Bend, IN	8/29/79
Owen Ayres and Associates	Eau Claire, WI	9/12/79
Johnson and Anderson	Pontiac, MI	9/12/79
National Council on Governmental Accounting	Chicago, MI	9/14/79
Finkbeiner, Pettis & Strout, Ltd.	Toledo, OH	9/21/79
Detroit Service Improvement Corporation	Detroit, MI	4/25/79
International Association of Assessing Officers	Chicago, IL	4/26/79
Warren County Recorder	Lebanon, OH	5/07/79
Freese and Nichols/Rady and Associates	Dallas, TX	8/17/79
Bovay Engineers	Dallas, TX	8/30/79
Hoskins-Western-Sonderegger	Lincoln, NE	8/16/79
Henningson, Durham, Richardson	Omaha, NE	9/14/79
Hoskins-Western-Sonderegger	Lincoln, NE	9/07/79
Kirkham, Michael/Francis, Meador, Gellhaus	Omaha, NE	8/22/79
Sacramento Housing and Redevelopment Agency	Sacramento, CA	4/27/79
Human Resources Corporation	San Francisco, CA	8/10/79

GRAND TOTAL - EXTERNAL AUDIT AND ACCOUNTING SYSTEM EVALUATION REPORTS - 730

PART 2

INFORMATION ON
OFFICE OF INSPECTOR GENERAL
ACTIVITIES AND SPECIAL EFFORTS
DURING FISCAL YEAR 1979

I. AUDIT OPERATIONS

A. HIGHLIGHTS OF FY 1979 ACTIVITIES

The following are highlights of some of our more important audit activities during FY 1979:

- Spent a total of 264.7 direct audit staff years on internal and external audits and audit-related activities, including 37 staff years on activities dealing with fraud control and detection (page 39).
- Issued 147 internal audit and survey reports and 1,061 external audit and accounting system evaluation reports (pages 41 and 42).
- Accepted 176 external audit reports covering HUD-funded activities prepared by other Federal agencies (page 45).
- Reviewed and accepted 3,977 external audit reports prepared by non-Federal auditors, i.e., Independent Public Accountants and state and local auditors (page 43).
- Reported 8,317 audit findings, including monetized findings of \$19.8 million which were concurred in by HUD (pages 46 and 47). ✓ 19.8
- Produced cash recoveries as a result of audits totaling \$6.2 million and achieved pricing proposal reductions of about \$428 thousand (page 48).
- Spent 26 direct audit staff years monitoring the work of Independent Public Accountants whose audits, in turn, resulted in \$11.4 million of monetized audit findings which were concurred in by HUD and cash recoveries of nearly \$6.9 million (pages 44, 47 and 48). ✓
- Spent 10.3 direct audit staff years following up on the resolution of audit findings and resolved 7,679 audit findings, or about 99 percent of the 7,758 findings for which HUD's Audits Management System time frames for resolution had expired (pages 45 and 46).
- Referred 3 mortgage companies to HUD's Mortgagee Review Board for appropriate action (page 50).

- Devoted 9.2 direct audit staff years to assisting United States attorneys in their prosecutive efforts (page 39).
- Carried out a Departmentwide program for coordination and liaison with the General Accounting Office (page 50).

B. AUDIT PLANNING AND ALLOCATION OF AUDIT TIME

1. ANNUAL AUDIT PLAN

Audit planning is one of our most critical tasks. The Annual Audit Plan represents our formal plan of action for the management of audit resources and workload during the fiscal year. Development of the Plan is a process which requires many months of research and preparation. The Annual Audit Plan is based upon information and suggestions obtained from all levels of the OIG and HUD program staff, and recognizes the interest and concerns of Congress, other Federal agencies and the general public.

Our Annual Audit Plan for FY 1980 has been developed and is now being implemented. The Plan is sufficiently flexible and can accommodate changes in priorities which may occur during the implementation stage. It permits the shifting of audit emphasis and staff resources from planned audit assignments to newly determined areas in urgent need of audit attention.

All audits included in the Annual Audit Plan can be classified as being internal (i.e., audits of HUD operations and programs), external (i.e., audits of HUD program participants) or a combination of both (see Appendix I for a more detailed explanation of an internal and external audit). However, for the sake of clarity and accountability, the Plan divides the audit workload into four functional areas: (1) scheduled internal audits; (2) fraud control and detection audits; (3) external audits; and (4) departmentwide assistance activities (i.e., following up on audit findings, monitoring Independent Public Accountant (IPA) audits, operational surveys, and assistance to U.S. Attorneys).

Although external audits and departmentwide assistance activities involve nearly two-thirds of our audit resources each year, the planning requirements for internal and fraud control audits are far more involved. This is due in part to the fact that internal and fraud control audit subjects are almost without limit. Moreover, these kinds of audits lend themselves to a greater degree of flexibility than do external audits or departmentwide assistance activities.

OMB Circular No. A-73 (Revised) prescribes criteria which are to be applied to audit subjects under consideration for annual audit plans. OIG's policy regarding priority assignment of audit subjects includes OMB's criteria, and also includes two additional considerations: one is the Inspector General Act's mandate to detect and prevent fraud and program abuse; the other involves recognition of areas being emphasized by the President and the Secretary.

2. FY 1979 DISTRIBUTION OF
ACTUAL DIRECT AUDIT TIME

Table 1 provides a summary of the distribution of actual direct audit time for FY 1979. As shown, 264.7 direct audit staff years were expended in FY 1979. Almost two-thirds of this time was spent auditing HUD's two principal program areas, namely, Housing and Community Planning and Development.

Most of the audits comprising the universe of external audits are performed by Independent Public Accountants (page 43); however, as shown in Table 1, almost 52 percent of total actual direct audit staff time during FY 1979 was spent on external audit work. The balance, or 48 percent, was devoted to internal audit work. We are planning a similar allocation of direct audit time during FY 1980.

Although Table 1 shows that about one-half of total direct audit time during FY 1979 was spent in the external audit area, it should be noted that additional audit coverage in the external audit area comes about as a result of our monitoring of Independent Public Accountants (page 44). However, for the purposes of administrative reporting we include the time spent on such monitoring under the category of departmentwide assistance activities.

The category of departmentwide assistance, which consumed 53 direct audit staff years or 20 percent of the total direct audit staff years expended in FY 1979, is comprised of the following: (1) monitoring Independent Public Accountants (26 staff years); (2) following up on audit findings (10.3 staff years); (3) assistance to U.S. Attorneys (9.2 staff years); (4) conventional operational surveys (5.7 staff years); and (5) audit follow-up on hotline complaints (1.6 staff years).

Total actual direct internal audit time shown in Table 1 includes approximately 37 direct audit staff years spent on activities related to fraud control and detection.

Our internal audits also indirectly provide us with external audit coverage, although the time so expended is included as internal audit time. This external coverage occurs because of the nature of internal audits which, among other things, involves reviewing selected operations of a sample of HUD program participants as part of the audit's overall assessment of the effectiveness of the HUD programs or HUD operations involved.

Program/Activity	Distribution of FY 1979 Direct Audit Staff Years					
	External Audits		Internal Audits		Total	
	Actual Staff Years	Percent	Actual Staff Years	Percent	Actual Staff Years	Percent
Housing	62.9	45.9%	43.3	33.9%	106.2	40.1%
Community Planning & Develop.	55.5	40.5%	9.4	7.4%	64.9	24.5%
Departmentwide Assistance	-	-	53.0	41.5%	53.0	20.0%
Administration and Other	14.1	10.3%	21.7	17.0%	35.8	13.5%
New Communities	0.4	0.3%	-	-	0.4	0.2%
Gov't. Nat'l. Mtg. Assoc.	-	-	0.2	0.2%	0.2	0.1%
Fed'l. Disaster Ass't. Admin.*	<u>4.2</u>	<u>3.0%</u>	<u>-</u>	<u>-</u>	<u>4.2</u>	<u>1.6%</u>
TOTALS	<u>137.1</u>	<u>100%</u>	<u>127.6</u>	<u>100%</u>	<u>264.7</u>	<u>100%</u>
As a Percentage of Total Direct Audit Time		<u>51.8%</u>		<u>48.2%</u>		<u>100%</u>

Table 1. Distribution of Actual Direct Audit Time (By Staff Years) - FY 1979

* The Federal Disaster Assistance Administration was transferred to the newly established Federal Emergency Management Agency effective October 1, 1979.

C. AUDIT, SURVEY AND ACCOUNTING SYSTEM
EVALUATION REPORTS ISSUED BY THE OIG

1. INTERNAL AUDIT AND SURVEY REPORTS

We issued 147 internal audit and survey reports in FY 1979 (Table 2). Of these reports, 27 were nationwide reports, i.e., reports which summarized the results of several Regional Office audit reports and which disclosed major trends of adverse conditions or significant deficiencies in program administration on a nationwide basis. Nationwide reports are directed to the applicable Assistant Secretary, or equivalent, for appropriate action on the reported findings and recommendations. As shown in Table 2, about 41 percent of our internal audit and survey reports issued during FY 1979 were in the Housing programs area.

<u>Program/Activity</u>	<u>Internal Audit and Survey Reports Issued - FY 1979</u>	
	<u>Number</u>	<u>Percent</u>
Housing	60	41%
Administration	31	21%
Departmentwide Assistance	24	16%
Community Planning and Development	13	9%
Other (e.g., Federal Insurance, New Communities, etc.)	<u>19</u>	<u>13%</u>
TOTAL	<u>147</u>	<u>100%</u>

Table 2. Internal Audit and Survey Reports Issued By Major Program or Activity - FY 1979

About 42 percent of the internal audit findings reported in FY 1979 were in the Housing area; 25 percent were in the Administration area; seven percent were in the Community Planning and Development area; and 26 percent were in the "Other" area.

A listing of internal audit reports issued during the last six months of FY 1979 can be found in section VII of part 1 of this report (page 22). A listing of internal audit reports issued during the first six months of FY 1979 can be found in section VIII of our previous semiannual report to Congress dated April 30, 1979.

2. EXTERNAL AUDIT AND ACCOUNTING
SYSTEM EVALUATION REPORTS

During FY 1979, we issued 1,061 external audit and accounting system evaluation reports (Table 3). As shown in Table 3, 597 or 56 percent of these reports were in the Community Planning and Development (CPD) area. Of the 597 reports in the CPD area, 70 or 12 percent concerned the results of audits of Community Development Block Grant recipients, while 465 or 78 percent concerned accounting system evaluations (primarily in the Small Cities Program area). Overall, we performed 467 accounting system evaluations during FY 1979. These evaluations are for the purpose of determining whether a recipient's accounting system is capable of furnishing accurate financial data and reports on a timely basis consistent with HUD requirements.

<u>Program/Activity</u>	<u>External Audit/ Accounting System Evaluation Reports Issued - FY 1979</u>	
	<u>Number</u>	<u>Percent</u>
Community Planning & Development	597	56%
Housing	227	21%
Administration (Contract Cost Audits and Pricing Proposal Evaluations)	186	18%
Federal Disaster Assistance Admin.	51	5%
TOTAL	<u>1,061</u>	<u>100%</u>

Table 3. OIG-Issued External Audit and Accounting System Evaluation Reports by Major Program Area - FY 1979

The program area which had the next highest number of external audit reports was the Housing area with 227 or 21 percent of the total reports. Of the 227 reports, 173 or 76 percent involved Insured Housing Programs; the remainder involved Assisted Housing Programs. Within the Insured Housing Programs area, 84 or 37 percent of the reports concerned multifamily mortgagor operations, while 49 or 28 percent concerned mortgagee operations.

In addition to the 1,061 external audit/accounting system evaluation reports which we issued in FY 1979, we also reviewed and accepted 3,977 external audit reports on HUD program participants which were prepared by Independent Public Accountants (IPAs) and state and local auditors. During FY 1979, our audit reports and those prepared by

IPAs produced 7,943 external audit findings which had to be controlled, i.e., followed up for corrective action and resolution of the findings. About 53 percent of these findings were in the Housing area and 47 percent in the Community Planning and Development area.

A listing of external audit reports issued during the last six months of FY 1979 can be found in section VII of part I of this report (page 24). A listing of external audit reports issued during the first six months of FY 1979 can be found in section VIII of our previous semiannual report to Congress dated April 30, 1979.

D. AUDIT REPORTS PREPARED BY NON-FEDERAL AUDITORS

1. USE OF INDEPENDENT PUBLIC ACCOUNTANTS AND STATE AND LOCAL AUDITORS TO PERFORM EXTERNAL AUDITS

The universe of potential external audits of HUD program participants is extremely large. Our last estimate of this universe was over 48,000; however, the universe varies at any given time. For the OIG to perform an audit of each member of this universe on a reasonably-timed basis would be beyond the capabilities of existing staff resources. Therefore, because of the large universe of potential annual external audits, we must rely on Independent Public Accountants (IPAs) and state and local auditors to perform most the audits of recipients of HUD assistance. The majority of non-OIG audits of HUD program participants, however, are performed by IPAs in contrast to state or local government auditors. In addition, some program audits, such as in the Community Development Block Grant Program, are required by statute.

Generally, an IPA is defined as either: (1) a public accountant licensed or registered on or before December 31, 1970 by a regulatory authority of a state or other political subdivision of the U.S. and, who meets any legal requirements concerning registration by the state in which the auditee is located; or (2) a Certified Public Accountant.

HUD's first effort at using IPAs was in FY 1972. This effort consisted of a pilot program wherein IPAs were used to audit public housing agencies. The program was later expanded to encompass other HUD program participants as illustrated in Appendix 2. FY 1973, however, was the first year to reflect HUD's policy of relying on IPAs to the greatest extent possible.

Table 4 shows, by major program area, the number of IPA audit reports reviewed and accepted during FY 1979. As shown, 2,052 or 52 percent of the 3,977 reports reviewed and accepted were in the Community Development Block Grant Program, while 1,466 or 37 percent were in the Low-Rent Housing Program.

Program	IPA Reports Reviewed/Accepted - FY 1979			
	Initial	Follow-up	Total	Percent
Community Develop. Block Grant	948	1,104	2,052	52%
Low-Rent Housing (LRH)	211	1,255	1,466	37%
Comp. Planning (Sect. 701)	142	162	304	8%
Urban Renewal (UR) & Neighborhood Development Programs (NDP)	17	110	127	3%
Combined LRH and UR/NDP	3	17	20	-
Neighborhood Facility	6	2	8	-
TOTAL	<u>1,327</u>	<u>2,650</u>	<u>3,977</u>	<u>100%</u>

Table 4. IPA Audit Reports Reviewed and Accepted By Major Program Area - FY 1979

The area which constitutes the largest portion of the external audit universe and which results in the greatest number of IPA reports is the Insured Housing area. The OIG, however, does not have review and acceptance responsibility for IPA reports in this area.

2. MONITORING INDEPENDENT PUBLIC ACCOUNTANTS

We have been monitoring the audit work performed by IPAs since the time the IPA program was first established in 1972. During FY 1979, we spent the equivalent of about 26 staff years on IPA monitoring activities.

The Inspector General Act of 1978 requires each OIG to take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions. Our IPA monitoring program consists of reviewing IPA reports for acceptability, conducting selected field reviews of IPA working papers, and evaluating the scope of IPA audit work.

We are also responsible for initiating sanctions against IPAs. Such sanctions usually consist of referral to the appropriate state regulatory authority, state accounting board, or American Institute of Certified Public Accountants (AICPA), for review and adjudication and/or initiation of a recommendation to the responsible HUD official to suspend or debar the IPA from participating in the Department's programs. During FY 1979, we initiated action to debar an IPA from participating in HUD programs due to his lack of independency.

E. AUDIT REPORTS PREPARED BY OTHER AGENCIES

Some Federal agencies (including HUD) have audit cognizance responsibilities with respect to specific program participants receiving funds from the Federal Government, either under a grant or contract arrangement. In HUD's case, these agencies are responsible for conducting the audits of HUD activities which are carried out by these participants, and as such, they are reimbursed for their audit services.

The principal agencies performing audit work for HUD are the Defense Contract Audit Agency and the Department of Health, Education, and Welfare. In FY 1979, we accepted 176 audit reports covering HUD activities which were prepared by other Federal agencies.

F. FOLLOW-UP AND CLEARANCE OF AUDIT FINDINGS AND RECOMMENDATIONS

1. AUDITS MANAGEMENT SYSTEM

The Department's Audits Management System, established at the direction of the HUD Secretary on December 22, 1977, assures the continued interest of HUD managers who are responsible for taking closing actions and assuring that all audit recommendations are satisfactorily resolved and implemented. Briefly, this is accomplished through a top management Audits Resolution Committee chaired by the Under Secretary, and through its two working groups, namely: the Headquarters Audits Review Group chaired by the Assistant Secretary for Administration and the Field Audits Review Group chaired by the Deputy Under Secretary for Field Coordination. Audit findings that are not resolved within prescribed time frames are now automatically referred to Headquarters and then to the Audits Resolution Committee for final determination.

The implementation of the Audits Management System has resulted in a more rapid resolution of recommendations contained in audit reports concerning HUD program participants and internal HUD activities. This is evidenced by the operating results during FY 1979. We reported 8,317 audit findings in FY 1979. The number of audit findings wherein the Audits Management System time frames had expired in FY 1979 totaled 7,758. Of these audit findings, 7,679 or about 99 percent were closed at September 30, 1979.

The Audits Management System is one of HUD's most important management tools and is an integral part of the Department's Executive Management Reporting system (a goals management-type system). As part of this system, Headquarters and Regional performance under the Audits Management System is monitored monthly.

2. DEPARTMENTAL POST-AUDIT REVIEW AND VERIFICATION OF CLOSED AUDIT FINDINGS

In order to verify the actual implementation of our audit recommendations, the Audits Management System requires post-audit review and verification of the more important audit findings within six months after they are closed. The OIG is responsible for selecting audit recommendations for post-audit verification and for advising the Deputy Under Secretary for Field Coordination and Headquarters action officials on a monthly basis of such decisions.

In FY 1979, we referred over 400 findings/recommendations for post-audit verification. Top management is not only involved in resolving findings on a timely basis, but also in ensuring that post-audit verifications are made to check the quality of actions taken by the auditee on selected closed audit recommendations. In this regard, the Deputy Under Secretary for Field Coordination has issued guidelines for Regional verification systems. In addition, his staff makes periodic field reviews to: (1) determine if the Region has adopted and is using the guidelines; and (2) verify selected closed audit recommendations.

Reviews to date have shown that the post-audit verification system is being carried out and appropriate corrective actions on audit findings, with few exceptions, are being taken.

3. DIRECT INTERNAL AUDIT TIME

During FY 1979, we reported 7,943 external and 374 internal audit findings or a total of 8,317 audit findings covering the operations of HUD and its program participants. Because of the large volume of reported audit findings, we had to spend a considerable amount of time following up on the resolution of such findings. In FY 1979, we spent the equivalent of 10.3 direct audit staff years in this area. This represented about eight percent of our direct internal audit time during FY 1979.

The amount of time we spend following up on audit findings in the future will depend on the volume and complexity of reported findings, as well as the effectiveness of HUD management in achieving adequate corrective actions.

We continue to look upon this area as being of critical importance to the Department's audit efforts which are aimed at bringing about positive improvements in the administration of HUD programs and activities through implementation of audit recommendations or appropriate consideration of the information contained in audit reports.

G. MONETIZED AUDIT FINDINGS
CONCURRED IN BY HUD

All of the audit findings that OIG and IPAs report cannot be expressed in monetary terms. However, the audit findings that were monetized and concurred in by HUD during FY 1979 amounted to nearly \$31.3 million (Table 5). These findings are normally in the external audit area and are not reported until we are advised in writing by the applicable HUD program official that he/she has concurred in the audit findings and has requested the recipient of the program funds to make restitution or take other corrective action.

<u>Program/Activity</u>	<u>Monetized Audit Findings Concurred in By HUD</u>		
	<u>OIG</u>	<u>IPAs</u>	<u>Total</u>
<u>Insured Housing</u>			
Mortgagor Cost	\$ 939,298	\$ -	\$ 939,298
Mortgagor Operations	335,254	-	335,254
Mortgagees	10,503	-	10,503
<u>Assisted Housing</u>			
Area Management Brokers	1,497	-	1,497
Low Rent Housing (LRH)	7,903,970	3,364,344	11,268,314
Combined LRH/Urban Renewal	55,825	3,935	59,760
Public Facility Loans	-	-	-
<u>Community Planning & Development</u>			
Model Cities	2,865,492	355	2,865,847
Community Develop. Block Grants	3,516,387	4,619,986	8,136,373
Urban Renewal/Neigh- borhood Develop.	896,702	1,988,373	2,885,075
Demolition	1,611	-	1,611
Code Enforcement (Reinstate)*	(50,131)*	-	(50,131)*
Comprehensive Planning	1,947,820	1,400,770	3,348,590
Neighborhood Facilities	-	58,480	58,480
<u>Administration</u>			
Pricing Proposal Reductions	427,791	-	427,791
<u>Federal Disaster Asst.</u>	<u>992,275</u>	<u>-</u>	<u>992,275</u>
TOTALS	<u>\$19,844,294</u>	<u>\$11,436,243</u>	<u>\$31,280,537</u>

Table 5. OIG/IPA Monetized Audit Findings Concurred in By HUD - FY 1979

H. CASH RECOVERIES

Cash recoveries resulting from our external audits totaled \$6.2 million, while IPA audits produced an additional \$6.9 million during FY 1979 (Table 6). In addition, price reductions of \$428 thousand were obtained as a result of our pricing proposal evaluations.

<u>Program/Activity</u>	<u>Cash Recoveries - FY 1979</u>		
	<u>OIG</u>	<u>IPAs</u>	<u>Total</u>
<u>Insured Housing</u>			
Mortgagor Cost	\$ -	\$ -	\$ -
Mortgagor Operations	36,753	-	36,753
Mortgagees	7,875	-	7,875
<u>Assisted Housing</u>			
Area Management Brokers	1,497	-	1,497
Low Rent Housing (LRH)	212,408	2,627,141	2,839,549
Combined LRH/Urban Renewal	55,824	3,936	59,760
Public Facility Loans	-	-	-
<u>Community Planning & Development</u>			
Model Cities	1,555,249	355	1,555,604
Community Develop. Block Grants	1,898,649	3,517,070	5,415,719
Urban Renewal/Neigh- borhood Develop.	1,012,426	642,327	1,654,753
Demolition	1,611	-	1,611
Code Enforcement	216,567	-	216,567
Comprehensive Planning	5,604	32,254	37,858
Neighborhood Facilities	-	38,990	38,990
<u>Administration</u>			
Cost Reimbursable Contracts	219,904	-	219,904
<u>Federal Disaster Asst.</u>	966,631	-	966,631
TOTALS	\$ 6,190,998	\$ 6,862,073	\$13,053,071

Table 6. OIG/IPA Cash Recoveries - FY 1979

Cash recoveries are reported only after we have satisfactory evidence that HUD's program costs have actually been reduced. Monies recovered become available for reprogramming to grantees or borrowers within the programs involved.

There is no definite trend or pattern in the amount of monetized audit findings or cash recoveries from year to year. Such annual audit findings and cash recoveries are affected by a variety of factors such as type of program audited, amount of program funds audited, extraordinary items, type of costs incurred, internal versus external audit emphasis and the phasing out of HUD's categorical grant programs.

While monetized audit findings and cash recoveries are important, the impact of our comprehensive audit program should not be looked upon only in terms of resultant cash recoveries. Some audit findings simply do not lend themselves to being expressed in monetary terms. Rather, of more importance is the positive influence our audit findings and recommendations have had on the way HUD and program participants administer their programs and activities. As a result of our audits, improvements have been made in HUD and program participant procedures and systems for implementing Departmental programs. While these improvements cannot always be expressed in monetary terms, their beneficial impact is real in view of the improved efficiency and effectiveness of operations that result from such improvements.

I. REFERRALS TO MORTGAGEE REVIEW BOARD

In 1975 HUD established the Mortgagee Review Board in order to strengthen the Department's monitoring and control of mortgagee performance, to ensure better responses to consumer complaints, and to act on poor performance by mortgagees. The regulation (24 C.F.R., Part 25, 40 FR43026) establishing the Board was published September 12, 1975. The Board has the authority to take a range of sanctions up to and including the withdrawal of the HUD-approved status of mortgagees. The Board is composed of the Assistant Secretaries for Housing, Administration, Neighborhoods, Voluntary Associations and Consumer Protection, and the HUD General Counsel.

Findings cited in audit reports, deficiencies disclosed in monitoring reviews and other transgressions by mortgagees which come to the attention of the Department and which are significant, are to be directed to the Board for a determination of whether a HUD-approved mortgagee should have its approved status withdrawn. The procedures of the Board are intended to assure consideration of all matters referred and require the unanimous decision of all Board members to withdraw a mortgagee's approval. A dissenting vote by any Member will cause the case to be referred to the Under Secretary for a determination of appropriate action. Mortgagees are assured of due process, including the right to appeal to a hearing officer and ultimately to the Secretary.

Matters considered can generally be divided into two categories: Actions against mortgagees who fail to submit required financial statements, and actions against mortgagees for improper performance. The establishment of the Board has served to improve mortgagee performance and exclude from participation in HUD programs those mortgagees who do not comply with the Department's procedures.

In FY 1979, we referred three mortgage companies to the Mortgagee Review Board. Reviews of these companies disclosed program violations such as: strawbuyers being used to purchase HUD-FHA insured properties; a mortgage company using a "loan packager" to originate HUD loans; excess and unallowable fees being charged to mortgagors; loans not being handled in accordance with HUD requirements; loan origination fees being discounted to certain buyers/sellers; and a branch office not processing loans in accordance with HUD requirements. The Mortgagee Review Board sent two letters of reprimand and entered into an indemnification agreement and suspended the operations of one branch office. In addition, we performed audits of five mortgage companies at the request of the Mortgagee Review Board.

J. COORDINATION AND LIAISON ACTIVITIES RELATING TO THE GENERAL ACCOUNTING OFFICE

Section 4(c) of the Inspector General Act of 1978 states that the Inspector General shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and insuring effective coordination and cooperation. Our ongoing relationship and liaison with the General Accounting Office (GAO), through our GAO Liaison Officer, ensures the meeting of this legislative requirement.

Since the time of our inception in 1972, we have had a focal point for GAO liaison and contact with the Department. Our GAO Liaison Officer reports directly to the Assistant Inspector General for Audit and is responsible for: (1) assisting the OIG in coordinating its efforts with GAO; (2) keeping the Secretary and other HUD officials informed on GAO audit progress and results; (3) coordinating and advising on HUD responses to GAO reports; and (4) tracking GAO-recommended corrective actions.

During FY 1979, our GAO Liaison Officer monitored and alerted HUD management to 75 new assignments involving HUD activities which were started by the GAO. The GAO Liaison Officer also received for review, processing and monitoring 74 GAO draft, published or letter reports on HUD activities, prepared 59 abstracts on GAO reports to the Secretary and Under Secretary, and cleared 40 replies to GAO reports or letters.

II. INVESTIGATION OPERATIONS

A. HIGHLIGHTS OF FY 1979 ACTIVITIES

The following are highlights of some of our more important investigation activities during FY 1979:

- Opened 2,008 investigation cases involving HUD personnel, or persons or firms doing business with HUD (pages 51 and 52).
- Aided in the indictment of 207 persons or firms having business with HUD (page 55).
- Carried out investigations which led to the conviction of 182 persons or firms who received fines totaling over \$546 thousand and prison sentences totaling nearly 106 years (page 55).
- Conducted investigations which led to 250 debarments and 244 suspensions of persons or firms having business with HUD (page 57).
- Produced cash recoveries as a result of investigations amounting to \$1.8 million (page 57).
- Under HUD's personnel security program, monitored 343 Full Field Investigations and 3,133 National Agency Checks and Inquiries, reinvestigated 72 incumbents holding critical-sensitive positions and conducted 225 preappointment National Agency Checks (page 57).
- Administered a document security program for HUD covering more than 575 classified documents (page 57).

B. INVESTIGATION WORKLOAD ACTIVITY

1. CASES OPENED

In FY 1979, we opened 2,008 new investigation cases involving HUD personnel, and/or persons or firms doing business with HUD.* Table 7 shows a breakdown of these cases by category of investigative matter. Of the 2,008 investigation case openings,

* Since our inception in January 1972 through FY 1979, we have now opened approximately 21,000 investigation cases.

1,821 or 91 percent were opened by our Office of Investigation; the remaining 187 cases were originated by the FBI and other agencies.

2. PROFILE OF NEW CASES

As indicated in Table 7, 1,258 or 63 percent of the 2,008 investigation cases opened during FY 1979 involved some type of suspected false statement (e.g., false statements made to obtain an insured mortgage or rental subsidy benefits or to acquire a HUD-owned property, etc.). Over 90 percent of the 1,258 false statement investigations involved some type of housing program with the majority dealing with single family mortgage insurance programs. The remaining case load of 750 investigations was spread across program lines and pertained to allegations/complaints such as bribery, embezzlement, conflicts of interest, labor violations, home improvement loans, complaints of discrimination in employment and misconduct by HUD employees.

<u>Investigation Category</u>	<u>Number of Cases</u>
False Statements	1,258
FHA - Title I	195
HUD Personnel (Misconduct)	111
Administration	103
Preemployment Checks	100
Kickbacks	49
HUD Employee Complaints of Discrimination	45
Embezzlement	40
Theft	35
Wage Violations	24
Conflicts of Interest	17
Bribery	13
Other (Impersonations, Hatch Act Violations, False Advertising, Constructional Violations, Charter and Contractual Violations, Obstructions of Justice, etc.)	18
TOTAL	<u>2,008</u>

Table 7. New Investigation Cases Opened by Category of Investigation Matter - Fiscal Year 1979

3. PENDING CASES

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

At September 30, 1979, we had 2,061 investigation cases either in process or awaiting investigation. Of these cases, 1,248 were FBI cases and 813 were OIG cases.

4. ACTIONS ON PENDING INACTIVE OR COMPLETED CASES

Pending inactive refers to the status of an investigation during that period between completion of field investigation activity and acceptance of a Disposition Report executed by the appropriate HUD official. Investigations are pending inactive when in the hands of a HUD official for review, action and execution of a Disposition Report. A pending inactive investigation is closed when all final action has been taken and reported by the proper authority.

Under HUD's new Executive Management Reporting System (EMR), which tracks key administrative aspects of HUD operations, actions on completed investigations are monitored and controlled. Under this system, HUD program officials are allowed 120 days to initiate initial administrative action on completed investigation cases.

Of the 1,422 investigation cases completed during FY 1979, 925 were issued during the period October 1978 through May 1979. The 120-day time limit for this period expired on September 30. The number of cases on which initial administrative action was initiated totaled 890. This meant that 96 percent of the cases had administrative action initiated within the prescribed time frame. The remaining 497 cases will require action during FY 1980.

C. ACTIONS ON INVESTIGATION RESULTS

Action on investigation results comes in many forms. The most common of these are:

- Indictment and prosecution within the courts.
- Civil relief through the filing of a civil court action or the claims collection process.
- Suspension or debarment in accordance with HUD's regulations.

- A "temporary denial of participation," which is a procedure similar to suspension/debarment, but less severe.
- Withdrawal of approval for a mortgage company to originate and/or service HUD-insured mortgages.
- An adverse action up to and including possible dismissal of an agency employee.
- No action warranted, for those situations wherein the evidence will not sustain an action, or the available evidence disproves the original complaint or allegation.

It is also important to keep in mind that final action with respect to any given investigation may not occur within the same fiscal or calendar year in which the investigation was completed. Actions reported in this section of the report were accomplished during FY 1979 and may have resulted from investigations completed before and during FY 1979.

1. PROCESSES FOR REFERRING MATTERS
FOR PROSECUTIVE CONSIDERATION

The referral of investigation matters for prosecutive consideration by United States Attorneys and the Criminal Division of the Justice Department is accomplished in a number of ways. Currently, matters are brought to the attention of the appropriate U.S. Attorney in the following ways:

- Through Other Enforcement Agencies. Fraud and other types of violations of HUD programs have been historically referred to appropriate law enforcement agencies (e.g., the IRS, Postal Inspection Service, Secret Service, and the FBI) for investigation, when: (1) the complaint or allegation is specific enough to indicate the matter falls within the investigative jurisdiction of the particular agency; (2) our investigation develops information similar to that described in (1) above; or (3) we are requested to do so by a United States Attorney following our preliminary investigation. The vast majority of cases falling into this category are directed to and processed in cooperation with the FBI.

- Direct Presentation by the OIG. Our investigators present information on ongoing investigations to United States Attorneys for consideration of criminal prosecution in situations wherein: (1) legal advice with respect to criminal procedures is needed; (2) guidance with respect to the direction of any specific investigation is needed; and (3) a decision as to whether or not to prosecute a given matter is needed.

2. PROSECUTION DECLINATIONS

During FY 1979, United States Attorneys declined prosecution in 905 HUD-related cases referred to them by the FBI or HUD's OIG. The primary reasons for declining prosecution during FY 1979, as well as in previous years, are:

- The matter lacked jury appeal.
- There was no evidence of a Federal crime.
- A technical violation may have existed, but there was no evidence of real harm to the government or the public.
- The particular matter was not part of a pattern and when viewed as an isolated incident would not warrant Federal prosecution.
- There was nominal dollar loss to the government.

3. INDICTMENTS AND CONVICTIONS

OIG investigation efforts during FY 1979 aided in the indictment of 207 persons or firms having business with HUD, including ~~indictments of six HUD employees~~ (Tables 8 and 9). Moreover, 182 persons or firms, ~~including the six HUD employees~~, were convicted of offenses during FY 1979 ranging from the submission of false statements to bribery (Tables 8 and 9). Fines assessed against these offenders totaled over \$546,000. Convictions obtained in FY 1979 resulted in 45 persons receiving prison sentences totaling nearly 106 years and 130 persons receiving probated sentences totaling nearly 345 years.

Section IV of part 1 of this report (page 11) provides further details on the prosecutive actions taken against persons indicted/convicted during the current reporting period April 1, 1979 to September 30, 1979.

<u>Region</u>	<u>Total Indictments*</u>	<u>Sentenced/ Fined</u>	<u>Dismissed/ Acquitted</u>
1	7	5	-
2	22	20	-
3	15	9	-
4	23	20	4
5	44	58	2
6	31	27	8
7	9	2	2
8	10	9	-
9	43	30	1
10	<u>3</u>	<u>2</u>	<u>-</u>
Total	<u>207</u>	<u>182</u>	<u>17</u>

Table 8. Status of Indictments By Region - FY 1979

<u>HUD Position</u>	<u>Indicted</u>	<u>Sentenced</u>	<u>Dismissed/ Acquitted</u>
Director	2	1	1
Deputy Director	-	1	-
Division Chiefs and Deputies	1	1	-
Realty Specialist	1	1	-
Construction Analyst	2	1	1
Loan Specialist	<u>-</u>	<u>1</u>	<u>-</u>
Total	<u>6</u>	<u>6</u>	<u>2</u>

Table 9. Status of HUD Employees Indicted/Sentenced - FY 1979

* An indictment in one fiscal year does not always result in a sentencing in the same fiscal year.

4. ADMINISTRATIVE AND OTHER SANCTIONS

HUD management has been aggressive in imposing sanctions or taking other types of administrative actions which complement or otherwise act as an alternative to criminal prosecution. The results of our investigations have contributed to these efforts by supporting HUD managers in their efforts to protect HUD's programs.

During FY 1979, there were 250 debarments and 244 suspensions of persons/firms participating in HUD programs. Savings and recoveries to HUD and others amounted to \$1.8 million. In addition to these accomplishments, HUD managers initiated personnel actions against 25 ~~agency employees~~, issued 55 warning letters to persons/firms involved in HUD programs, and in three reported instances, took steps to revise Departmental regulations.

D. SECURITY OPERATIONS

1. DEPARTMENTAL PERSONNEL SECURITY PROGRAM

Under HUD's personnel security program, we monitored 343 Full Field Investigations and 3,133 National Agency Checks and Inquiries, reinvestigated 72 incumbents holding critical-sensitive positions and conducted 225 preappointment National Agency Checks during FY 1979. HUD's personnel security program is aimed at determining the suitability, integrity, and character of HUD employees and prospective employees in accordance with Executive Order 10450: Security Requirements for Government Employees.

2. CLASSIFIED DOCUMENT SECURITY PROGRAM

We also administered a document security program during FY 1979 covering more than 575 classified documents. The program is designed to provide some constraints on the dissemination of information or material which is classified as top secret, secret or confidential in accordance with Executive Order 12065: National Security Information. In connection with our Classified Document Security Program, we also issued a newly revised handbook to HUD staff and, our efforts were instrumental in HUD achieving a superior rating as a result of a recent inspection by GSA's Information Security Oversight Office.

E. STANDARDS OF CONDUCT BRIEFINGS

During FY 1979, we held 64 Standards of Conduct briefings for the benefit of HUD employees. Over the past three years, our Office of Investigation has conducted 194 such briefings. These briefings are part of our continuing program to promote Departmental integrity. The briefings are instrumental in familiarizing HUD employees with the conduct that is expected of them as stipulated in Section 735, Title 24 of the Code of Federal Regulations.

III. FRAUD CONTROL OPERATIONS

A. HIGHLIGHTS OF FY 1979 ACTIVITIES

As reported in our prior semiannual report to Congress, we established the Office of Fraud Control and Management Operations (FCMO) during FY 1979 in order to carry out the legislative provisions of the Inspector General Act of 1978 and to comply with the directives of the President, the General Accounting Office and HUD's top management regarding fraud detection and prevention. Within FCMO, a Fraud Control Division was established to carry out these activities.

Highlights of some of our important fraud control activities during FY 1979 are as follows:

- Coordinated and conducted eight monthly meetings of HUD's Committee on Fraud, Waste, and Mismanagement and participated in the initiation and/or completion of ten Committee-sponsored projects (page 59).
- Established a HUD employee hotline on February 1, 1979, and coordinated efforts with GAO with respect to receiving and acting on GAO hotline complaints involving HUD programs. Received 267 hotline complaints since the implementation of the hotlines (pages 63 and 64).
- Implemented a Fraud Vulnerability Assessment System designed to shut off opportunities for fraud and abuse in all new or substantially revised HUD programs (page 59).
- Established a mechanism to include the evaluation of controls in all existing HUD programs on a continuing and systematic basis as a management goal in HUD's Executive Management Reporting (EMR) system (page 62).
- Initiated a program involving the issuance of a series of Fraud Information Bulletins designed to alert various HUD disciplines to the types of fraudulent or abusive schemes used to divert HUD funds for personal gain. These Bulletins will provide suggested techniques for detecting and preventing similar schemes (page 63).

- Implemented a long-range project to prepare an inventory of HUD programs and activities together with related management controls. This inventory is designed to provide the OIG and HUD's Committee on Fraud, Waste, and Mismanagement with a sound basis for conducting in-depth reviews of certain programs. Moreover, it should facilitate the identification of areas where controls can be improved and standardized for similar programs (page 62).
- Established liaison and working relationships with several Federal agencies and other state, local, or private entities to exchange information and ideas relating to the detection and prevention of fraud and abuse in Federal programs.

B. COMMITTEE ON FRAUD, WASTE, AND MISMANAGEMENT

As detailed in our prior semiannual report, the Secretary of HUD established a Departmental Committee on Fraud, Waste, and Mismanagement on November 2, 1978. Recognizing the respective roles of program management personnel and the OIG, the Committee was formed to advise the Secretary on policy matters associated with minimizing occurrences of fraud, waste, and mismanagement in HUD programs and activities.

The Committee consists of representatives from all principal offices in HUD, including Regional and Area Office managers. The Inspector General, as Chairman, coordinates and guides Committee activities. Our Fraud Control Division provides technical assistance and support to the Committee in undertaking its various projects. This Division coordinated and conducted eight monthly meetings of the Committee and participated in the initiation and/or completion of ten Committee-sponsored projects.

During Fiscal Year 1979, the Committee made considerable progress and laid a firm foundation for carrying out its stated purpose. Some of the significant Committee accomplishments to date that will place increased emphasis on the detection and prevention of fraud, waste, and mismanagement are described below.

1. IMPLEMENTATION OF FRAUD VULNERABILITY ASSESSMENT SYSTEM

A major study by the Committee on Fraud, Waste, and Mismanagement culminated in HUD's implementation on September 4, 1979 of a new policy and improved management system which provide for the appropriate recognition of effective management controls when designing programs and developing related procedures for their implementation. The system, known as the Fraud Vulnerability Assessment System, commences on November 1, 1979 and will be

applied to all new or substantially revised programs. This system is viewed as an important step in HUD's efforts to prevent fraud and waste in its programs.

The Committee has developed a set of guidelines which provides a framework for each program office to use in devising its own systems and procedures to comply with the new policy. The system is designed to assure that program officials take positive steps to ensure adequate safeguards during program delivery. Basic elements of the system include:

- An analysis of a proposed program's vulnerability which entails summarizing its goals, objectives and delivery systems and comparing them with HUD or another agency's experience with similar or related programs.
- A narrative statement detailing the management controls and/or incentives that will be incorporated into the various delivery cycles to assist in minimizing fraud, waste, and mismanagement. Special attention is to be placed on those areas identified during the aforementioned vulnerability analysis.
- A summary statement for top HUD management's consideration that details the risks associated with a given program and the costs of the various levels of management controls that could overcome the identified risks.

Among OIG's responsibilities in the implementation of this new system are: (1) drafting a Departmental handbook and related procedures for the system; (2) monitoring and reporting implementation progress to the Secretary and Under Secretary; and (3) providing information to program personnel regarding OIG audit and investigative experience in various program areas.

2. IDENTIFICATION OF HIGHLY VULNERABLE PROGRAMS

Another major accomplishment of the Committee on Fraud, Waste, and Mismanagement was the initiation of a study project to assess the degree of vulnerability of HUD's existing programs. The first phase of this study involved soliciting comments and input from selected Field Office personnel in each program area through the use of questionnaires. The questionnaires were designed to request opinions not only on the programs considered susceptible to fraud and abuse, but also on the types of management controls that could be enforced to reduce fraud vulnerability. The questionnaire responses were analyzed and summarized by each program area.

The second phase of the project involves the consolidation of the questionnaire responses and the accumulation of additional available data on program vulnerability. Based on this analysis, the Committee will develop a priority listing of vulnerable programs together with a baseline plan for the review of all identified high priority programs, including recommendations on the methods and HUD disciplines best suited to perform the reviews.

Because of the number, scope and diversity of HUD programs, the review of management controls for all programs and activities is viewed as a long-term project. Nonetheless, the interest generated by top HUD management and the Committee should assure consistent and concerted efforts, especially with regard to those highly vulnerable areas which have been identified.

3. OTHER COMMITTEE PROJECTS

The Committee on Fraud, Waste, and Mismanagement has initiated and/or completed several other noteworthy projects since its inception. Following are highlights of these projects:

- A Committee Handbook that formally establishes the charter, authority, and operating procedures of the Committee was prepared and approved for issuance to all HUD employees.
- In response to one of HUD's most persistent problems, the Committee initiated a project designed to establish improved standards and procedures for monitoring HUD program delivery. The Committee will research and analyze HUD's current monitoring efforts to determine where and how staff resources might be better used to protect program integrity (also see page 9).
- Multifamily housing management activities were identified as highly vulnerable by various HUD disciplines. In response, the Committee has initiated a project to revise and improve the basic regulatory and management agreements governing project operations. By more clearly establishing requirements, HUD will be better able to measure performance and to take punitive actions when necessary. Moreover, program participants will be more fully informed of their responsibilities when obtaining HUD mortgage insurance.
- HUD has placed a great deal of reliance on a process whereby program participants certify that they have used or will use HUD funds for proper and eligible purposes.

The Committee has initiated a project to study the effectiveness of the certification process as a means of assuring program integrity.

HUD's top management has demonstrated its support for the Committee by endorsing several of its early efforts as viable and effective management improvements. Moreover, the Committee concept provides an excellent framework for cooperative efforts between and among HUD's various disciplines in the common goal of minimizing HUD's exposure to fraud and abuse.

C. FRAUD CONTROL DIVISION INITIATIVES AND ACCOMPLISHMENTS

Our Fraud Control Division has been assigned several key responsibilities that place increased emphasis on the detection and prevention of fraud and program abuse, and which complement and supplement our ongoing audit and investigation activities. The primary thrust of the Division's efforts has been and will continue to be in the prevention area. We believe a sound management control system is the best defense against the illegal or improper use of HUD funds. In this regard, the Division has concentrated on coordinating the Department's resources to measure, and improve where necessary, those systems and procedures designed to minimize losses from fraud or program abuse.

1. INVENTORY OF MANAGEMENT CONTROLS

During FY 1979, the Fraud Control Division established and implemented a system whose purpose is to provide a comprehensive inventory of HUD programs/activities together with the management controls associated with each program/activity. This system will serve many useful purposes as both the OIG and other HUD organizations accelerate efforts to systematically review controls on a continuing basis. The system will provide us with a data base for planning audit and investigation activities and it will facilitate the identification of areas where management controls have been given little attention and need to be improved. Lastly, the system will aid in the standardization of management controls for similar programs, activities, and delivery cycles.

2. MANAGEMENT CONTROL EVALUATIONS AS A TOP DEPARTMENTAL GOAL

Another initiative designed to renew interest in the management control area was the establishment of a Departmentwide goal in HUD's Executive Management Reporting (EMR) system relative to management control evaluations. The EMR is used by top management to measure and track the accomplishment of high level goals on a

monthly and quarterly basis. In connection with the management control goal, the OIG will develop criteria, methods, and a priority-based schedule for conducting assessments of management controls. Based on the priority schedule adopted, primary organization heads will be required to complete a minimum of two management control assessments per quarter during the balance of FY 1980.

3. FRAUD INFORMATION BULLETINS

The Fraud Control Division also instituted a series of Fraud Information Bulletins. These Bulletins are intended to alert various HUD disciplines, primarily program managers, to the types of schemes used by program participants to improperly divert HUD funds for personal gain. Based on OIG audit and investigation experience, case examples are described in the Bulletins showing not only how various fraudulent schemes occur, but also how such schemes can be detected or prevented in the future. While the Bulletins are not intended to replace current operating procedures, we believe they will prove useful to those HUD employees responsible for monitoring the implementation of HUD programs.

The initial issuance in this series covers the management aspects of HUD's Section 8 Program and illustrates tenant and owner abuses that have resulted in illegal, ineligible, or inflated housing subsidies under the program (page 1).

D. HOTLINE ACTIVITIES

1. ESTABLISHMENT OF SYSTEMS AND PROCEDURES

Under the Inspector General Act of 1978, employees can talk to the Inspector General or designated representatives without fear of reprisal and with assurance that complaints will be kept confidential unless such disclosure is unavoidable during the course of an investigation.

In consideration of the above and in response to a suggestion of the Office of Management and Budget in January 1979, HUD established a hotline on February 1, 1979. The hotline is available to all HUD employees for the reporting of activities in the Department which involve fraud, waste, and mismanagement. The hotline phone is located in our Fraud Control Division and is staffed by a professional employee during normal HUD working hours. An answering service records all incoming calls during nonworking hours. The existence of the hotline was made known by issuance of a staff bulletin to all employees of HUD. To ensure continued awareness of the hotline during FY 1980, information posters will be printed and displayed in key strategic areas in HUD Headquarters and Field Offices.

During FY 1979, the Fraud Control Division established procedures for the receipt, screening, maintenance and tracking of hotline complaints. This effort included working with the GAO Fraud Task Force hotline personnel to establish procedures for the referral of HUD-related hotline complaints received through GAO's hotline. (GAO's hotline is similar in nature to HUD's, except that it is primarily used by the general public to report on activities administered by all Federal agencies.)

The procedures established for the hotline system require that on all hotline calls basic information is obtained on the allegation, the details are written up on a prenumbered control record and the caller is provided with a control number for future reference. As the complaints come to the Fraud Control Division, a preliminary screening is made to gather any additional information that may be necessary relative to the allegation.

After the preliminary screening, the allegation is then referred to the appropriate organization for further action. The referral options are: (1) refer for audit; (2) refer to investigation; (3) refer to affected program office through its Committee on Fraud, Waste, and Mismanagement member; or (4) close out the case due to the non-substantive nature of the allegation or lack of sufficient information.

The office to which referrals are made then proceeds with its action and the Fraud Control Division is advised of any actions taken. Applicable case files are maintained in OIG Central Files.

The Fraud Control Division performs an analysis of all calls in order to identify any trends and/or patterns useful in fraud control and prepares quarterly management reports on hotline activities.

2. HOTLINE WORKLOAD

At September 30, 1979, 267 hotline calls had been received by the Fraud Control Division. Of the 267 calls, 75 were received through the HUD hotline (50 from HUD employees and 25 from the public) and 192 were referred to the Division from GAO via its hotline.

Table 10 on page 65 summarizes the 267 hotline calls by the program area affected and the office responsible for following up on the complaint after the Fraud Control Division's preliminary screening.

<u>By Program</u>	<u>Received</u>	<u>Hotline Complaints</u>		
		<u>OIG</u>	<u>Program Office</u>	<u>Not Referred At 9/30/79</u>
Community Planning and Development	94	60	34	
Housing	91	53	36	2
Administration	48	31	17	
Fair Housing and Equal Opportunity	3	1	2	
Policy Development and Research	2	1		1
Neighborhoods, Voluntary Associations & Consumer Protection	1	1		
Non-HUD	28	22	6	
TOTALS	267	169	95	3

Table 10. Hotline Workload by Affected Program Area and Action Office as of September 30, 1979

Of the 267 hotline calls received in the OIG since the inception of the OIG and GAO hotlines through September 30, 1979, 62 were referred to our Office of Audit, 59 to our Office of Investigation, 48 were handled by the Fraud Control Division, 95 were referred to HUD program offices, and three had not been referred at September 30, 1979.

A breakdown by program organization showing repetitive type complaints which indicate possible programmatic problems follows:

Community Planning and Development - 94

The prevalent complaints concerning Community Planning and Development involve rehabilitation loans and grants and the Community Development Block Grant Program.

Forty complaints have been received involving rehabilitation loans and grants. Shoddy workmanship, bidding irregularities,

contractor favoritism, and local agency mismanagement are the subjects most often mentioned. These complaints have confirmed the soundness of our decision to perform a Special Operational Survey of CDBG rehabilitation activities which will be completed in FY 1980.

Thirty-one complaints question the administration of the Community Development Block Grant Program at the local level. Such matters as ineligible activities, improper aspects of third party contracting, and questionable contractor performance have been alleged.

Housing - 91

The preponderance of Housing complaints involve the questionable eligibility of tenants receiving aid under HUD's multifamily programs. Forty such complaints have been received to date.

Twenty-three complaints pertain to the processing of applications for multifamily mortgage insurance and the quality or reasonableness of project construction.

Administration - 48

Twenty-seven of the Administration complaints concern personnel matters such as misuse of leave and overtime, merit staffing irregularities, and payroll problems associated with HUD's new automated payroll system.

3. HOTLINE ACTIONS TAKEN

At September 30, 1979, our Fraud Control Division had acted on 264 of the 267 complaints received. Of the 264 complaints acted on, 180 or 67 percent were closed upon appropriate screening by the Fraud Control Division and follow up by our Offices of Audit and Investigation and HUD's program offices. Of the complaints closed 142 or 79 percent were found to be nonsubstantive and required no further action; 38 or 21 percent were found to be valid. With respect to the latter, HUD management was required to take corrective action such as assuring that construction deficiencies were corrected; requiring local agency personnel to improve their management procedures; correcting administrative problems encountered by HUD employees; and debaring a landlord from future participation in HUD programs.

At September 30, 1979, 87 or 33 percent of the 264 complaints acted on remained open. All were undergoing various stages of review by the OIG and HUD program offices.

IV. OPERATIONAL SURVEY OPERATIONS

A. HIGHLIGHTS OF FY 1979 ACTIVITIES

The following are highlights of some of our more significant activities relating to Operational Surveys during FY 1979:

- Issued ten Operational Survey reports covering the operations of HUD Field Offices which resulted in the opening of 92 investigation cases (page 68).
- Issued ten reports on administrative deficiencies as a result of Operational Surveys (page 69).
- Issued a nationwide Operational Survey report covering the Section 8 Program which resulted in five major findings and the opening of 189 investigation cases (page 68).

B. PURPOSE AND SCOPE

The Operational Survey concept was introduced by us in 1972. It represents a joint audit and investigative effort designed to search out indicators of fraud and program abuse and to determine the need for full-scale audits and investigations. The indicators, when identified, are examined in sufficient depth for the possible presence of bribery, kickbacks, favoritism, or collusion by HUD personnel or by persons or firms having business with HUD. In the process, the survey team also identifies administrative deficiencies which require correction by HUD management.

Our Conventional Operational Surveys cover major operations of selected HUD Field Offices such as multifamily and single family operations, property disposition activities and community development operations. The surveys also include coverage of mortgagees, area management brokers and other external activities when warranted.

Special Operational Surveys are directed to identifying, on a nationwide basis, fraud and program abuse indicators relative to specific HUD programs. Whereas our Conventional Operational Surveys search out fraud and abuse within specific HUD Field Offices, the Special Operational Surveys do so within a particular HUD program.

C. REPORTS ISSUED AND INVESTIGATION CASES OPENED

During FY 1979, we issued 10 reports on the results of Conventional Operational Surveys and one report on the results of a Special Operational Survey (the latter report is described on page 1). These surveys, in turn, resulted in our opening of 281 investigation cases as of the close of FY 1979 (92 cases relative to Conventional Operational Surveys and 189 cases relative to the Special Operational Survey).

In addition to the opening of investigative cases in connection with Operational Surveys, which may ultimately result in the referral of certain of these cases to the Department of Justice, we also identify and report on deficiencies which can be corrected administratively by HUD.

D. TYPES OF INVESTIGATIVE MATTERS DISCLOSED BY OPERATIONAL SURVEYS

The types of matters disclosed by Operational Surveys in FY 1979 and in prior years have paralleled those shown in Table 7 on page 52. The predominant type of investigative case has involved some type of fraudulent statement made to HUD to induce the Department to take an action of one form or another, usually to the benefit of the maker of the statement.

Our recent Operational Survey of the Section 8 Leased Housing Program provides some good examples of the types of investigative matters disclosed in our Special Operational Surveys. These matters are described in the following paragraphs and are currently undergoing investigation.

1. FALSIFIED TENANT APPLICATION DATA

The most frequent cases reported have involved applications for initial or continued occupancy that contained erroneous or false information to induce eligibility approval or to obtain inflated Housing Assistance Payments (HAPs).

Applicants (tenants) intentionally misrepresented and certified various elements of application data by:

- understating salaries
- omitting other sources of income
- misrepresenting family size or composition
- overstating certain fixed expenses.

Consequently, Section 8 funds have been misused because tenants were either entirely ineligible or not entitled to the full amounts they received as subsidies.

2. FALSE BILLINGS AND TENANT OVERCHARGES

Owners/managers and landlords frequently used false billings or tenant overcharge schemes to divert Section 8 Program funds for their personal gain. The most common scheme involved overbilling for units which were actually vacant, occupied by ineligible tenants, substandard, or occupied by tenants receiving other rent subsidies.

In addition, there were situations wherein tenants were required to make side payments to the owner as a condition for initial or continued occupancy. These side payments were in the form of second leases, fictitious services, or utility charges.

3. COLLUSION AND/OR BRIBERY

Personnel having responsibilities for approving actions resulting in the expenditure of substantial Section 8 Program funds conspired with program participants to circumvent program regulations and controls. Generally, these situations have involved the sharing of the illegally obtained funds.

E. TYPES OF ADMINISTRATIVE MATTERS DISCLOSED BY OPERATIONAL SURVEYS

In addition to Operational Survey matters which result in the opening of investigation cases, we also identify and report on administrative deficiencies in our Operational Surveys. These deficiencies, being administrative in nature, do not require detailed investigation, but are such that they require prompt corrective action by HUD officials. We issued ten such reports in FY 1979.

Many administrative deficiencies were reported to HUD management in the final report on the results of our Special Operational Survey of the Section 8 Leased Housing Program. These administrative deficiencies are briefly described on page 4 of this report. Other types of administrative deficiencies disclosed by our Operational Surveys of HUD Field Offices have included, but have not been limited to the following: (1) poor workmanship by contractors engaged by Area Management Brokers (AMBs) in repairing HUD-acquired single-family properties; (2) inadequate repair specifications and bidding practices by AMBs; (3) inadequate HUD monitoring of AMBs; (4) insufficient HUD monitoring of fee/staff appraisals and inspections; (5) inadequate HUD monitoring of Public Housing Authority operations; and (6) incomplete and improperly maintained HUD Area Office files and records.

V. OTHER OPERATIONS AND ACTIVITIES

A. HIGHLIGHTS OF FY 1979 ACTIVITIES

The following are highlights of some of our other supporting operations during FY 1979:

- Processed 43,784 requests for information on the previous participation of individuals and firms applying to participate in HUD programs (page 70).
- Processed 147 requests for information under the Freedom of Information Act and 15 requests under the Privacy Act (page 71).
- Pursuant to Section 4(a)(2) of the Inspector General Act of 1978, reviewed 101 proposed new regulations or revisions to existing regulations, an undetermined number of existing regulations and statutes in connection with internal audits, and 96 proposed legislative bills or revisions to existing legislation (page 71).
- Had over 700 enrollments in formal training courses, seminars, and symposiums which resulted in over 2,700 workdays being devoted to employee training and development (page 72).

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96
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B. REQUESTS PROCESSED UNDER THE PREVIOUS PARTICIPATION PROGRAM

Departmental policy requires that grants and contracts be awarded only to entities who can demonstrate that Federal funds will be used properly and in accordance with applicable statutes. The Previous Participation Program provides information as to what previous experience, if any, HUD has had with individuals or firms who are applying for participation in Departmental programs. This is accomplished by searching our alphabetical indices, which contain over 350,000 names of persons involved in an investigation, audit, or a debarment or suspension act.

Applications resulting in approximately 43,780 requests for information on the previous participation of individuals and firms applying to participate in HUD programs were processed in FY 1979. We processed about 40,900 similar requests in FY 1978.

C. FREEDOM OF INFORMATION AND
PRIVACY ACT REQUESTS

The authority for releasing OIG-maintained information to the public, other than issued audit reports, rests with the Inspector General. The release of issued audit reports is made by the action addressee of the report with the concurrence of the Inspector General and with the knowledge of the appropriate program Assistant Secretary.

During FY 1979, we processed 147 requests for information under the provisions of the Freedom of Information Act and 15 requests under the provisions of the Privacy Act. All requests for information are processed within 10 days of receipt.

D. REVIEW OF LEGISLATION AND REGULATIONS

Section 4(a)(2) of the Inspector General Act of 1978 requires the Inspector General to review existing and proposed legislation and regulations relating to programs and operations of the Department and to make recommendations in the semiannual reports concerning the impact of such legislation and regulations on the economy and efficiency in the administration of programs and operations or the prevention and detection of fraud and abuse in such programs and operations.

During FY 1979, we reviewed 101 proposed new regulations or revisions to existing regulations, an undetermined number of existing regulations and statutes in conjunction with internal audits, and 96 proposed legislative bills or revisions to existing legislation. In the majority of instances, we provided detailed comments and recommendations to the originator of the regulations and legislation as a result of our reviews. The legislation we reviewed covered such areas as: housing, urban development, energy conservation and use, law enforcement and criminal justice, personnel practices, and Government administrative practices.

E. EMPLOYEE TRAINING AND DEVELOPMENT

Recognizing the importance of a highly trained work force in our efforts to combat fraud and abuse in HUD programs and operations, we have steadily improved our programs for training and developing employees. We have carefully monitored the direction of our training and development efforts to ensure OIG staff members possess the necessary skills and abilities to carry out their responsibilities and to promote the effective accomplishment of our organizational mission.

During FY 1979, particular emphasis was placed on: (1) program-related training which deals with the application of audit techniques to particular programmatic problems unique to HUD; (2) management-related training with emphasis on supervisory and organizational control techniques, as well as the human relations aspects involved; (3) skills training which attempts to impart particular skills to employees, usually of a technical variety, or whose purpose is to improve existing skills; and (4) basic training which is designed to orient employees to our organization and familiarize them with the basic skills and techniques of their professions.

In FY 1979, we had over 700 enrollments in training courses, seminars, and symposiums, which accounted for more than 2,700 workdays. FY 1979 was noteworthy in that we conducted 14 different training courses (total of 17 class sessions) at HUD's National Training Center. Specific OIG training efforts are described in the following paragraphs.

1. PROGRAM-RELATED TRAINING

FY 1979 was marked by a continuing effort to present formal audit training courses specifically oriented toward various HUD program areas. OIG employees attended courses which covered the auditing of such areas as: mortgagee operations, the Community Development Block Grant Program, Assisted Housing and Property Disposition Programs, and Multifamily Housing and Project Development.

2. MANAGEMENT TRAINING

During FY 1979, we took the initiative to arrange for 28 of our supervisors and managers to attend the Personnel Management for Executives course presented by the Department of the Army's Regional Training Centers. Additionally, several of our supervisors/managers attended the Office of Personnel Management's (OPM's) Executive Seminar Centers and management training courses given by the OPM's Management Sciences Training Center and the HUD National Training Center.

The OIG also initiated a new training course dealing with the review of General Fund cash balances, and provided an additional 32 staff members with training in statistical sampling.

3. ADP SYSTEMS TRAINING

Because of the growing ADP capacity of HUD, our Regional audit personnel received training regarding the retrieval of data from automated systems during FY 1979. Our auditors and investigators also participated in a new in-house training program concerning the evaluation of controls in automated systems.

4. WHITE COLLAR CRIME TRAINING

During FY 1979, we participated with the Departments of HEW and Agriculture in holding an interdepartmental training program concerning ways to detect white collar crime and combat fraud in Federal programs. We also had eight staff members attend the two-week White Collar Crime Seminar presented by the Treasury Department's Federal Law Enforcement Training Center in Glynco, Georgia.

5. FAMILIARIZATION TRAINING

To ensure new employees have the basic skills to carry out their responsibilities and that they understand our mission and the general methods used to accomplish it, we ensure that they are provided with the familiarization training and orientation necessary to make them productive members of our work force. During FY 1979, we had 73 employees enrolled in our in-house audit and investigation familiarization courses and the Federal Law Enforcement Training Center's 8-week basic course for investigators.

6. CONFERENCES

Besides the OIG's Annual Conference of Assistant Inspectors General and Regional Inspectors General, staff members also participated in formal three-day conference/training workshops during FY 1979. Each staff conference is locally developed in order to meet the particular needs of each of our Regional staffs.

The majority of formal presentations during these staff conferences are made by OIG Regional Office personnel. However, presentations are also given by OIG Headquarters officials, as well as HUD Regional Administrators or other key officials.

The staff conferences concentrate on matters that are normally technical in nature such as: auditing HUD programs, special audit and investigation approaches, results of audits and investigations, and ADP retrieval capabilities. Other issues of direct interest to professional staff members are covered such as: standards of conduct, implementation of the Inspector General Act of 1978, annual goals and objectives, fraud control approaches, and administrative/organizational problems.

DESCRIPTION OF MAJOR TERMS

Internal Audits. These are independent reviews of programs and operations designed to determine and report whether: (1) financial operations are conducted properly; (2) financial reports are presented fairly; (3) applicable laws and regulations have been complied with; (4) operating procedures are effective and are being carried out; (5) resources are managed and used in an economical and efficient manner; and, (6) desired results and objectives are being achieved in an effective manner. A given internal audit may provide a top to bottom review of a particular activity or program at all HUD organizational levels responsible for the activity or program (vertical audit), or the audit may encompass all or several field locations (horizontal audit). An internal audit may also include various combinations of these approaches.

External Audits. These are reviews or examinations made of the records and performance of grantees, borrowers, mortgagors, mortgagees and other contractors in accordance with generally accepted auditing standards and to the extent practicable, the GAO standards for audit of governmental organizations, programs, activities and functions. These audits are made as a means of ascertaining the degree of compliance with the statutes, regulations, and terms and conditions of the agreements under which the Federal funds are made available. Determination is also made as to the appropriateness of the disposition of funds granted, loaned, or contributed. These audits also provide HUD management with information on the effectiveness of its administration of program operations. External audits also encompass pricing proposal evaluations which are reviews made for the purpose of determining the reasonableness of estimates of cost and profit supporting all types of proposals submitted by contractors in connection with the award, administration, modification or repricing of Government contracts. Another category of external audit is a cost reimbursable contract audit. These audits include a review of incurred costs and overhead (indirect costs) and contractor's policies, procedures, and practices which influence and control contract costs. In addition, external audits include accounting evaluations. The objective of an accounting evaluation is to determine whether the recipient's accounting system is capable of furnishing accurate financial reports on a timely basis consistent with the requirements of the Department.

Surveys. These are fact-finding reviews designed to obtain and analyze working information on an activity or program for the purpose of identifying matters warranting detailed examination or analysis. When conditions disclosed by a survey are in need of immediate attention and corrective action, the survey report, or a summary of such conditions noted, are usually provided to the official responsible for taking the needed corrective action. Otherwise, survey data are used by us in planning audit work.

APPENDIX 1

Operational Surveys. Operational Surveys, encompassing the operations of field offices, were first introduced by the OIG in June 1972. These surveys are made to identify specific program areas, Departmental operations, and participants therein, for the purpose of ascertaining any incidences of fraud, bribery, kickbacks, favoritism and/or administrative irregularities. Such surveys are also designed to reveal patterns of operations conducive to irregularities. Operational Surveys provide a basis for the coordination and referral of allegations or indications of possible criminal violations to the Department of Justice, and assist in identifying matters or areas requiring further audit/investigative attention.

Investigations. An investigation consists of gathering of information, statements from informed persons, and a review of related records in order to ascertain whether a possible irregularity or violation of law exists. There are generally four types of investigations made by the OIG: (1) investigations of criminal matters, e.g., false statements/fraud against the Government; (2) discrimination in HUD employment cases; (3) violations of the Interstate Land Sales Full Disclosure Act (OILSR); and, (4) violations of the HUD Standards of Conduct regulations.

National Agency Check and Inquiry (NACI). An NACI is the minimum type of personnel security investigation conducted of potential applicants to Government positions. It consists of a check of the fingerprint and investigative files of the FBI, investigative files of the Office of Personnel Management and other applicable Government agencies, as well as written inquiries to law enforcement agencies, former employers and supervisors, references, and schools.

Full Field Investigation (FFI). An FFI, which is conducted by Office of Personnel Management investigators, is the maximum type of personnel security investigation. In addition to a check of FBI, Office of Personnel Management and other Government agency files, it includes interviews with present and former knowledgeable associates, and checks of credit and other pertinent records. An FFI is required for all occupants of critical-sensitive Government positions, as well as some noncritical-sensitive positions.

Debarment. Debarment means an exclusion from participation in HUD programs for a reasonable, specified period of time commensurate with the seriousness of the offense or failure, or the inadequacy of performance. However, in connection with Executive Order 11246 on Equal Employment Opportunity, the term debarment also means an exclusion from contracting or subcontracting for an indefinite period of time pending the elimination of the circumstances for which the exclusion was imposed.

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

Consolidated List. A list of all contractors and grantees against whom any or all of the measures referred to in this part have been invoked. It includes past performance data and the status of a participant on any debarment, suspension, or ineligibility list.

Fraud. Fraud is an intentional deception to cause a person or party to give up property or some lawful right. Fraud includes all acts, omissions, and concealments involving a breach of legal or equitable duty, trust, or confidence justly reposed which result in damage to another or by which undue and conscienceless advantage is taken of another.

Mismanagement. Mismanagement means the failure to accomplish the goals and objectives of the activity or organization through the personal fault of those entrusted with managing or administering the activity or organization including its resources.

Waste. Waste means to spend monies or use resources carelessly and inefficiently without gaining a proper, reasonable, or normal return.

Program Abuse. Program Abuse literally means to use Federal programs improperly through deceitful, deceptive, fraudulent or other similar practices, usually for the purpose of improperly benefiting oneself financially.

AUDITS OF HUD PROGRAM PARTICIPANTS BY
INDEPENDENT PUBLIC ACCOUNTANTS AND
STATE OR LOCAL AUDITORS

By law or Secretarial directive, audits of the records of participants in various HUD programs are made by Independent Public Accountants (IPAs), state audit agencies, or local auditing departments. Descriptions of the various programs and related audit requirements are stated below.

1. Multifamily Mortgages. Multifamily mortgages are required to submit audited financial statements to HUD, as required by the Regulatory Agreement. These audits are made by IPAs as prescribed in HUD Handbook 4372.1. There are approximately 14,800 multifamily mortgages. OIG audit efforts usually are directed to problem cases.
2. Nonsupervised Mortgagees. Annual audits of nonsupervised mortgagees (those not supervised or regulated by another governmental agency) are made by IPAs, following audit guidelines prescribed in HUD Handbook IG 4000.3 REV. There are about 1,650 such nonsupervised mortgagees. OIG audits about 50 nonsupervised mortgagees each year, selected on the basis of rate of activity, problems and foreclosures.
3. Public Facility Loans. Part II of the Federal Loan Agreement requires the borrower to obtain a financial audit of the facility's operations, and sets forth the minimum acceptable audit coverage. Audits are made by IPAs or state auditors as prescribed in HUD Handbook IG 6230.5. There are 1,550 borrowers required to submit annual audits to HUD.
4. College Housing Loans. There are about 3,400 borrowers required to submit to HUD an annual audit of their operations of the project on which a loan was made. Audit requirements are included in part II of the Loan Agreement. These audits are made by IPAs.
5. Elderly Housing Loans. The Regulatory Agreement provides that the borrower furnish HUD an annual audit report covering its operations of the housing project. There are about 300 borrowers under this program. Audits are made by IPAs.
6. Community Development Block Grants. There are approximately 5,200 recipients in this program. Under the applicable regulations (Part 570 of Title 24 of the Code of Federal Regulations), recipients are required to make or obtain an audit on at least a biennial basis. The audit may be made by IPAs, state or local auditors, and is to be performed in accordance with the audit requirements in HUD Handbook IG 6505.2.

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7. Model Cities Operating Agencies. Audits of cities' administration of Model Cities programs are made by the OIG. Under the Model Cities program, funds are sub-granted by the city to operating agencies (OAs) actually carrying out individual activities. Audits of the OAs are made by IPAs, state or local auditors following the requirements of HUD Handbook MCGR 3100.8. There are approximately 1,200 OAs still operating Model Cities activities.
8. New Communities. There are 13 New Communities for which HUD has guaranteed loans. Under the terms of the Project Agreement for a community, the developer is required to submit annual financial statements, certified by an IPA.
9. Low-Income Housing. There are approximately 3,400 local agencies operating housing projects for low-income persons. HUD guarantees loan repayment on such projects. Audits are required biennially on such projects, to be made in conformity with requirements contained in HUD's "Audit Guide for Audits of Public Housing Agencies" (HUD Handbook IG 7476.3) issued August 1978. These audits may be made by IPAs, state or local auditors. The OIG may audit a local agency if it is determined that serious problems exist.
10. Urban Renewal. Although this program is being terminated, there are still about 400 local agencies operating urban renewal projects. These agencies are required to obtain audits of their urban renewal projects on a biennial basis, following audit guidelines contained in HUD Handbook 7217.1. HUD may audit some of these projects, primarily to expedite their closeout.
11. Comprehensive Planning Assistance. This program provides grants to planning agencies to carry out overall comprehensive planning for the agency's jurisdiction. There are about 600 planning agencies directly receiving HUD grants. These agencies are required to obtain audits at least biennially, following guidelines prescribed in HUD Handbook IG 6042.2. Audits may be made by IPAs, state or local auditors.
12. Mortgagor Cost Certifications. Upon completion of the construction of a multifamily insured project, the mortgagor must obtain a certification from an IPA of the cost of constructing the project. HUD Handbook IG 4200.1A contains the requirements for cost certification. There are approximately 1,100 projects currently to be completed.
13. Other Construction Cost Audits. A one-time construction cost audit is required of program participants receiving assistance in the Water and Sewer Grant, Public Facility Loans, Neighborhood Facilities Grant and New Communities guarantee programs. There are about 400 participants which will have to obtain an audit. These audits may be made by IPAs, state or local auditors, following guidelines contained in the loan agreement or HUD Handbook.



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20410

August 1979

INSPECTOR GENERAL BULLETIN NO. 79-ZF-15

REPORTING INSTANCES INVOLVING REFUSAL OR NON-PROVISION OF INFORMATION OR ASSISTANCE UNDER THE INSPECTOR GENERAL ACT OF 1978

1. PURPOSE. The primary purpose of this Bulletin is to provide guidance for the reporting by OIG staff of instances involving refusal or non-provision of information or assistance under the Inspector General Act of 1978. The Bulletin also provides guidance for the reporting of such matters to the Secretary and the Congress.
2. BACKGROUND. Sections 6(a)(1) and 6(a)(3) of the Inspector General Act of 1978 state that the IG is authorized to: (1) have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material available to the Department; and (2) request such information or assistance as may be necessary for carrying out the duties and responsibilities provided by the Act from any Federal, State, or local governmental agency or unit thereof.

Section 6(b)(2) provides that whenever information or assistance requested under the above subsections is, in the judgment of the IG, unreasonably refused or not provided, the IG shall report the circumstances to the head of the Department involved without delay.

Further, section 5(a)(5) of the Act requires that a summary of each report made to the head of the Department under section 6(b)(2) during the reporting period be included in the IG's semiannual report to Congress.

The legal meaning of the phrase "available to the Department" in section 6(a)(1) is currently being reviewed by the HUD Office of General Counsel (OGC). Preliminary reports from the OGC indicate that the meaning of this phrase may likely encompass external auditees, and may possibly include appropriate information in the hands of contractors who do business with the external auditee using HUD funds in the process. Upon receipt of OGC's final report, this Bulletin will be revised if necessary.

3. DEFINITIONS. The following definitions must be fully understood prior to implementing the procedures in paragraph 4 of this Bulletin.

- a. Reasonable Request. For the purpose of this Bulletin, a reasonable request for information or assistance is a request which must be fulfilled to satisfactorily complete the audit, survey, evaluation or investigation and which can be reasonably and legally fulfilled by the requestee.

To illustrate examples of reasonable requests it might be more beneficial to consider unreasonable requests. For example, it would be an unreasonable request if the requestee in fulfilling our request would violate a statute such as the Privacy Act. It might also be an unreasonable request if we asked an auditee to gather special data which the auditee did not routinely accumulate in its operations and, the effort of which would tie up a considerable portion of the auditee's staff and result in an unreasonable financial burden to the auditee.

This Bulletin concerns only the reporting of reasonable requests for information or assistance that are unreasonably refused.

- b. Unreasonably Refused or Not Provided. A request for information or assistance will be considered unreasonably refused or not provided if the following two conditions are both present: (1) the audit, survey, evaluation or investigation cannot be satisfactorily completed unless the request is fulfilled, and (2) the person refusing to honor the request or provide the information or assistance does not have a valid reason for doing so.

4. PROCEDURES.

- a. Processing Reports of Refusal or Non-Provision of Information or Assistance.

(1) Employee and Supervisor Responsibilities. All OIG employees engaged in performing audits, investigations, surveys or evaluations are to immediately report to their immediate supervisors all instances of reasonable requests for information or assistance that are unreasonably refused or not provided.

The supervisor must discuss with the employee the request for information or assistance which was unreasonably refused or not provided and determine whether the matter requires formal reporting (through the chain-of-command) to the applicable Assistant Inspector General (AIG). The supervisor, in determining whether to formally report the matter through the chain-of-command to the AIG, must apply the definitions in paragraph 3 of this Bulletin and ensure the request is reasonable and that the requested information or assistance was unreasonably refused or not provided.

The supervisor should also ensure the request is taken to the highest authority in the organization as can be considered practical at this level. Generally, however, any requests for information or assistance in this connection which are to be elevated to the level of the Regional Administrator must be handled by or through the applicable Regional Inspector General (RIG). Similarly, any requests that are to be elevated to the Assistant Secretary must be handled by or through the applicable AIG.

Using a courteous and diplomatic approach, both the supervisor and employee must make a determined effort to secure the requested information or assistance. Unreasonably refused requests for information or assistance should only be elevated to the AIG level for action as a last resort, i.e., after all efforts to secure the needed information or assistance have been exhausted. However, nothing in this Bulletin precludes the supervisor from advising the AIG/RIG of any requests for information or assistance that have been unreasonably refused or not provided and the efforts which are or need to be made to secure the information or assistance. In fact, the AIG/RIG should be kept apprised of the progress being made to secure such information or assistance, especially in particularly sensitive or significant audits, surveys or investigations.

(2) AIG Responsibilities. AIGs are responsible for (a) making the final decisions on the propriety of any requests for information or assistance that are unreasonably refused or not provided, (b) advising the Inspector General on whether or not such matters should be reported to the Secretary and Congress (The Inspector General will be the final authority for this decision), and (c) determining what further actions, if any, are necessary to procure the needed information or assistance.

If the matter is to be reported to the Secretary, the applicable AIG will be responsible for ensuring that an Abstract to the Secretary is prepared describing the request for information or assistance that was unreasonably refused or not provided. At a minimum, the Abstract shall address the following:

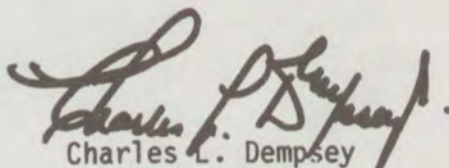
- Section of IG Act which calls for reporting to Secretary of requests for information or assistance that are unreasonably refused or not provided.
- Dates requests were made and dates of refusals or non-provision of information or assistance.
- Brief description of request and information or assistance that was unreasonably refused or not provided.

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- Identification of audit, survey, evaluation or investigation involved (title, subject., etc.).
- Name and title of highest authority refusing or not providing information or assistance.
- Identity of organization which the above authority represents.
- Reasons why the refusal non-provision of information or assistance is considered unreasonable (see paragraph 3b of this Bulletin).
- Reasons for refusal or non-provision of information or assistance, if known.

A copy of each Abstract which is sent to the Secretary must be furnished to the Director, Management Operations Division (MOD).

(3) MOD Responsibilities. Pursuant to Section 5(a)(5) of the Inspector General Act of 1978, MOD will be responsible for preparing an appropriate summary of each report sent to the Secretary on the refusal or non-provision of information or assistance for inclusion in the IG's next semiannual report to Congress.


Charles L. Dempsey
Inspector General



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20410

October 22, 1979

IN REPLY REFER TO

Honorable Robert F. Drinan
Chairman, Subcommittee
on Criminal Justice
Committee on the Judiciary
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

The Department has reviewed the Subcommittee's September 13, 1979 Working Draft of the Criminal Code Revision Act of 1979. Both the Office of Inspector General and the Office of General Counsel of HUD have communicated directly with Subcommittee staff members about our concerns in the course of our review of the bill. We are primarily concerned that the bill be drafted to preserve the ability of the Department to protect the integrity of its programs through successful prosecutions for fraud. An enclosure to this letter summarizes our comments on several sections which have a direct bearing on programs administered by this Department. More particularly, we recommend changes in the provisions in the proposed bill dealing with false statements, conspiracy to defraud the United States, and related matters.

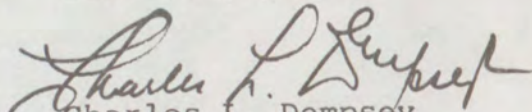
In our opinion, the bill as presently written would severely impair the Department's ability to rectify the results of past fraudulent practices and to deter similar occurrences in the future. Under current law the two primary statutes utilized by the Department to combat fraud are 18 U.S.C. § 371 (Conspiracy to Defraud the United States) and 18 U.S.C. § 1010 (False Statements). For your convenience, we have enclosed copies of the two statutes. The bill eliminates the former, and reclassifies the latter as a Class A misdemeanor. This situation is exacerbated by the fact that § 707(a) would make the statute of limitations for misdemeanors two years. We strongly recommend that the Subcommittee reinstate the fraud provision in substantially its present form and reclassify the false statement offense as a felony. In addition, § 707(a) should be amended to make the statute of limitations five years for both felonies and misdemeanors. Finally, we recommend the addition of a

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jurisdictional basis which clearly encompasses government loan, insurance, or grant programs, for each fraud-related offense in the new bill.

I would like to express our gratitude to the Subcommittee for the opportunity to comment on the bill at this stage of the proceedings, and I hope that our comments have been helpful. If the Subcommittee deems it desirable, we would be happy to testify concerning the bill, or to arrange a meeting with the staff.

Sincerely yours,


Charles L. Dempsey

Enclosures

cc: - All Sub-Committee Members

False Statements -- § 1743

Section 1010 of Title 18, as currently written, prohibits any person from making, passing, uttering, or publishing any statement, knowing the same to be false, for the purpose of influencing in any way the actions of this Department. In the past this section has been one of the primary vehicles for the exposure and prosecution of individuals guilty of fraudulent misrepresentation.

It is important to keep in mind that the decisions by HUD to provide federal assistance to beneficiaries, including, inter alia, FHA mortgage insurance, are based upon statements submitted to the Department by individuals and entities attempting to meet the eligibility criteria established by Congress. Staffing limitations require HUD to rely heavily on the veracity of the information it receives, and, in general, on the honesty and integrity of participants in its programs. For example, the participating lending institution is primarily responsible for the verification of information contained in applications for FHA insured mortgages. Where officials of the lending institution become involved with the falsification of this information, the potential loss to the Department becomes enormous. Each falsified application for assistance has the effect of diverting limited resources to recipients other than the intended beneficiaries, causing unwarranted losses to HUD and ultimately undermining efforts to achieve the goals established by the Congress. Although an individual offense may initially appear minor, the cumulative impact of misrepresentations could threaten the feasibility of the program itself.

To clearly understand the gravity of the offense, the Subcommittee should consider the fact that HUD may not be relieved from liability even if the fraud is discovered. Under the provisions of the National Housing Act (12 U.S.C. § 1709(e)), the validity of a mortgage insurance contract is incontestable in the hands of an approved lender except for fraud or misrepresentation on the part of such lender. Since the fraud or misrepresentation to the Department is typically made at the time the mortgage is originated, subsequent purchasers of the mortgage have an absolute right to the insurance benefits of the mortgage insurance contract unless they too were involved in the fraud or misrepresentation. Accordingly, the Department must honor the claim of an innocent holder of the mortgage even though the loan was fraudulently originated. The Department will suffer the losses which result from the difference between the claim paid out under the insurance contract and the amount it receives for the property after foreclosure. The Subcommittee is undoubtedly aware of the enormous losses suffered by the government in this kind of "white collar" crime. However, an example of an FHA housing fraud scheme may be useful in putting our concern in perspective.

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In a major criminal case in New York, this Department assisted the Department of Justice in the successful prosecution of an approved mortgagee, several of its principal officers, real estate speculators, and some Department of Housing and Urban Development personnel. In order to prove the crimes involved, such a multiplicity of small transactions was necessary to be shown that the trial in the United States District Court took over eight months, with a resultant 25,000-page transcript. The three types of offenses of which defendants were found guilty included conspiracy, 18 U.S.C. § 371; substantive bribery offenses, 18 U.S.C. § 201 and U.S.C. § 2; and false statement offenses in applications for mortgage insurance in violation of 18 U.S.C. § 1010 and 18 U.S.C. § 2. United States v. Bernstein, 533 F.2d 775 (2d Cir. 1976), cert. den. 429 U.S. 998 (1976).

The conspiracy count charged was a single one, to defraud the FHA by obtaining mortgage insurance on inner-city properties. The two steps by which the principal object of the conspiracy was obtained, were to bribe FHA officials in connection with their appraisals and to submit to FHA false statements of the putative mortgagor's credit, employment, or income in order to obtain approval of the mortgage insurance applications. It was estimated that the potential loss to the government in this case exceeded \$200,000,000. The significance of false statements in the conspiracy count is obvious. It goes to the very heart of HUD's programs. Reducing the offense to a misdemeanor would significantly impair the Department's effort to insure the integrity of its programs.

From the establishment of the OIG in January 1972, through the close of FY 1979, 2,060 persons and firms have been indicted, 1,520 have been sentenced, 283 have been dismissed or acquitted, and 257 cases were pending. The overwhelming majority of these cases involved 18 U.S.C. § 1010. In fiscal year 1978 alone, 1,258 investigation cases were opened involving the submission of false statements to the Department. This represents sixty percent of all cases opened for investigation in fiscal year 1978. Based upon the foregoing discussion, it should be evident to the Subcommittee that § 1010 has played a vital role in the overall administration of the Department's programs.

The proposed revision of the criminal code would eliminate the separate section dealing with false statements submitted to HUD. It substitutes § 1743, a false statement provision with general application and reduces the offense to a misdemeanor. While the proposed section appears to encompass within its terms the major substantive prohibitions

of § 1010, the Department urges the Subcommittee to reclassify the offense as a felony. Under current law, one who submits a false statement to HUD is subject to two years' imprisonment and a \$5000 fine. In many cases, the net benefit to an individual as a result of fraudulent misrepresentations exceeds the maximum fine imposed as a penalty under the section. Yet the proposed bill makes the offense a Class A misdemeanor. Under §§ 3502 and 3702, the maximum penalty would be reduced to twelve months' imprisonment and a \$10,000 fine. In our opinion, such a change would significantly lessen the deterrent value of the false statement provisions. The Department therefore recommends that the section be amended to make the offense a Class E felony with a maximum penalty of eighteen months' imprisonment and a \$100,000 fine. Though the term of imprisonment is shorter in duration than current law, the fine is more realistic in light of the potential benefits to the wrongdoer.

Statute of Limitations -- § 707(a)

Section 3282 of Title 18 provides that prosecutions for noncapital offenses must be instituted within five years of the prohibited act. Section 707(a) of the proposed bill retains the five-year limitation period for felonies; however, one proposed draft would require prosecutions for misdemeanors to be instituted within two years. The Department strongly recommends that the latter provision be deleted from the bill entirely, particularly if the Committee decides to retain the current misdemeanor classification for false statements. As discussed earlier, staffing limitations prevent immediate verification of information received by HUD and compel reliance on program participants. Consequently, the primary method for exposing fraud and abusive practices is through the auditing function. In most cases, an in-depth audit does not take place until well after the commission of an offense. Moreover, the very nature of the misrepresentation offense often prevents exposure within two years. The retention of such a brief limitations period would effectively frustrate enforcement of laws designed to protect the integrity of Departmental programs. Ultimately, crippled enforcement efforts would invite a substantial increase in the incidence of fraud and misrepresentation in connection with HUD programs.

Fraud

Section 371 of Title 18 prohibits a conspiracy "either to commit any offense against . . . or to defraud the United States . . . in any manner or for any purpose." This section has been broadly construed to prohibit fraud in a wide variety of circumstances, arising in the administration of HUD programs. Consequently, it has been instrumental in the detection, prosecution, and deterrence of fraud. The Department strongly urges, for the same reasons set forth in connection with the false statement provision, that the essential character of § 371 be incorporated into the new bill.

The Subcommittee's draft bill contains no general prohibition of conspiracy to defraud the United States. Moreover, there is no section in the draft bill, which serves as an adequate substitute for the current coverage and efficacy of § 371 in combatting fraud.

Section 2531(a)(3) prohibits the knowing use of fraud to obtain the property of another when the specified intent exists. The thrust of the section when considered as a whole is directed at the unlawful acquisition of property, by fraud or otherwise; the fraud component has only minor significance. It is unlikely, therefore, that the theft prohibition could become a significant deterrent of fraud in HUD programs. Moreover, a large number of fraud offenses would fall outside the coverage of the theft section. For example, when HUD is defrauded in connection with applications for loan guaranties, no loss of property would occur unless and until the purchaser defaulted. If the accused were tried prior to a default, it is questionable whether any "property" was obtained by fraud under § 2531(a)(3). Although this problem could be resolved by inclusion of an expansive definition of "property" in § 2539, we believe other similar problems would arise because of the basic dissimilarity between the fraud and theft offenses. Consequently, the Department strongly urges the Subcommittee to include a separate section concerned solely with the elimination of government fraud.

Subsection (b) of § 2531 sets forth a classification scheme for gradation of the seriousness of the offense, depending on the "value" of the property obtained. The term "value" may become a source of confusion in cases arising in the context of an application to HUD for assistance. In our opinion, the potential loss to the government should be treated as the value of the property obtained through fraud. Where a loan guarantee is obtained fraudulently, for example,

the value of the property should be treated as equivalent to the potential loss to the government in case of default (i.e., the full amount of the loan). Therefore, we recommend that the definition of "value" in § 2539 be drafted accordingly. In our view, the problems with the application of this section to HUD programs result from the attempt to engraft the concept of fraud on a provision dealing primarily with theft of property. We strongly recommend inclusion of a separate section in the statute dealing with government program fraud.

Finally, § 2531(e) contains no jurisdictional provision which clearly encompasses all of the programs administered by HUD. Consequently, an additional jurisdictional basis should be included for any offense committed in connection with a government loan, insurance, or grant program.

Section 2534 of the proposed bill prohibits any fraudulent scheme entered into with the intent to obtain the property of, or to cause economic loss to, another person. This section is inadequate as a replacement for § 371 for much the same reason as the theft provision. In many instances the intent to obtain the "property" of another may not be present, though an individual has fraudulently procured loan insurance. The restrictive language in this section would result in the exclusion of a significant number of fraudulent activities from the reach of the criminal code. Regarding subsection (b) of § 2534, it is again recommended that a specific jurisdictional basis be included for all offenses committed in connection with a government loan, insurance, or grant program. Such an amendment would clarify any ambiguity as to the applicability of the section to HUD programs.

Section 2536 of the proposed bill incorporates by reference the criminal provisions under § 912 of the Housing and Urban Development Act of 1970, § 239(b) of the National Housing Act, and § 1404 of the Interstate Land Sales Full Disclosure Act. The Department administers two other criminal provisions, which should be included in this section. Section 611 of the Mobile Home Construction and Safety Standards Act of 1974, 42 U.S.C. § 5410 prohibits the sale of mobile homes, which do not comply with Federal construction and safety standards. Section 8 of the Real Estate Settlement Procedures Act, 12 U.S.C. § 2607 prohibits kickbacks and unearned fees incident to a real estate settlement service involving a federally related mortgage loan.

18 UNITED STATES CODE § 371

Conspiracy to commit offense or to defraud United States

If two or more persons conspire either to commit any offense against the United States, or to defraud the United States, or any agency thereof in any manner or for any purpose, and one or more of such persons do any act to effect the object of the conspiracy, each shall be fined not more than \$10,000 or imprisoned not more than five years, or both.

If, however, the offense, the commission of which is the object of the conspiracy, is a misdemeanor only, the punishment for such conspiracy shall not exceed the maximum punishment provided for such misdemeanor. June 25, 1948, c. 645, 62 Stat. 701.

18 UNITED STATES CODE § 1010**Department of Housing and Urban Development
and Federal Housing Administration transactions**

Whoever, for the purpose of obtaining any loan or advance of credit from any person, partnership, association, or corporation with the intent that such loan or advance of credit shall be offered to or accepted by the Department of Housing and Urban Development for insurance, or for the purpose of obtaining any extension or renewal of any loan, advance of credit, or mortgage insured by such Department, or the acceptance, release, or substitution of any security on such a loan, advance of credit, or for the purpose of influencing in any way the action of such Department, makes, passes, utters, or publishes any statement, knowing the same to be false, or alters, forges, or counterfeits any instrument, paper, or document, or utters, publishes, or passes as true any instrument, paper, or document, knowing it to have been altered, forged, or counterfeited, or willfully overvalues any security, asset, or income, shall be fined not more than \$5,000 or imprisoned not more than two years, or both.

June 25, 1948, c. 645, 62 Stat. 751; May 25, 1967, Pub.L. 90-19, § 24(c), 81 Stat. 28.

HISTORICAL TABLE 1. Monetized Audit Findings Concurred in by HUD and Resultant Cash Recoveries - Fiscal Years 1972 - 1979

<u>Fiscal Year</u>	<u>Monetized Findings Concurred-in by HUD</u>	<u>Cash Recoveries</u>
1972	\$ 7,984,678	\$ 4,135,507
1973	9,446,571	5,052,352
1974	16,101,956	8,131,077
1975	14,807,141	7,511,005
1976	33,799,805	18,765,109
1977	34,580,444	10,550,285
1978	29,189,094	8,305,564
1979	31,280,537	13,053,071
TOTAL	<u>\$177,190,226</u>	<u>\$75,503,970</u>

HISTORICAL TABLE 2. Comparison of Independent Public Accountant (IPA) Monitoring Staff Years with Number of IPA Reports Accepted - Fiscal Years 1973 - 1979

<u>Fiscal Year</u>	<u>IPA Reports Accepted</u>	<u>Monitoring Staff Years Used</u>
1973	103	2.5
1974	1,223	11.0
1975	1,584	18.6
1976	2,113	19.3
1977	2,621	18.8
1978	4,037	26.2
1979	3,977	26.1
TOTAL	<u>15,658</u>	<u>122.5</u>

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HISTORICAL TABLE 3. Status of Indictments by Regions - Fiscal Years 1972 - 1979

<u>Region</u>	<u>Total Indicts.</u>	<u>Sentenced/ Fined</u>	<u>Dismissed/ Acquitted</u>	<u>Pending</u>
I	83	66	7	10
II	282	201	39	42
III	214	140	56	18
IV	265	194	28	43
V	552	423	79	50
VI	196	144	25	27
VII	50	33	6	11
VIII	31	30	0	1
IX	327	244	35	48
X	<u>63</u>	<u>46</u>	<u>8</u>	<u>9</u>
TOTAL	<u>2,063</u>	<u>1,521</u>	<u>283</u>	<u>259</u>

HISTORICAL TABLE 4. HUD Employees Indicted/Sentenced - Fiscal Years 1972 - 1979

<u>HUD Job Position</u>	<u>Indicted</u>	<u>Sentenced</u>	<u>Dismissed/ Acquitted</u>	<u>Pending</u>
Director	13	10	2	1
Deputy Director	4	3	1	-
Division Chiefs and Deputies	13	10	3	-
Underwriter	2	1	1	-
Appraiser	22	18	4	-
Realty Specialist	16	15	1	-
Mortgage Credit Specialist	6	6	-	-
Construction Analyst	9	7	2	-
Inspector	7	5	2	-
Administrative Clerks	4	4	-	-
Miscellaneous	<u>6</u>	<u>5</u>	<u>1</u>	<u>-</u>
TOTAL	<u>102</u>	<u>84</u>	<u>17</u>	<u>1</u>

HISTORICAL TABLE 5. Operational Survey Reports Issued and Cases Opened - Fiscal Years 1973 - 1979

<u>Fiscal Years</u>	<u>Operational Survey Reports Issued</u>	<u>Investigation Cases Opened</u>
1973-1974	20	542
1975	10	258
1976	8	142
1977	9	292
1978	11	119
1979	<u>11</u>	<u>281</u>
TOTAL	<u>69</u>	<u>1,634</u>

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JUN 1 1979

OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING—FEDERAL HOUSING COMMISSIONER

IN REPLY REFER TO:

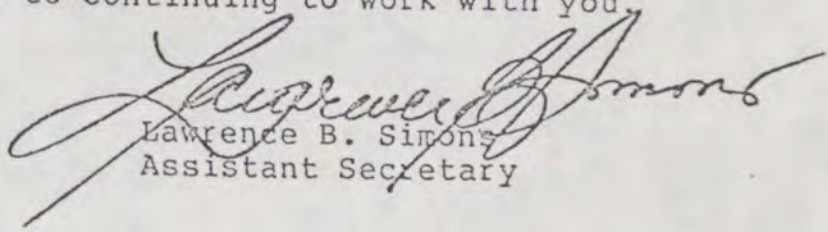
MEMORANDUM FOR: John C. Yazurlo
Assistant Inspector General
for Audit

SUBJECT: Special Operational Survey - Section 8
Phase I - Loan Management Program
Phase II - New Construction and
Substantial Rehabilitation
Phase III - Existing Program

Attached are the Office of Housing's comments on your February 6, March 7 and April 10, 1979 reports on the Section 8 program. As you will see, while in certain cases we question the statistical validity of using these findings to project program-wide problem rates -- most notably in the Existing program -- we believe the Survey's findings are extremely useful and point the way to significant program improvements.

I also believe that the process which allows us to comment on your preliminary drafts is extremely useful for both of us. On our side, it allows us to avoid misunderstandings and offer explanations where appropriate. On your side, this procedure will, I believe, add to the credibility of your work by enabling you to correct inaccuracies and strengthen your findings prior to publication.

I look forward to continuing to work with you.


Lawrence B. Simon
Assistant Secretary

Attachment

Comments on Phases I and II: Section 8 Loan Management
and Section 8 New Construction and Substantial Rehabilitation

Study Design and Methodology:

The design and methodology for Phases I and II of the Special Operational Survey (the Loan Management Set-Aside and the New Construction/Substantial Rehabilitation Section 8 programs, respectively) appear to be appropriate, although we do not have enough information to determine whether the samples provide statistically valid projections. The weakest point in both Phases, as pointed out in the Reports themselves, is the attempt to make the study design identify deficiencies in the projects' and in HUD's administrative procedures when the design was never intended to accomplish this task. However, the Reports correctly caution the reader that no projections of the findings from this area of the Survey should be made. If this caution is observed by all readers and the information in this section taken simply as descriptive of the projects and field offices visited, then Housing has no objection to the reporting of this information.

Survey Findings:

The findings reported from these two study phases will be very useful to Housing in its continuing attempt to refine and improve the Section 8 program's processing procedures. They confirm much of the anecdotal, fragmentary, and unsystematic information upon which Housing had already begun to take action. Some of the actions already taken to date to remedy Section 8 program deficiencies are discussed below.

Of the three main findings reported in both studies -- i.e., that there were project owner/manager irregularities, tenant irregularities, and project owner/manager and HUD administrative deficiencies -- Housing regards the first two as being particularly serious. Although some of these irregularities could have been due to error on the part of the owner/manager or the tenant, others clearly appear to be the result of willful fraud. Although the incidence of these two types of irregularities is relatively low, especially in the New Construction and Substantial Rehabilitation Programs where each type appears in fewer than 5 percent of the projects, Housing views any occurrence of these irregularities to be serious. We will continue to take steps to eliminate these types of irregularities.

Perhaps the most important improvement which could be made in the Inspector General's Reports would be the presentation of more detail about the degree of seriousness of each type of irregularity. For example, the Reports would have been more useful to Housing if they had broken the irregularities into categories like: "fraud" versus "error", "serious" versus "minor" irregularities; "irregularity did result in cost to government" versus "irregularity could have resulted in cost to government but did not." This type of analysis, together with a statement of the probable cost and magnitude of identified errors would enable us to make a cost effectiveness analysis of the problems and possible remedies.

It would have been particularly useful if the seriousness of the infraction had been indicated in the case of administrative deficiencies. This type of problem was found to occur in a much larger percentage of project in both the Loan Management (201 of 217 projects or 93%) and New Construction/Substantial Rehabilitation Programs (57 of 69 projects or 83%) than were the other two types of irregularities. For example, the two most frequently cited deficiencies were: (1) inadequate system for verifying income, assets, and expenses; and (2) lack of timely recertification of tenant incomes. While both of these could have resulted in a cost to the government, no indication is given of whether these project administrative deficiencies did result in such a cost or how much that cost was. Both of these pieces of information would have been very useful in assessing the cost-effectiveness of the alternatives available to reduce such administrative deficiencies. As pointed out in the next section, PD&R and Housing have already undertaken a study to obtain, among other things, precisely this type of information.

Departmental Activities to Improve the Section 8 Program:

Although the information contained in these two Reports (and earlier I.G. Audits) represents valuable evidence, it is not the first indication that problems exist in the Section 8 Program. Both the Office of Housing and the Office of Administration had become aware, through monitoring field office performance, that serious problems were arising in the administration of the Section 8 Loan Management

Set-Aside Program. Field office personnel, for example, had reported insufficient staff to perform required voucher reviews as early as October, 1978 and had requested Central Office assistance in securing automation of the voucher review process. Even earlier, Housing had recognized that its own Central Office structure was ill-equipped to deal with the complex nature of the Section 8 program and had taken steps to consolidate responsibility for all parts of the program, except the PHA administered "finders-keepers" and moderate rehabilitation programs, under the Deputy Assistant Secretary for Multifamily Housing Programs. It was expected that the integration of the Section 8 program with other similar Multifamily Housing programs would produce a rethinking, revision, and blending of programmatic policies and procedures. The goal in this effort was to achieve a more efficient, less complex, and less burdensome program. To ensure that these policy changes were carried out after the reorganization, Housing established a separate Occupancy Division within the Office of Multifamily Management and Occupancy to deal specifically with these issues.

The real value of the Special Operational Survey, then, was not that it provided new information, but rather that it confirmed the validity of the unsystematic indicators of trouble that the Department had begun to take action on already. The result of this confirmation has been a rapid escalation of the Department's efforts. Very soon after the findings of the Survey were reported, an interdepartmental Steering Committee -- co-chaired by Assistant Secretaries Simons and Medina and representing Housing, Administration, PD&R, and the Inspector General's Office -- was established to coordinate the multitude of individual efforts already under way to solve specific Section 8 Program problems raised by the Inspector General and others.

Some of the activities which the Steering Committee is presently coordinating or will be overseeing in the near future include:

- (1) An examination of HUD's administrative procedures for handling tenant applications, recertifications, and the vouchering process in order to minimize the potential for error, waste and fraud.

- (2) The development of an information and training program for project owners and managers designed to reduce errors and confusion in the Section 8 tenant application, recertification and vouchering process.
- (3) A feasibility study of the use of automated data processing technology to replace the present, staff-intensive manual accounting, record keeping, and application processing techniques.
- (4) The development of a management information data base on the characteristics of HUD's program beneficiaries.
- (5) Department participation in the President's Interagency Eligibility Simplification Project which is studying problems in eligibility determination and verification in Federal programs.
- (6) A PD&R evaluation designed to examine error rates, processing deficiencies, and alternative certification and recertification techniques in HUD housing programs.

Each of these activities is described in more detail below:

o Administrative Procedures and the Backlog in the Section 8 LM Program

As you know, the Department has not been in the business of dealing with large numbers of tenant-based subsidies -- like Section 8 -- until relatively recently. When the procedures for the program were established several years ago, the full impact of what it would mean to have over 600,000 units of Section 8 under management was not clearly seen. As a result, we are now experiencing severe backlogs in some area offices in conducting post-audits of tenant applications and project vouchers.

The Steering Committee (including members of your staff) has assessed the size and location of this backlog and has provided additional temporary staff to relieve the situation. In addition, the Steering Committee has prepared instructions to the field simplifying the current procedures in order to prevent a recurrence of the backlog.

o Training and Materials for Project Owners and Managers

The Office of Multifamily Programs is presently preparing an instruction booklet and a training program to be used by our field staff to train project owners and managers in Section 8 requirements. We hope to significantly reduce the time required in the area office to effect corrections on incorrectly completed certifications.

o Automation of Processing

As part of the effort to reduce the staff-intensive nature of the Section 8 certification, recertification, and vouchering processes, the Steering Committee will consider techniques for automating much of the process. This, along with the streamlining of the procedures involved, should substantially improve the efficiency, accuracy, and timeliness of these operations.

o Beneficiary Data Task Force

During 1978, the Department field tested a new tenant characteristics form for use in tenant application processing, income verifications, and occupancy data collection across HUD's rental assistance programs. The form was designed to allow tenant applicants to make initial or renewal application in one or more programs, and to provide public housing authorities and project owners with a single form for reporting and verifying income, and for rent computation. Further, the form was designed for Departmental use in terms of data collection.

Results of the field test were mixed. A primary weakness noted was the absence of standardized definitions across programs necessitating a rather long and complex form to fill out. In another instance, line items were missing which were essential to the correct computation of rents by program. However, the concept of consolidating forms was not entirely rejected, and the field test provided HUD with much needed information on how we can improve our existing forms, with or

without a single form approach. One idea presently under consideration is a multi-form concept, involving some common parts and program by program work sheets for rental and subsidy computations.

o PD&R Study of Error Rates, Processing Deficiencies and Processing Alternatives

A major HUD initiative is now underway to evaluate income certification and recertification processes in the Department's rental assistance programs including Section 8 (all programs), 236 and public housing. The study has been designed to accomplish three major objectives:

- (1) to measure the extent to which errors occur in the determination of rent subsidies and to provide an estimate of the under- and over-payments due to such errors;
- (2) to identify error sources, i.e., the factors most likely to cause errors, and to describe a set of possible remedial strategies; and
- (3) to investigate the cost-effectiveness of potential remedial strategies.

The first data sets, describing error rates, error costs, and the variation in administrative quality among programs and projects are scheduled to be available within 12 months. The analysis of the data, which is expected to take 3 to 4 months, will address the following issues:

- (1) Reasons for the variation in error incidence among projects. Identifying the types of projects most likely to have high error rates will enable HUD to gear enforcement efforts towards "targets of opportunity", thus using the limited monitoring resources most effectively.
- (2) Incidence of, and variance in, fraudulent practices by tenants. The study will determine which percentage of total errors must be attributed to fraud and evaluate the cost-effectiveness of proposed strategies.

- (3) Contribution of program rules and regulations to error incidence. Program-wide changes, such as the introduction of new certification forms, are contemplated in an effort to improve administrative accuracy. The cost-effectiveness of this and other programmatic changes will be tested.

o Interagency Eligibility Simplification Project

As you may know, the President recently initiated an interagency effort to simplify eligibility requirements and procedures over a number of major social welfare and other income-assisted programs. The Reports make clear that the most prevalent and potentially costly irregularities and administrative problems arise with regard to the determination of tenant incomes. HUD's problems in this area are not significantly different from those of other Departments dealing with income-determined benefit programs. The interagency project is intended to provide a government-wide answer to the problems of eligibility determination, verification and recertification.

Assistant Secretary Simons is a member of the project's steering group chaired by Pat Gwaltney of OMB and Assistant Secretary Bohlen of HEW. The Section 8 Existing program is one of the seven Federal programs being studied by the steering group and project staff, although its conclusions should be equally applicable to all assisted programs.

Within the next several months, HUD will be reviewing project staff proposals in the areas of income definitions, application forms, eligibility processing and income verification. The Department is very interested in the possible development of common front-end processing whereby HUD could accept tenants based on data collected by another agency, and vice versa, and where all agencies can rely upon common, cost-effective verification procedures.

Conclusion

The Inspector General's reports on Phase I and Phase II provide highly useful information about the extent of irregularities in the Loan Management, New Construction

and Substantial Rehabilitation programs. Particularly significant are the findings with regard to the need to improve tenant income determination, verification and recertification procedures. Housing has been aware of this problem and is taking action, as well as participating in Departmental and Administration-wide efforts, to improve eligibility determination. We believe that the best, most cost-effective answer ultimately lies in government-wide verification procedures.

More detailed information on the various ongoing efforts is attached.

Office of Housing Response: OIG Special Operational Survey
of the Section 8 Existing Housing Program (Phase III)

1

INTRODUCTION

The Office of Housing has reviewed the draft summary "Special Operational Survey" on the Section 8 Existing Housing Program conducted by the Office of the Inspector General (OIG). This draft Phase III Report was based on an OIG survey of tenant files and units in the Section 8 Existing Housing Program.

At the outset, it is important to emphasize that the survey's findings provide useful information about the kinds of irregularities that can occur in the Section 8 Existing Housing program. The instances of fraud and abuse and of some housing quality violations are disturbing. As the second section of these comments illustrates, we had taken action to respond to these problems prior to receiving the Report. As a result of the OIG's work, we have intensified our efforts to improve the monitoring of the program. These efforts are reflected in our third section. We believe it appropriate that the OIG reflect the remedial steps that were underway at the time the survey was made and credit itself for the additional actions we will take as a result of the OIG findings.

At the same time that we value the survey's findings for what they illustrate about the types of problems encountered in the Existing Housing program, we sharply disagree with its projections as to the frequency and severity of these problems. The first segment of our response explores the survey's methodology and indicates why the findings do not permit statistically valid estimates of the incidence of irregularities or deficiencies. It would, therefore, seriously undermine the credibility of the OIG survey and misrepresent conditions in the Section 8 Existing Housing program if the Report were to continue to make projections about the program-wide incidence of particular problems.

A. CRITIQUE OF OIG METHODOLOGY

The Office of Housing believes, and PD&R concurs, that there are serious shortcomings in the methodology of the Report, including sampling, data analysis, and data presentation. Our critique is based on detailed analysis of the OIG draft Summary Report, memoranda sent by RIGA to 31 Area Managers containing information on the deficiencies found within the AO jurisdictions, and discussions with field staff. The RIGA memoranda represent most of the OIG survey findings but, as you are aware, a few memoranda have not been issued and, therefore, were not sent by RIGA to Headquarters.

1. Invalid Projections

The methodology is deficient, as a result of two interrelated factors: (1) the use of project-based rather than unit-based analysis and (2) the non-random selection of sample units. The survey used a stratified random sampling technique to identify "projects" to be examined, and then actively sought irregularities and substandard units in those projects. Unlike the Loan Management and New Construction and Substantial Rehabilitation programs, however, Section 8 Existing is not project-based. An Existing project is a random collection of units at perhaps hundreds of different sites with hundreds of different owners or managers. Thus, while the existence of an irregularity between the owner and a tenant at a New Construction project suggests that there may be other irregularities at that project, the finding of an irregularity in an Existing "project" tells nothing more than that there was a problem with one unit out of several hundred. Similarly, the finding of a substandard unit at an Existing "project" suggests nothing about the other units in that project.

While "projects" were chosen in a random manner, units were selected for review, your staff advises us, because they were expected to have problems. Specifically, on the question of housing quality standards, a stratified random sampling technique was used to identify 228 Existing "projects" from a total universe of 3,339 "projects" and to specify how many file units were to be reviewed at each of the 228 "project sites." The selection of the actual files and units, however, was determined in a non-random purposeful fashion. The goal of the sampling procedure at this level was to select those files, and a sub-set of the units connected with them for the dwelling unit quality inspections, that were more likely to contain evidence of irregularities. This particular combination of random and non-random sampling methods is appropriate if the goal of a survey is to uncover instances of irregularities. However, it is an inappropriate procedure if the goal of the survey is to assess and project the quality of the dwelling units in a entire program like the Section 8 Existing Housing Program. The non-random purposeful technique used for choosing the actual units inspected violates a necessary condition for projections. This approach may have some predictive value if a project is a single structure with a single manager and the discovery of one problem unit suggests that other units within the project will have problems. When, however, projects do not have common management and consist of hundreds of different buildings, the purposeful selection of units likely to be deficient or to have other problems creates a biased sample. Such a sample can offer no valid basis for projecting the frequency with which various problems arise.

The OIG survey contains two types of projections from the survey findings: The first type relates to unit quality, and the second type relates to irregularities.

a. Unit Quality

The projections related to unit quality are invalid because of the inappropriate sampling technique used to choose the units inspected. Accurate projections derived from a sample of a universe (in this case from the dwelling units inspected to the total units in the Section 8 Existing Program) can only be made provided the sample is randomly selected. In this case, units were chosen because they were expected to have problems. That only 40% of the units so selected did actually have housing quality violations indicates that the program-wide incidence of deficient units is substantially less than the OIG projections. Therefore, the unit projections should be deleted from the OIG Report.

b. Irregularities

The OIG draft survey Report contains several types of projections related to irregularities. The Office of Housing contends, and PD&R concurs, that these projections are invalid as stated by the OIG.

1. The first projection of irregularities deals with project owners/managers. The OIG concludes that there were 35 owner and manager irregularities in 31 of the 228 projects reviewed and, therefore, they are 95% sure that there are such irregularities in 553 of 712 of the 3,889 projects. The OIG makes the projection based on the number of "projects" participating in the program. This projection suffers from the project-based fallacy. Each PHA does not monitor a single Section 8 "project." Rather, each PHA supervises many owners of single and multifamily properties and, hence the program is a unit based program. This projection should, therefore, have been presented at the unit level. Because the projection of owner/manager irregularities was not made at the unit level, the projection is misleading and should be deleted.
2. Secondly, the OIG survey concludes that there were 23 tenant related irregularities in 18 projects and, therefore, up to 25,862 of the 374,923 occupied units had such problems. Due to the biased manner in which files were selected, the Office of Housing contends that the projection of the 25,862 units can only be considered an upper limit and the true number of tenant irregularities may be substantially lower.

3. The OIG presented the following additional projections or irregularities:

"There were indications of 23 irregularities involving collusion between the PHA, the project owners and managers, and tenants in 19 of the 228 projects reviewed and, therefore, we are 95 percent sure that there are irregularities involving collusion between the PHA, the project owners and managers and tenants in 309 but not more than 445 of the 3889 projects participating in the Existing Program."

"There were 58 instances of either collusion or management irregularities in 50 of the 228 projects we reviewed and, therefore, we are 95 percent sure that there are either collusion or management irregularities in 740 but not more than 942 of the 3,889 projects participating in the Existing Program." This finding was apparently obtained by adding the 35 owner/manager irregularities (unit-based) and the 23 collusion type irregularities (project-based) noted above.

In these cases, the Office of Housing contends that the projections are misleading and invalid since the OIG has incorrectly combined "unit" and "project" level data. Data on tenants and owner/manager irregularities must be discussed at the "unit/file" level and PHA data at the "project" level. Therefore, we feel OIG should revise the Report to deal with "unit" and "project" level projections of irregularities separately and then only when the units were selected randomly.

2. Survey Findings are Presented Inaccurately

Based on their review of 1,924 files and 345 dwelling units, the OIG draft summary Report clearly suggests that the Section 8 Existing Housing Program has widespread irregularities, units which are not decent, safe and sanitary and administrative deficiencies. Based on a thorough review of the Summary Report and the RIGA memoranda, the Office of Housing believes that the weaknesses in methodology noted above, as well as certain additional elements in the survey, have lead the Summary Report to present its findings in a misleading fashion.

Following is our analysis of problems in the OIG draft Report's presentation of its findings:

a. Irregularities

As indicated previously, the OIG has incorrectly drawn certain conclusions:

- . The survey should have been designed so that findings regarding owner/manager and tenant irregularities could have been stated at the "unit/file" rather than "project" level.
- . Other OIG findings on collusion related irregularities consist of data which should be presented at either the PHA (project) level or tenant and owner/manager (unit/file) level and, therefore, need revision.
- . Summary findings on the total number of irregularities (i.e., 81 indications in 68 of the 228 projects reviewed) may be inflated. Our review of the 31 RIGA memoranda reveals that 13 of the irregularities involved situations where the PHA staff leased units with Section 8 Existing assistance. Although PHA staff is technically restricted from participation in the Section 8 Existing Housing Program by the ACC and HAP Contracts, waivers are routinely granted as long as the PHA staff person is eligible for the program and has no control over the Section 8 Existing selection process. At best, we feel these 13 cases should be classified as "administrative deficiencies" rather than as "fraud". Since they were classified as fraud in the RIGA reports, we believe they are among the 81 instances cited and, therefore, the summary figure for irregularities is inflated and should be recomputed.

b. Unit Quality Findings

- . As stated previously, the survey findings related to dwelling unit quality are inflated as a result of the way that the units to be inspected were selected. Two hundred seventy one of the 345 units were among those associated with the 1,924 tenant files which were selected by the OIG specifically because of possible irregularities. Since the 271 units were a sub-set of the 1,924 files, it is reasonable to assume that these would have more unit quality violations than any randomly selected sample of dwelling units. Also, in some instances when a unit in a multifamily project was inspected and found to be below acceptable standards, another unit in that property was also inspected. This procedure accounts for the selection

of an additional 74 units, which further biases the sample of dwelling units by arbitrarily adding units which had violations. Thus, the unit quality findings should be revised to remove program-wide projections and should explicitly acknowledge that the sample is not representative of the Section 8 Existing inventory.

. A sizable portion of the Section 8 Existing Housing Program is free of deficient units. The RIGA memoranda indicated that there were no units in the sample with deficiencies within the jurisdictions of the following Area Offices: Indianapolis, Minneapolis, Portland, New Orleans, Oklahoma City, Charleston, Manchester, Buffalo, Newark, Baltimore, Philadelphia, Pittsburgh, Richmond, Denver, St. Louis, and Milwaukee. The fact that a large portion of the Section 8 Existing units contained no Housing Quality violations is particularly impressive since the survey was designed to "find" units with problems.

. Most of the deficiencies were found in only a small number of the units. In fact, the RIGA reports indicate that 80 percent of the violations were found in only 12 percent of the units inspected. Thus, a few of the deficient units had multiple violations, while most had only one or two. For example, according to the San Francisco Report, nine units had violations but 4 units had 17 of the 22 total violations. Similarly, information from the Dallas Area Office Report showed that 6 units had deficiencies but 3 units accounted for 18 out of the 22 violations.

. While many of the deficiencies found in dwelling units were indeed violations of the Housing Quality Standards, many deficiencies were conditions which did not endanger the health or safety of the occupants. Such non-serious violations included conditions such as no overhead light in the bedroom or kitchen, broken garbage disposal, refrigerators that are not of appropriate size and gutters and downspouts in need of repair.

. Only a few units contained a high proportion of the serious violations. Serious violations are those conditions within a unit which clearly endanger the health and safety of its occupants. More specifically, our analysis of the RIGA Reports revealed that 42 percent of the serious violations were found in only 4 percent of the units.

Therefore, it can be concluded that while there are a few bad units ("dogs"), the housing stock in the Section 8 Existing Housing Program is basically sound.

It appears that OIG may have counted as violations some variations in acceptability criteria (e.g. numbers of electrical outlets per room or the specific temperature inside the unit) which may have been waived for a particular locality. It is noted that Section 852.109 of the Section 8 Existing Regulations states that acceptability criteria can be varied, with Field Office approval, in response to local conditions. There is no indication that the OIG findings acknowledge waivers of acceptability criteria in their aggregate number of units with Housing Quality violations.

In light of the last three items, it would be useful for the Report to indicate which of the units in which the survey found deficiencies had serious or multiple defects. This would allow us to concentrate our efforts on eliminating the most serious problems. It also allows the public and the Congress to make more useful judgments as to the seriousness of the violations OIG found.

It would be particularly valuable for the Report to put the survey's findings about housing quality violations in context in which they occur and to make some judgments as to the nature and causes of those violations. For example, the Report does not distinguish between long-standing and temporary deficiencies. A toilet that has been broken for a day or two or a temporarily cluttered hallway is a routine maintenance problem; if these problems persist for a longer period, they might properly be considered unit defects. Similarly, the report does not evaluate who might have been responsible for a particular condition. If for example, a door latch or a tub fixture had been repeatedly broken as a result of the tenant's actions, at what point is the owner entitled not to make a repair unless the tenant pays for it? Finally, the report should note that because the Existing Program consists of hundreds of thousands of units widely dispersed, we must rely upon tenants to help us assure that they receive decent housing. A dissatisfied tenant can complain to the PHA, which must act upon the complaint. In fact, studies show that the great majority of tenants are satisfied with their units and believe them an improvement over conditions before they came into the program. As long as we encourage tenants to complain about defects, assure that their complaints are answered, and determine that they continue to be satisfied with their units, the problems of deficient units can be kept to a minimum. We intend to increase our efforts in this regard.

c. Findings on Administrative Deficiencies

The OIG draft report indicates that of the 1,924 tenant files reviewed, there were 2,577 administrative deficiencies in 1,161 files. The report also implies that many of the deficiencies were serious matters such as the untimely recertification of tenants and improperly calculated gross family contribution. Our initial review of administrative deficiencies in the RIGA Report to Area Managers indicates that while there were clearly some critical problems in a small number of PHAs, a number of the so-called serious deficiencies actually were minor arithmetic errors or cases where a recertification was a few weeks late. There were a considerable number of cases where the administrative deficiency was the fact that the documentation was not filed. There is of course no way of verifying that the lack of a file report indicated there was in fact an administrative deficiency. Also, according to discussions with Field Office and PHA staff, a number of the administrative deficiencies had already been or were in the process of being corrected when RIGA reviewed the files. Over 18% of the administrative deficiencies were due to the lack of third party verification. While there was no such verification, the OIG did not present evidence that unverified data was incorrect. Finally, there were a considerable number of administrative deficiencies related to the correct computation of the Rent Reduction Incentive. The Department is aware that the current formula for computing the Rent Reduction Incentive is very confusing and is finalizing proposed regulations to address this problem. The Department's initiatives to correct the Rent Reduction error should also be acknowledged in the OIG Report. The OIG survey should be revised to separate the minor administrative deficiencies from those which are more serious.

B. MENTION OF HUD ACTIONS TO DATE

While the OIG survey data does not support the program-wide projections made, it does indicate potentially serious problems in the Existing Program. We believe it would be useful for the Report to note actions already taken by the Office of Housing to provide proper administrative and monitoring of the Section 8 Existing Housing Program which respond to problems identified in the OIG Report. Actions taken to date by Headquarters have included:

- Revision of the Section 8 Existing Housing Processing Handbook: This handbook was revised in June 1978 to emphasize field office management responsibilities and includes a detailed management review checklist.
- Instructions to PHAs Administering the Section 8 Existing Housing Program: We recently issued guidance to both PHAs and field offices which emphasized the importance of the inspection of units as well as correct administration of rents and verification of income eligibility. It should be noted that these reports were issued partly in response to the OIG Operational Survey of the Section 8 Existing Housing Program in June-July 1978.
- Directives to the Field re: Monitoring of the Section 8 Existing Housing Program: The EMR has two goals pertaining to the field office monitoring responsibilities in the Section 8 Existing Program: (a) that Area Offices should perform 100 percent of management reviews required in HUD Handbook 7430.3 REV. and (b) that Area Offices must close findings concerning non-compliance with Housing Quality Standards within 3 months of notifying the PHA of the finding(s).

In addition, we have issued various memoranda to field offices indicating the importance of Section 8 Existing monitoring. This included a memorandum to field offices in early 1979 which discussed the importance of conducting management reviews and providing a format for determining rent reasonableness.

- Training of Field Office Staff: We have held two training courses for field office management staff in the Section 8 Existing Program; one in 1977 (8 seminars involving 240 trainees) and another course in 1978 (2 seminars involving 70 trainees). The aim of the training was to ensure that Field staff had the expertise to perform the range of oversight functions, including management reviews. In addition, in 1978 we held a Maintenance Engineering Workshop which included a session on Housing Quality Standards and unit inspections.
- Meetings Between Headquarters and Field Office Staff: Headquarters has utilized counterpart meetings with Regional Administrators, Area Managers, Housing Directors and specialist staff to emphasize the need for adequate PHA performance in the Section 8 Existing Program. In addition, many Field Offices held regular training and technical assistance sessions with PHAs on the Section 8 Existing Housing Program.

C. RECOMMENDED REVISIONS IN THE REPORT

In light of the inaccuracies and omissions described, the Office of Housing feels that the Phase III Report on the Section 8 Existing Housing Program should be revised and the summary report on all three Phases must reflect the following changes:

1. Delete projections regarding number of units with Housing Quality violations and revise projections regarding irregularities.
2. Eliminate findings, projections, and other references to Housing Quality violations, administrative deficiencies, and tenant or owner/manager irregularities which are presented at the PHA "project" rather than at the "unit/file" level. Also, clearly explain that a Section 8 Existing "project" consists of hundreds of separate buildings, not a single structure under common management with similar problems.
3. Analyze data to determine the number of units with serious, and multiple Housing Quality violations.
4. Indicate whether violations were routine maintenance issues or long-standing defects.
5. Analyze data to separate reported indications of more serious fraud and abuse from cases involving PHA employees leasing Section 8 Existing units.
6. Determine whether acceptability criteria have been waived for given localities and, therefore, are not Housing Quality violations.
7. Acknowledge the number of Area Office jurisdictions reviewed with no Housing Quality violations.
8. Place Housing Quality violations issued in context of overall tenant satisfaction with program.
9. Delete administrative deficiencies which have already been corrected, classify administrative deficiencies as either minor or serious, and verify whether the lack of documentation is really a deficiency.
10. Acknowledge recent Office of Housing actions to monitor the program more effectively.

FOLLOW-UP INITIATIVES

The Office of Housing has been seriously concerned about the proper administration of the Section 8 Existing Housing Program and has initiated or will initiate shortly the following activities to ensure that the deficiencies are addressed:

A. Correction of Deficiencies Cited in OIG Survey

As an immediate step to correct the deficiencies cited in the OIG Survey, the Office of Housing sent a telegram to Field Offices requiring them to work with PHAs: (a) to repair units with housing quality violations by June 30, 1979, or abate the housing assistance payments, or in the case of "health and safety" violations to relocate families, (b) to inform all owners and tenants that HUD intends to refer cases of fraud or abuse to the OIG for investigation, and (c) to correct other administrative deficiencies expeditiously. The telegram also provides direction to Field Offices on the use of various sanctions in the case of non-performance by a PHA.

B. Issue PHA Administrative Guide

The twelve chapter PHA Administrative Guide is being finalized to be put into release by June 15, 1979 with a projected date for issuance of September 1979. This revised handbook will provide specific guidelines on determining tenant income (including verification methods), as well as guidelines for determining rent reasonableness, conducting unit inspections and other necessary procedures for the PHA.

C. Provision of Additional Assistance for Field Office Monitoring

The Department has identified additional temporary resources to Field Office Assisted Housing Management staff specifically to assist in catching up on the backlog of inspections and to follow-up on unit deficiencies identified. The Office of Housing will provide technical training for these new staff in June so they can be used for inspections throughout the summer. As a future step, the Office of Housing will reassess work measurement standards for Section 8 Existing Program monitoring to justify additional staff resources on a permanent basis.

In addition, the Office of Housing is actively considering the use of non-HUD resources for monitoring at both the PHA and Field Office level. This could include the possible use of fee inspectors to review a larger sample of units more frequently. We would also like to work with your office to expand the scope of the IPA biannual audits to include occupancy and financial reviews.

12.

D. Emphasis in the EMR on Section 8 Existing Management Monitoring

As indicated previously, the EMR has two goals pertaining to Field Office monitoring responsibilities in the Section 8 Existing Housing Program. In future months, we plan to emphasize the quality as well as quantity of these reviews, including close out of all outstanding findings.

E. Additional Training for Field Staff and PHAs

The Office of Housing is exploring the feasibility of joint PHA/Field Staff workshops as a way of ensuring that program staff are familiar with correct administrative and monitoring procedures. It is anticipated these sessions would take place in the fall of 1979, just after the issuance of the PHA Administrative Guide.

F. Refined Guidelines for Field Office Management Reviews

The Office of Housing is currently revising the management chapter and management review checklist of the Section 8 Existing Housing Processing Handbook (HUD-Handbook 7420.3 REV. 2). These changes will provide additional guidance on priority items to be covered in management reviews, particularly unit inspections, rent reasonableness, occupancy, and PHA monitoring.

G. Refinement of Housing Quality Standards

I have asked my staff to explore additional ways to refine housing quality standards in light of considerable public and field office interest in clarifying housing quality standards.

H. Review of Income Certification and Verification Methods

Our comments on the Phase I and Phase II Surveys noted the Department-wide and Administration-wide efforts in which we are engaged in order to improve procedures and eliminate irregularities in this area.

Report of the Secretary
on the
Semiannual Report to Congress
Office of Inspector General
April 1, 1979 to September 30, 1979

Before delineating the specific actions which have been undertaken by the Department to correct the irregularities and deficiencies noted by our Office of Inspector General (OIG), particularly with respect to the Section 8 Existing Housing Special Operational Survey, I would like to convey my continuing belief in the value of, and reliance on the findings of, the in-house OIG audit and review process. It allows the Department to confirm the existence of suspected problems, and to identify others. Furthermore, it fosters the development of timely solutions to problems so identified.

An advantage of this process, as the report makes clear, is that a major portion of the work necessary to correct the irregularities and deficiencies found by the OIG has already been done in response to reports of findings at earlier stages of the review process. As has been the practice in the past, the Department will continue to work diligently toward the resolution of the issues raised.

SPECIAL OPERATIONAL SURVEY -- SECTION 8 LEASED HOUSING PROGRAM

The Section 8 Special Operational Survey illustrates the value of the HUD audit and review process. Given the complexity of putting the Section 8 Program into full operation -- the development of systems (1) to construct, rehabilitate or locate hundreds of thousands of units of housing, (2) to identify and certify tenant-beneficiaries, and (3) to assure the payment of appropriate amounts of subsidy based both upon a reasonable rent for the unit and the occupant's income -- it must be recognized that some elements of the management structure initially put into place would not meet our expectations. The OIG system provides a competent, objective, in-house resource for identifying those management problems and developing timely solutions. Thus, on page 7, the Report notes an extensive series of actions which the Department is taking to remedy the problems identified in the Survey. Some of these actions were taken in immediate response to OIG findings reported in February, March and April of 1979. Many others were in progress before the Survey was completed, and the OIG findings served to re-emphasize the importance of the remedial steps taken by the Office of Housing.

Another significant element of the Special Operational Survey is that the process involved not only cooperation between the Office of Inspector General and the Office of Housing, but among many Departmental offices. In some instances, the Office of Policy Development and Research was asked to conduct more extensive studies and evaluations of particular problems. In other instances, OIG, the Office of Housing and the Office of Administration staff worked together to solve data and monitoring problems.

While the Department agrees with most of the findings and recommendations of the Survey, two issues mentioned in the Survey deserve further comment:

1. The Department questions the Report's assertion that 40 percent of the units leased in the Section 8 Existing Housing Program may contain violations of Housing Quality Standards. The structure of the Survey invalidates its use for statistical projection on this issue. First, OIG uses a project-based analysis to make its projections for the Existing program. Unlike the Section 8 New Construction Program, Section 8 Existing is not project-based. An Existing "project" is a random assortment of units at perhaps hundreds of different sites with hundreds of different owners or managers. Therefore, while the existence of a housing quality defect at one unit in a new construction project suggests that there may be problems with other units in that building, the finding of a problem at an Existing "project" tells nothing more than that there was a problem with one unit out of several hundred.

A second feature of the survey which tends to invalidate the projection of defects is that while the "projects" reviewed were chosen at random, units within those projects were selected because they were expected, on the basis of various indicators, to show irregularities. This is an appropriate technique if a project-based analysis is valid or if the purpose of the survey is to uncover instances of problems. The technique cannot, however, be used to make statistically valid projections about projects which do not have common management or features; it simply produces a biased sample.

A much more extensive review on the subject of housing quality was undertaken by the General Accounting Office (GAO), in a report published October 30, 1979. The GAO report not only defined the difficult issue of housing quality but added that although 42% of the homes inspected contained violations of Housing Quality Standards, 18% (as opposed to OIG's 40%) contained violations serious enough to classify the units as not decent, safe, and sanitary. Based on a comparison of the two reports' treatment of the particular point of housing quality, the Department believes that on balance, the OIG report's failure to discuss the issues of housing quality and the subjectivity of current measures of housing quality, renders it less useful in evaluating the true magnitude of the problem.

As a result, the Department does not accept the projection that 40 percent of Section 8 Existing units may have Housing Quality Standards violations. The highly speculative estimate based upon that projection, that "as much as \$23 million per month" is going to assist units which do not meet standards, should also be reconsidered. It is important, however, to emphasize that while HUD disputes the statistical validity of the OIG projections in this area, the Department agrees that the problem is sufficiently severe to warrant the strong and immediate action we are taking to remedy it.

2. While the Department has concurred in and acted upon most of the OIG recommendations listed on page 6 of the Report, we do not believe that a toll free tenant complaint phone (the fourth recommendation) would be a useful mechanism. The combination of Department consumer complaint monitoring through the Office of Neighborhoods, Voluntary Associations, and Consumer Protection, and PHA tenant complaint systems, provides a more effective means of dealing with tenant problems.

With the exception of the two items noted above, and with a clear understanding that a number of the problems found in the Survey had been identified and actions to remedy those problems had been taken prior to the Survey, the Department does, indeed, agree with the Inspector General's findings and recommendations. It is our conviction that this experience shows how a Federal Department can internally identify and correct program deficiencies and provide more effective services to its beneficiaries and better value to the taxpayer. Attached to this report are responses prepared by the Office of Housing to the Special Operational Survey, dated June 1, 1979 and September 4, 1979, which provide further detail about the Survey's findings and recommendations, and about the actions taken by the Department in these areas.

Reviews of Clifton Terrace Apartments (Washington, D.C.)

The Report refers to audits of the Clifton Terrace Apartments (Washington, D.C.) which OIG conducted in 1977 and 1979. It is important to stress that the Department was able to develop a fully documented record of the Mortgagor's deficiencies and bring a successful foreclosure action before media attention was given to Clifton Terrace. After that foreclosure action, Housing and OIG staff obtained evidence of improprieties sufficient to merit referral of the case to the U.S. Attorney's Office. The Department expects to explore this case fully in Congressional hearings.



SEP 4 1979

OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING-FEDERAL HOUSING COMMISSIONER

IN REPLY REFER TO:

MEMORANDUM FOR: John C. Yazurlo
Assistant Inspector General for Audit

SUBJECT: Special Operational Survey - Section 8
Leased Housing Program

This constitutes the Office of Housing's response to the Office of Inspector General's report and recommendations of July 16, 1979, concerning the Section 8 Leased Housing Program. Before answering each specific recommendation, I would like to make a general observation.

The Section 8 Special Operational Survey illustrates the value of the HUD audit and review process. Given the complexity of the task Housing faced in putting the Section 8 program into full operation -- the development of systems (1) to construct, rehabilitate or locate hundreds of thousands of units of housing, (2) to identify and certify tenant-beneficiaries, and (3) to assure the payment of appropriate amounts of subsidy based both upon a reasonable rent for the unit and the occupant's income -- it was inevitable that some elements of the management structure we initially put into place would not be sufficient. The OIG system provides a competent, objective, in-house resource for identifying those management problems and developing timely solutions. It allows us to confirm the existence of problems we suspected and identify problems of which we were unaware. And it points the way to remedies.

An advantage of this process, as the report makes clear, is that a major portion of the work necessary to correct the irregularities and deficiencies found by OIG has already been done in response to reports at earlier stages of the Special Operational Survey. For example, as an immediate step to correct the Section 8 Existing Housing deficiencies cited in the OIG Survey, the Office of Housing sent a telegram dated May 16, 1979, to Field Offices requiring them to work with PHAs (a) to repair units with housing quality violations by June 30, 1979, or abate the housing assistance payments, or in the case of "health and safety" violations, to relocate families, (b) to inform all owners and tenants that HUD

intends to refer cases of fraud or abuse to the OIG for investigation, and (c) to correct other administrative deficiencies expeditiously. The telegram also provided direction to Field Offices on the use of various sanctions in the case of non-performance by a PHA. To assist Field Offices in (b) above, the Office of Housing provided format letters discussing fraud. The PHAs are required to send these format letters to all PHA employees, owners and tenants participating in the Section 8 Existing Housing program by September 30, 1979.

In working on problems identified by OIG, Housing staff had occasion to call on other HUD Offices for help. In some circumstances, we asked the Office of Policy Development and Research to conduct more extensive studies and evaluations of particular problems. In others, we were aided by the Office of Administration.

In summary, the experience of the Section 8 Special Operational Survey shows how a Federal Department can marshal its resources to clean its own house and provide more effective service to its beneficiaries and better value to the taxpayer.

I will now respond to the report's recommendations in order.

Recommendation No. 1

"Assure that required monitoring visits to PHAs are made by the HUD field office staffs. The monitoring visits should include: a review of the system for billing HUD for assistance payments; a review of the system for verifying tenant income, assets and expenses and assuring timely recertification of tenants; a review of the system used to assure that tenants are not overhoused; tenant interviews designed to gather information on side payments to owners, application and credit report fees, excessive security deposits and withholding of tenant utility allowances; a review of the PHAs' rent reasonableness determination procedures; and a review of the PHAs' system of inspecting and reinspecting units including HUD re-inspection of a sample of the units."

Reply: Housing agrees that monitoring visits to and management reviews of PHAs are critical to the proper functioning of the Section 8 Existing program. The establishment of the Executive Management Report (EMR) goals of 100 percent of required management reviews by area offices and the closing within three months of findings of non-compliance with Housing Quality Standards address this issue most directly. In addition, Housing has issued various memoranda to Field Offices indicating the importance of Section 8 Existing monitoring (including a memorandum to Field Offices in early 1979, largely stimulated by OIG work in 1978, which discussed the importance of conducting management reviews and included a format for determining rent reasonableness).

The Office of Housing is currently revising the Management Chapter (Chapter 5) and Management Review Checklist of the Section 8 Existing Housing Processing Handbook (HUD Handbook 7420.3) to provide additional guidance in all areas recommended. We anticipate putting these revisions into Departmental clearance in November 1979.

A Section 8 Existing Joint NAHRO/Tenant/HUD Monitoring Team will be used to test monitoring procedures at a sample of PHAs participating in the Section 8 Existing Housing Program throughout the country. Focus will be on unit quality, rent reasonableness, fraud and PHA administration in the Section 8 Existing Housing Program. A report on this project is expected in October 1979 before the management monitoring procedures are finalized.

While this recommendation does not specifically address Section 8 projects which are not managed by PHAs, both your findings and our experience suggest that stepped up monitoring of such projects is also necessary. I would, therefore, advise you that Housing has cleared and is about to publish a new Chapter 6 to Handbook 4350.1, Insured Project Servicing Handbook which provides detailed instructions on how to conduct a comprehensive and/or limited management review. Each review includes a format covering the items to be checked in making the management review, and these items are essentially those outlined in your recommendation.

Recommendation No. 2

"Increase and improve HUD and PHA reviews of project billings. The review of billings should as a minimum include a comparison of the billings to Monthly Occupancy Reports to determine billings for vacant units or units occupied by other than eligible tenants. Since improper billings were a serious problem in all three phases of our review, we recommend a 100 percent review of all vouchers by HUD for the Loan Management and New Construction and Substantial Rehabilitation programs, and by the PHA for the Existing program. An adequate review by HUD is imperative since Certifying Officers are relying on these reviews in certifying to the validity of the requisitions for assistance payments."

Reply: Housing agrees with this recommendation and we are planning on carrying out a series of actions to implement it.

We will shortly issue a Notice that implements these items for our Loan Management, New Construction and Substantial Rehabilitation programs. This Notice has been cleared by the Inspector General's Office of Audit.

In addition, a joint Housing-Administration Task Force has developed a proposal to automate the review process by creating a certification data base that will generate a correct payment voucher. The owner will no longer be required to submit a payment voucher. Instead, the tenant certification document will be submitted by the owner, and the review of certification documents will be performed by the automated system and stored in the data base. The system will compute the monthly payment based on the certifications and the monthly exception report provided by the owner. A print-out listing in detail the basis for the payment will be provided to the owner with the payment. The proposed system will substantially reduce processing time and greatly enhance management controls of the program through automated calculations based on project and tenant data.

The Section 8 Existing Processing Handbook has been revised to add cash management requirements for the collection of overpayments by offsetting against the next scheduled partial payment when necessary. Also, in the Section 8 Existing program, the PHA Adminis-

trative Guide will provide guidance for reviewing owner billings. Additional guidance on the review of the Section 8 Existing budget forms (Forms HUD-52671, 52672 and 52673), the requisition (Form HUD-52663) and the year end statement (Form HUD-52681) will be included in the revisions to the management chapter. (These revisions will be put in Departmental clearance in November 1979.)

The forthcoming PHA Administrative Guide will also emphasize third party verification of income and other PHA controls to prevent overpayments. The Guide will clarify occupancy standards in the Section 8 Existing Housing Program so that the tenants are not being overcompensated.

Recommendation No. 3

"Develop a system to detect dual subsidy billings by project owners and managers."

Reply: For the Loan Management, New Construction and Substantial Rehabilitation programs, the automated tenant eligibility and payment system developed by the Housing Administration Task Force and described above will prevent the dual subsidy payments outlined in this recommendation.

In addition, we are developing a system to detect dual subsidy payments by project owners between the Section 8 Existing and Loan Management Special Allocation Programs. This system will put owners of special allocation projects on notice that duplicative payments are illegal and that any such occurrence could result in prosecution. Policies and procedures to implement this system will go into clearance in October 1979.

Recommendation No. 4

"In coordination with the Assistant Secretary for Neighborhoods, Voluntary Associations and Consumer Protection, establish and publicize a toll free tenant complaint phone number to enable tenants to contact HUD directly when they are being overcharged or when their unit contains Housing Quality Standards violations."

Reply: Because of the size of the Section 8 program and the frequency and variety of tenant concerns, we do not believe that a general, nationwide "tenant hotline" would be a useful device for assuring that speedy corrective action is taken in cases of overcharging or deficient units. NVACP units in local HUD offices can deal with these problems, and NVACP is setting up a computerized tenant complaint system. In addition, the GAO "fraud hotline" serves this purpose in terms of overcharging or fraud-related issues. Finally, we have suggested in the PHA Administrative Guide for the Existing program that such a consumer complaint telephone number be established at the PHA, which has the responsibility for correction and which deals regularly with the tenant.

Recommendation No. 3

"Establish and impose a range of penalties including debarment for Section 3 program participants that abuse the program. When a program participant provides false information to increase their program benefits or refuses to take corrective action requested by HUD, penalties should be assessed against that program participant."

Reply: We fully agree with this recommendation and its objectives. The precise sanction to be made available will, of course, depend upon the specific program and the type of participant.

For the Existing program, the forthcoming PHA Administrative Guide will discuss penalties (including termination) of both owners and tenants that abuse the Section 8 Existing Housing Program.

For the Section 8 New Construction and Substantial Rehabilitation program, at the present time we will continue to rely on the current procedures for screening and debarring owners, builders and managers who abuse the program. We will also take advantage of the improved monitoring and payment procedures outlined above to recoup improperly claimed payments. Finally, the PD&R evaluation of income certification and verification procedures, and the abuses that occur, should lead the way to more extensive, costeffective reforms in monitoring and sanctions. We expect to continue to work with PD&R and OIG in this area.

Recommendation No. 6

"In coordination with the Office of General Counsel, consider requiring Section 8 tenants to sign waivers to allow HUD to obtain tenants' Federal Income Tax returns to verify reported income. HUD should verify the income information with the Internal Revenue Service on a sample basis."

Reply: The PD&R project on income verification will include a component to demonstrate and analyze the use of Federal Income Tax returns for HUD income verification purposes. We feel it is advisable to get results of the PD&R effort before the Department establishes national directives on the use of IRS data for HUD monitoring purposes. It should be noted that many PHAs operating Section 8 Existing Housing Programs already cooperate with IRS or the State Manpower Agency to use IRS data to verify income. The PHA Administrative Guide will advise PHAs to use IRS data for verification purposes.

In addition, the President's Eligibility Simplification Project is considering interagency issues concerning income determination. Within the next several months, HUD will be reviewing project staff proposals in the areas of income definitions, application forms, eligibility processing and income verification. The Department is very interested in the possible development of common front-end processing whereby HUD could accept tenants based on data collected by another agency, and vice versa, and where all agencies can rely upon common, cost-effective verification procedures.

Finally, efforts are being made to coordinate HUD data with Social Security data. The potential of these efforts will be enhanced through the development of the unified certification/recertification form and the implementation of a HUD automated processing system which can be tied into other systems for verification of data. This will provide for more effective management tools and accurate up-to-date information data.

This concludes Housing's formal response to the report's recommendations. Because of the importance of the issues raised, however, I would like to offer the following additional comments:

1. With regard to the violations of Housing Quality Standards found in the Existing program, the May 16 directive mentioned above specifically requested that Field Offices ensure that all housing quality violations be corrected, and required that they report to Headquarters only on corrections of serious violations. Nevertheless, many Field Offices have also reported corrections made on units with minor deficiencies and on units with problems identified in other inspections or reviews since the Regional Inspectors, General for Audit investigation. The Office of Housing has received follow-up reports from all of the 29 Field Offices regarding 99 units in their jurisdictions cited by RIGA as having serious housing violations. These reports contain the following summary information:

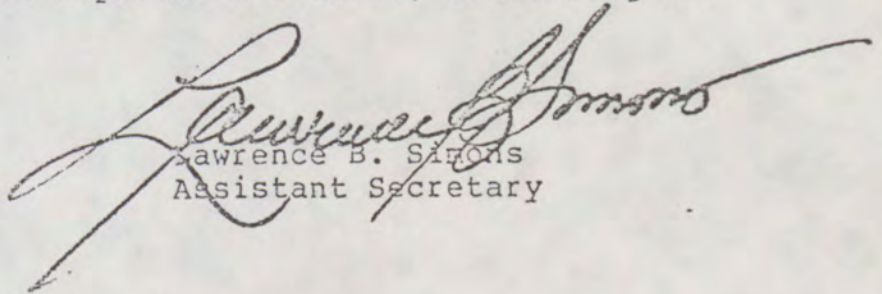
- a. In 48 units the deficiencies have been completely corrected, (i.e., units repaired).
- b. Thirty-four units with deficiencies have been removed from the Section 8 Existing Housing Program (e.g., some HAP Contracts have been terminated and Certificate Holders have been relocated with PHA assistance either to other leased units or to low-rent conventional public housing).
- c. In nine units, the deficiencies have been partially corrected. These units have multiple violations of which certain deficiencies have been eliminated and others will be corrected shortly (e.g., in one unit in Baltimore, the problems with walls, ceilings and doors have been corrected and only the painting on a bedroom addition remains to be done). All nine units are scheduled for reinspection by Field Office staff within 30 days.
- d. We have cross-checked all Field Office follow-up actions on serious housing quality violations with the violations cited in the RIGA reports and found that eight deficient units have not been corrected to date. All of these units are scheduled for reinspection by Field Office staff within 30 days.

2. As you know, we have differed with OIG as to the strict statistical validity of the information obtained on violations in the Existing program. This is due, primarily, to the invalidity of the "project" concept in regard to the Existing program in which a "project" may consist of a thousand different units located in a thousand different structures managed by a thousand different entities. Thus, the existence of one deficient unit in an Existing "project" offers little indication of the condition of other units in that project. Nonetheless, whether the housing quality deficiencies and management problems found by OIG occur in 40 percent of units or 10 percent, it is clear that the problem is sufficiently severe to warrant the level of concern you have given it and the degree of response we have provided.

3. In order to improve the quality of units provided through the Existing program, the following additional actions will be taken:

- a. Detailed guidance in the PHA Administrative Guide on the interpretation and review of Housing Quality Standards, including the requirement that substandard units must not be approved and that any substandard units identified in annual inspections must be corrected in 30 days or housing assistance payments will be abated.
- b. The Office of Housing is planning PHA and Field staff workshops on Housing Quality Standards as a way of ensuring that program staff are familiar with correct procedures to ensure that units meet Housing Quality Standards. It is anticipated these sessions would begin in late 1979, after the issuance of the PHA Administrative Guide. In addition, Housing will provide training for Field Office staff in other monitoring functions in early 1980 after the issuance of the new management monitoring procedures.
- c. Refinement of the Housing Quality Standards (HQS) where they are vague. Target date for proposed regulations to go in clearance is November 1979.

In conclusion, I would like to reiterate my belief that the entire experience of the Section 8 Special Operational Survey has served both to improve the management of all aspects of the Section 8 program and to confirm the value of the Department's audit, monitoring and review process.



Lawrence B. Simons
Assistant Secretary