Office of Inspector General Report to the Congress

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Number 22

for the 6-month period
April 1,1989 through September 30, 1989
Pursuant to Section 5(b) of Public Law 95-452

PROFILE OF PERFORMANCE

Department of Housing and Urban Development
Office of Inspector General Activities

	April 1, 1989 through September 30, 1989	Fiscal Year 1989	Fiscal Years 1985-1989
• Cash Recoveries[1]	$29,156,139	$47,992,296	$313,245,458
• Cost Efficiencies Realized[1]	$21,178,007	$21,178,007	$21,178,007[2]
• Commitments to Recover Funds[1]	$50,752,529	$80,763,939	$437,993,899
• Cost Efficiencies Sustained[1]	$20,064,529	$26,388,928	$214,770,497
• Total Fines Levied	$546,437	$1,031,593	$3,913,519
• Persons/Firms Indicted	158	345	2,022
• Persons/Firms Convicted	133	284	1,659
• HUD Employees Indicted	3	4	25
• HUD Employees Convicted	2	3	16
• Suspensions of Persons/Firms Doing Business with HUD	70	141	910
• Debarments of Persons/Firms Doing Business with HUD	81	212	997
• Mortgagees/Lenders Sanctioned as Result of Referrals to HUD Mortgagee Review Board	0	2	77
• Material Weaknesses Reported	2	9	[3]
• Subpoenas Served	112	315	669
• Awareness Publications Issued	5	8	61
• Proposed Legislation and Regulations Reviewed	129	210	980

For additional details on OIG Audit, Investigation, and Program Integrity Activities during the last 6 months, see Chapter 7, Statistical Summary.

[1]Includes amounts due to HUD program participants.

[2]This is the first reporting period we have reported this category.

[3]Records for prior years not maintained.

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THE INSPECTOR GENERAL'S MESSAGE TO CONGRESS

Since May of this year, HUD has faced mounting allegations of fraud, abuse and mismanagement in its programs. For the most part, these problems are not new. In fact, our work has consistently focused on the long-standing problems confronting HUD programs and operations. For the past 10 years, our audit and investigative reports to the Department and our Semiannual Reports to Congress clearly showed a pervasive pattern of inadequate internal controls and financial management systems throughout the Department. These deficiencies have created a climate in which fraud and abuse can thrive.

In my last message to Congress, I stressed the serious problems in HUD's Section 8 Moderate Rehabilitation Program; cautioned that the Department faced millions of dollars in losses resulting from defaulted loans in HUD's Section 223(f) Co-insurance Program; and warned that fraud and abuse continue to plague the Single Family Insurance Program. During the past 6 months, each of these programs was the subject of Congressional hearings. Our audits and investigations of other programs served as the catalyst for additional hearings and comprehensive reform actions by the Department.

Secretary Kemp vowed to rid HUD programs of mismanagement and systemic flaws. He has already taken aggressive corrective actions and proposed wide-ranging reform measures, including the elimination of programs not benefitting the needy.

The success of the corrective actions underway will depend largely upon the cooperation of the Congress, HUD management and career staff, and our office. I would caution, however, that other factors could adversely impact the momentum achieved thus far. The Department and the OIG face critical staffing shortages resulting from sequestration triggered by the Gramm-Rudman-Hollings Act. Adequate staffing, continuity of leadership and management accountability are essential if the reform measures are to work.

While it is too soon to predict the reform actions' success, I will continue to evaluate the effectiveness of these measures as well as assess new programs as they emerge. I will also continue to report fully and timely on critical problems as they are brought to my attention.

I urge that you consider amending Section 235 of the National Housing Act to allow the refinancing of mortgages under the low- and moderate-income homeownership program. Such an amendment could save HUD millions of dollars in interest subsidy costs. In addition, I fully support legislation granting the statutory Inspectors General the authority to subpoena critical witnesses to testify during investigations, thus enhancing our ability to serve the Department and Congress.

I welcome the attention that Congress, the public, and the media are giving HUD's problems. Bringing these concerns to the forefront creates an environment in which much needed reforms can take place. I am encouraged that Secretary Kemp and the Congress acknowledge our role in bringing many of these problems to light. This continuing support is vital to realizing the missions of HUD and the OIG. Our office will continue to work diligently with Secretary Kemp, Departmental managers and Congressional oversight committees to eliminate fraud, abuse and mismanagement from HUD programs.

Paul A. Adams

Paul A. Adams
Inspector General

EXECUTIVE SUMMARY

During the past 6 months, Congressional Committee hearings and media coverage have focused nationwide attention on a series of problems that have plagued HUD for years. While we have reported these problems to the Department and to Congress repeatedly, little action was taken. This lack of effective action allowed fraud and mismanagement to thrive.

The positive aspect of the current situation is that it creates an environment in which needed reform can take place. Secretary Kemp has taken aggressive corrective actions and has proposed a series of major changes. We look forward to working with the Secretary, Departmental managers, and Congressional oversight committees to eliminate fraud, abuse, and mismanagement from HUD programs.

This report describes the most serious problems that the Department is facing. The report also contains the results of our major audits, investigations, and fraud prevention activities for the period April 1, 1989 through September 30, 1989.

The Major Problems

Chapter 1 describes the Department's major problems. The first and most pervasive problem departmentwide is the lack of adequate internal controls and financial management systems. This affects all major HUD programs and operations. High level task force efforts have begun in 26 program areas comprising 95 percent of HUD's budget (page 14).

The FHA Single Family Mortgage Insurance Program (page 19) is the largest of HUD's programs experiencing problems. Losses may extend into the billions of dollars. The problems are concentrated in two areas: loan origination (page 20) and property disposition (page 24).

Section 8 Discretionary Funding involves three programs (Moderate Rehabilitation, Loan Management Set-Asides, and Existing Housing Certficates) in which discretionary funding allocations were not documented by decisionmakers as to why some projects got funded and others did not (page 26).

The Coinsurance Program has some lenders who underwrote unsound loans, failed to detect troubled loans, and did not take prompt action to minimize defaults and losses. Some of the largest coinsurance lenders, accounting for over 50 percent of the entire program, have defaulted on mortgage loans of over $900 million (page 31).

The Title I Property Improvement and Manufactured Housing Program has seen a significant number of defaulted loans which will end up costing HUD over $500 million. The program involves an inherent conflict of interest: dealers are trying to sell goods and services, but are also originating loans for their customers. In many situations, good loan underwriting placed a distant second to making the sale (page 33).

The Department is managing two programs which do not benefit the needy. Retirement Service Centers (page 35) are often targeted to the well-to-do elderly, while the Title X Land Development Program (page 37) has been used to finance luxury housing. Both programs have abnormally high default rates.

Owners and agents of Multifamily Housing projects have been misusing and diverting project assets and income for years. The problem has continued because of poor oversight and lack of effective action by HUD (page 39).

The final area covered in Chapter 1 is the Government National Mortgage Association. GNMA's defaulted issuer portfolio increased dramatically during Fiscal Year 1989 from $3.1 billion to $12.5 billion (page 41).

Significant Audits

Chapter 2 summarizes our most important audits during the 6-month reporting period.

Public and Indian Housing. We reviewed the Public Housing Resident Management and Homeownership Programs and found that, since most of the existing data is inconclusive, HUD needs to implement an evaluation agenda. The Department also needs to provide training and technical assistance and should report to Congress on the regulatory and statutory requirements that should be waived or amended (page 45).

Public housing agencies (PHA's) did not follow HUD program requirements and subsequently did not maintain strict accountability over Comprehensive Improvement Assistance Program (CIAP) costs incurred. As a result, five PHA's incurred $3.5 million in ineligible or unsupported CIAP costs (page 47).

Our review of HUD's Consolidated Supply Program (CSP) for PHA's disclosed deficiencies in monitoring CSP sales, updating CSP catalogs, evaluating contractors for responsibility, assuring fair and open competition for CSP contracts, and monitoring CSP contractors and PHA's. PHA's were not getting the best available products and prices (page 47).

Our review of the HUD Anchorage Office and Indian Housing Authorities (IHA's) found the Alaska Mutual Help Homeownership Program was being administered in a wasteful and costly manner. Projects were improperly designed and inadequately constructed. We questioned the eligibility of over $12.5 million in costs (page 49).

Section 8 Programs. The Department's system for establishing Section 8 Fair Market Rents produced unreasonable variations in some parts of the country. This was due to sampling and estimating problems. These rent calculations may produce excessive HUD subsidies of over $39 million annually in certain parts of the country. In other areas, subsidies may be understated by $14 million (page 51).

In the Section 8 Moderate Rehabilitation Program, we conducted five audits which revealed incorrectly computed rents and a lack of compliance with program requirements. These program deficiencies may cost HUD in excess of $10.1 million over the 15-year contract periods (page 53).

Single Family Insured Program. Our review of the Single Family Assignment Program disclosed that payment plans established after the 3-year special forebearance period did not ensure that mortgage obligations were paid off. Interest rates for over 3,000 loans in the portfolio of four Field Offices exceeded the current market rate for HUD-insured loans (page 53).

Weaknesses in HUD's internal controls were reported in our multi-regional review of mortgagees' payment of One-Time Mortgage Insurance Premiums (OTMIP's). We found that mortgagees were: delaying payment of OTMIP's; not paying the additional late assessment fees; and not paying the OTMIP's for loans sold to investing mortgagees and included in GNMA pools. Over $500,000 in OTMIP's had not been remitted to HUD, along with thousands of dollars in unpaid late assessments (page 55).

Actions stemming from Mortgagee Review Board activities during this period netted HUD a $2.13 million settlement from the Talman Mortgage Corporation. Our audit had disclosed that Talman did not comply with HUD requirements and prudent lending practices in originating 119 FHA-insured loans (page 56).

Community Development Block Grant (CDBG) Program. We found that the collection, reporting, and use of CDBG Program Income was not effectively monitored. Program income of $10.5 million and miscellaneous revenues of $16.5 million were either not reported or went undetected (page 57).

Our review of Monitoring Subrecipient Activities in Philadelphia revealed that the grantee's subrecipients were seriously deficient in contract compliance and administration. Our audit disclosed over $15 million in ineligible and/or unsupported costs (page 58).

Urban Development Action Grant Program. Our audit disclosed that a 520-unit apartment complex in the City of Riviera Beach, Florida, was not properly managed and that the developer's performance had not been effectively monitored. Based on records made available to us after issuing a subpoena, we determined that the developer received $3.6 million more than could be justified (page 61).

Multifamily Housing Programs. The owners and general contractors for two multifamily projects receiving Housing Development Grant funds incurred $1.2 million of unsupported or ineligible costs. They also failed to contribute $1.8 million to the projects as required by the grant agreement (page 63).

Significant Investigations

Chapter 3 describes the major investigations during the 6-month reporting period. In the Single Family Mortgage Insurance area, our efforts resulted in criminal charges against 52 individuals or firms, 43 convictions, $231,200 in fines, and approximately $2 million in monetary recoveries. One 79-count indictment charged a closing agent with converting $2.5 million in sales proceeds from 55 HUD-owned properties to her own use (page 65).

The most prevalent type of violation in the Rental Assistance Programs is falsification of information about tenants' eligibility for assistance. During the last 6 months, we reported 58 individuals indicted, 48 convicted, $1,042,040 in restitution and repayments, and total fines of $27,837. One tenant in Los Angeles receiving Section 8 assistance was charged in a nine-count indictment with failing to disclose ownership of her residence for which she had collected over $27,000 in assistance (page 69).

In the area of Public Housing, there were a number of notable cases. In Ohio, a grand jury indicted the Wayne Metropolitan Housing Authority Executive Director, a Cuyahoga Housing Authority Mod Rehab Director, and two developers on 14 counts for allegedly conspiring to submit false land contracts to justify increased subsidized rents (page 70).

A former Multifamily Housing project manager in Michigan was charged with theft and interstate transportation of stolen property after converting $600,000 in program funds to his own use. The former manager of a HUD-subsidized apartment project in Washington, D.C., was charged with theft for embezzling $36,000 from the project (page 71).

Finally, the Vice President of a Nebraska Savings and Loan Association was indicted on six counts of filing false claims for Title I Property Improvement loans totalling $80,000 (page 72).

Legislation and Regulations

Chapter 4 describes the more significant legislative and regulatory proposals that our office has commented on. For example, we have worked with HUD management on ways to encourage Section 235 Refinancing. The savings over the life of the remaining 235 assistance contracts could amount to $391 million (page 73).

We have also suggested several changes to the Housing Act of 1937 with regard to arbitrary fair market rents and the sale of public housing projects to Resident Management Corporations (page 73).

We suggested amending the Housing and Community Development Act of 1975, so there are better controls to prevent existing abuses by PHA housing development corporations (page 74). We are also recommending changes to the National Housing Act so that excessive profits will not continue to be paid to developers from multifamily mortgage proceeds (page 74).

We did not support the proposed HUD Reform Act and the HUD Accountability Act, because neither adequately addressed the problems and abuses (page 75).

Prevention Activities

Chapter 5 describes the prevention activities and other efforts we took to prevent fraud and mismanagement and to improve economy and efficiency.

The Tenant Integrity Program is designed to teach public housing agencies (PHA's) how to improve their intake procedures, organize their detection efforts, expand their fact-finding, and take effective administrative and legal action. We have given 11 workshops around the country to approximately 1,200 people. We have also produced a Tenant Integrity videotape and distributed it to all PHA's (page 77).

We currently have Computer Matches in various stages in Florida, Texas, Colorado, Connecticut, Missouri, and Illinois. The matches compare the information supplied by tenants receiving HUD assistance with State wage data and other available data bases, to determine whether accurate information is being reported. We are also working on ways to implement Front-End Verification, a process by which an applicant's income can be checked before he or she begins receiving housing assistance (page 77).

We wrote a final regulation to implement a section of the Housing and Community Development Act of 1987 which gives HUD the Authority to Require Social Security Numbers for applicants and participants in HUD programs. We also submitted a proposed rule to OMB that requires housing assistance applicants and recipients to sign a consent form allowing HUD or its agent to verify income and to request wage and claim data from the State unemployment agency (page 78).

HUD Hotline activity rose significantly this period. There were 229 new complaints and, more importantly, corrective action was taken on 35 percent of the cases closed (page 80).

Actions Taken Against HUD Employees

Chapter 6 highlights the significant prosecutive and administrative actions taken during this reporting period. For example, a former HUD accountant in Denver was indicted for allegedly embezzling over $1 million (page 85).

The former General Deputy Assistant Secretary for Public and Indian Housing was indicted for conspiracy, bribery, and conflict of interest in awarding a HUD development contract (page 85).

The former Deputy Assistant Secretary for Policy and Development, Community Planning and Development, was sentenced to 18 months on each of two counts of receipt of gratuities in connection with a $700,000 grant (page 85).

Statistical Summary

Chapter 7 summarizes in statistical form the Office of Inspector General's activities for the 6-month reporting period and for Fiscal Year 1989 (page 87).

Audit Resolution and Follow-Up

Chapter 8 highlights the status of audit recommendations and provides new information required by the Inspector General Act Amendments of 1988. These requirements, coupled with the HUD scandals and the Secretary's commitment to reform HUD, have made audit follow-up a high priority with the Department (page 93).

Chapter 1

AN OVERVIEW OF THE DEPARTMENT's MAJOR PROBLEMS

This spring the Department was rocked with reports of widespread fraud and mismanagement of its programs. HUD received adverse publicity in the media and in Congressional hearings. The OIG believes that the widespread publicity of the HUD scandals and Congressional and Secretarial interest in uncovering and correcting program flaws and abuse require an overall look at the Department's most serious problems. Therefore, on the following pages we discuss these problems as they relate to certain program areas:

1. Internal Controls and Financial Management Systems

2. FHA Single Family Mortgage Insurance Program
   A. Single Family Loan Origination
   B. Single Family Property Disposition

3. Section 8 Discretionary Funding
   A. Moderate Rehabilitation Program
   B. Loan Management Set-Aside Program
   C. Existing Housing Certificates

4. Coinsurance

5. The Title I Property Improvement and Manufactured Housing Programs

6. HUD Programs Not Benefitting the Needy
   A. Retirement Service Centers
   B. Title X Land Development

7. Multifamily Loan Servicing

8. Government National Mortgage Association

Our discussions include how the problems developed; what we reported and recommended; the present status; and what the future holds. Where appropriate, we describe how Secretary Kemp's proposed reforms (announced on October 3, 1989) will affect a specific program or activity. In general, we agree with the Secretary that these reforms, when implemented, will help improve ethical, financial, and managerial integrity in the Department's programs.

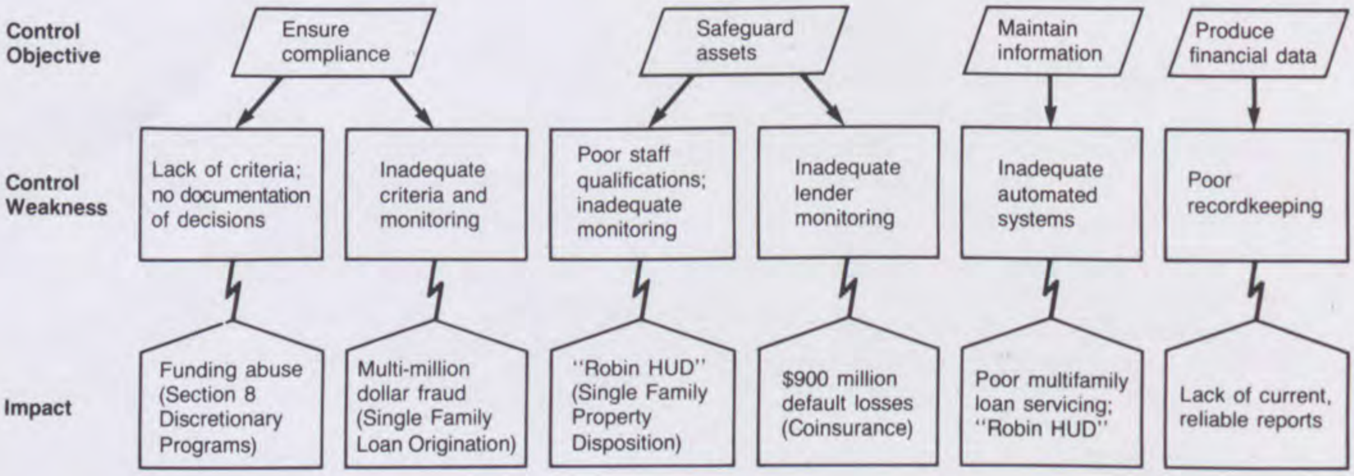
We are not suggesting that these discussions present all of HUD's problems, but rather those significant problems that we have been involved with in our audits and investigations.

Internal Controls and Financial Management Systems

Background Internal controls are the means managers use to ensure: compliance with laws, regulations, and policies; safeguarding of assets; and generation of reliable statistical and financial information and reports. An agency's financial management system provides data for accounting, financial decisionmaking, and financial reporting.

When internal controls and financial management systems are inadequate, programs and operations are at risk of loss due to poor management, waste, inefficiency, or outright fraud.

Inadequate Internal Controls and Financial Management Systems
(Examples)



The Problem Inadequate internal controls and financial management systems exist throughout the Department. This systemic problem affects all major HUD programs and operations to varying degrees. HUD management, in December 1988, identified 24 internal control weaknesses considered material. The Office of Management and Budget (OMB) has recently identified eight areas as being most serious, and will continue to track their correction closely. These areas are:

— the Section 8 Moderate Rehabilitation Program;

— the Federal Housing Administration (FHA) Single Family Property Disposition Program;

— the FHA Multifamily Coinsurance Loan Guarantee Programs;

— core accounting systems and computer security;

— FHA cash management and refund systems;

— retirement service centers;

— the Discretionary Loan Management Set-Aside Program; and

— tenant data systems.

Without adequate controls in these and other areas, HUD is unable to ensure that:

a) programs comply with legislative, regulatory, and administrative requirements. Many of the problems described later in this report would not occur or would be identified earlier if adequate controls were in place, including those in the discretionary funding allocations, the Title X Land Development Program and retirement service centers.

b) assets are safeguarded against waste, loss, unauthorized use and misappropriation. Examples where weak or nonexistent controls resulted in financial losses to HUD include the "Robin HUD" case (single family property disposition), and the exploitation of lax computer security controls this past summer by a Regional HUD employee who diverted $1 million to fictitious accounts.

c) financial management and information systems provide management with current, relevant and reliable information. Such information is essential for program evaluation and decisionmaking. Among the functions affected are multifamily loan servicing and tenant data systems. Because of its inability to produce basic tenant data, HUD is unable to test the eligibility of the 2.4 million households its housing subsidy programs serve at a cost of $10 billion per year.

d) accurate and complete financial statements are issued. The General Accounting Office and the accounting firm, Price Waterhouse, were unable to express an opinion on the FHA's 1988 financial statements. In fact, FHA has been unable to prepare auditable financial statements since 1974.

* * *

The Federal Managers' Financial Integrity Act of 1982 (Act) requires agency heads to establish and maintain adequate internal controls and financial management systems, and evaluate their adequacy. The Act further requires agency heads to report annually to the President the results of the internal control evaluations, identifying any material weaknesses found, as well as their plans to correct the weaknesses.

OMB has issued guidelines for agency implementation of the Act, and oversees agency programs. The OMB guidance is contained in Circulars A-123, "Internal Control Systems," A-127, "Financial Management Systems," and A-130, "Management of Federal Information Resources."

Implemented properly, and supported by management at all levels, the evaluation process prescribed by the Act and the OMB could make a difference. However, HUD has not successfully implemented this requirement.

Reports

Each year from 1983 through 1988, OIG has reviewed the Department's implementation of the Act, and found problems. The majority of material weaknesses reported by HUD to the President were based on OIG audits, rather than management's own evaluations. In many cases, weaknesses were only reported at OIG's insistence and over the objections of the responsible Assistant Secretaries.

For example, only after our review of the Secretary's 1987 and 1988 draft reports to the President did the Department add Coinsurance, Single Family Property Disposition, and the Section 8 Moderate Rehabilitation and Loan Management Set-Aside Programs to its list. All these areas have received considerable media and Congressional attention this year.

We reported major weaknesses, noting that the Department's process for evaluating internal controls and financial management systems:

- lacked top management commitment;

- did not instill in management an acceptance of control evaluation as an integral part of good management (in fact most of the evaluations were performed by contractors);

- focused more on defining the evaluation process, rather than performing evaluations;

- resulted in evaluating fewer than 60 percent of HUD's program and administrative units over the last 6 years; and

- failed to overcome the fact that responsibility for many programs and financial management systems is split among organizations.

This last weakness, fragmented responsibility, has appeared regularly over the years in reports by such groups as: Coopers and Lybrand in a study of HUD organizational relationships (1976); the President's Private Sector Survey on Cost Control (1983); the General Accounting Office in a review of HUD management effectiveness (1984); and Price Waterhouse in conjunction with its 1988 FHA financial statement examination (1989).

In October 1989, OIG reported inadequate computer access controls over two automated systems used in disbursing $13 billion in Fiscal Year 1989 — the Letter-of-Credit Control System and the Section 8 Accounting System. As a result, the Department was vulnerable to the entry of unauthorized transactions into those systems. (Controls Over Electronic Funds Transfer, Audit Report No. 90-AA-166-0001.)

Our past audits of HUD revolving funds have disclosed material accounting deficiencies, including the failure to reconcile discrepancies between the general ledger and subsidiary records and to provide realistic allowances for losses.

Notwithstanding continued reporting of the problems, the previous management team contended that it was aware of its system deficiencies and believed that HUD generally complied with the Act's requirements. The highly publicized ''HUD scandals'' subsequently called that position into question, and gained the attention of the current management.

Major Recommendations

OIG recommended that the Department:

1. Establish a comprehensive control evaluation plan to ensure the Secretary and the President that adequate controls and systems are in place and operating.

2. Provide enough resources to actually implement the plan and develop a system of accountability.

3. Ensure that specific internal control deficiencies are identified.

4. Develop a system so that corrective actions are taken on identified weaknesses.

5. Issue and implement quality control procedures over the evaluation process.

6. Ensure that HUD's Annual Statements to the President and Congress include: (a) sufficient statistics and narrative to put the extent of HUD's A-123 and A-127 evaluation processes in perspective; (b) an acknowlegement of substantial nonconformances with A-127; and (c) a list of material weaknesses identified by the OIG which have not been acknowledged by HUD management.

7. Phase out contracted evaluations in lieu of increased management self-evaluations.

Present Status

The Department is currently refocusing on the process for evaluating internal controls and financial management systems. Top management commitment is being assured through the involvement of the Under Secretary. The oversight of the evaluation process has been moved from the Office of Finance and Accounting to the Office of Productivity and Management Improvement to provide greater independence.

Task force efforts were or are being established and initiated in 26 major program areas representing 95 percent of HUD's budget. Task force working groups contain representation from all HUD organizations supporting a program area, including program, accounting, information systems, field office and audit staffs. The task force groups are charged with identifying major system deficiencies with "specific corrective actions and corresponding resources" necessary to establish adequate internal controls and financial management systems at HUD.

With respect to the problems in producing tenant data, HUD instituted a quality control sampling program to determine causes of errors in the data.

The Future

Short-Term

Strengthening financial management and management information systems is a major focus of Secretary Kemp's reform. In his October 3, 1989 announcement, the Secretary stated his plans for appointing a Chief Financial Officer for the Department and a Comptroller to oversee FHA accounting operations. HUD also has taken or plans to take the following actions:

- require and publish annual audited financial statements,

- provide information necessary for FHA program operations through program-by-program accounting, and Region-by-Region accounting for field managers,

- fully integrate all FHA systems by Fiscal Year 1992,

- institute an Assistant Secretary level review committee to set ADP priorities,

- automate all Section 8 Program tenant data, and generate approved payments based on this data, and

- transfer the Mortgage Insurance Accounting System from the Office of Administration to the Office of Housing, which has programmatic responsibility.

The Department is similarly proposing reforms to its management control program. We will be providing comments, and will monitor its implementation.

Long-Term

How the Task Force efforts will be folded into an ongoing evaluation process remains to be seen. We view the recent developments as a significant step in the right direction. However, we continue to be concerned that, although general internal control responsibilities were written into senior managers' performance plans, they have not in the past been a factor in assessing actual performance.

We consider continuing top level commitment and holding managers accountable for control responsibilities essential elements of a successful internal control program.

The FHA Single Family Mortgage Insurance Program

Background

The Federal Housing Administration (FHA) Single Family Mortgage Insurance Program was created by the National Housing Act of 1934. HUD provides mortgage insurance to lenders to encourage them to make loans to individuals, so they can purchase their own homes. The program's objectives are homeownership and affordable housing. In that regard, the program has, for the most part, been an outstanding success.

The Problem

The program also has major problems. The Comptroller General, in his September 1989 testimony to Congress, stated that the FHA lost $4.2 billion during Fiscal Year 1988. He said that a significant amount of these losses was due to fraud and to HUD mismanagement. GAO estimated that the FHA Mutual Mortgage Insurance (MMI) Fund, from which Single Family insurance losses are paid, lost $1.4 billion during 1988.

OIG Reports and Efforts

In our previous 10 Reports to Congress, we reported the most prevalent abuses, fraudulent schemes, and program weaknesses. During the past 5 years, our office devoted considerable effort (40 percent of our investigative resources and 25 percent of our audit resources) to this area. Our efforts resulted in over 600 indictments, 500 convictions, 586 recommendations for debarment, and 78 HUD Mortgagee Review Board referrals. Our current efforts in this regard are described in Chapters 2 and 3.

Present Status

We continue to uncover fraud and abuse; we found the problems concentrated in two areas:

A. Single Family Loan Origination, and

B. Single Family Property Disposition.

We discuss these areas in detail on the following pages. Secretary Kemp took significant steps to address these problems. In June 1989, he tightened up property disposition procedures. On October 3, 1989, he announced a major reform package that includes numerous proposals to eliminate and prevent recurrence of Single Family problems.

Single Family Loan Origination

Background An FHA-insured loan requires a lower down payment than a conventional loan. Therefore, a borrower needs less cash to buy a home. However, this means a homeowner generally has less equity invested in the property. FHA insurance, paid for by the borrower, provides loss coverage to the lender in the event the borrower defaults on the loan.

The Problem There are very serious irregularities in the origination of FHA-insured loans. This has resulted in substantial losses for the insurance fund. The most common loan origination irregularities involve:

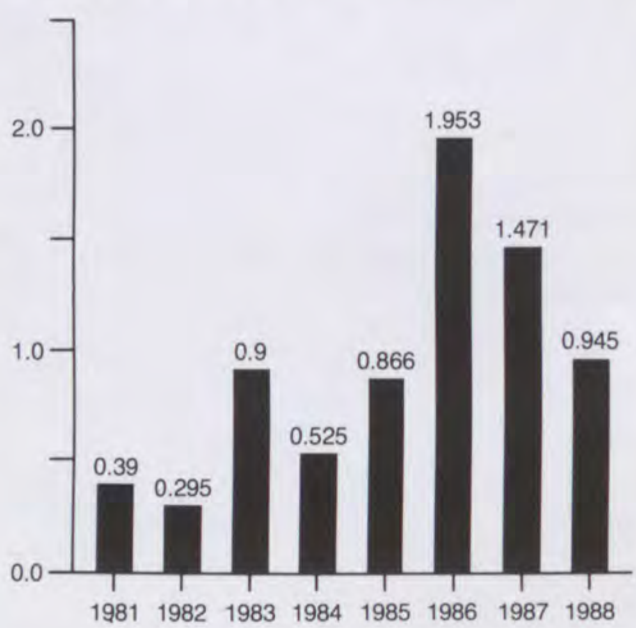
- Borrowers who overstate their assets or understate their liabilities in order to qualify for loans;

- Builders, developers, real estate agents, brokers, and lending companies who "help" borrowers qualify or who "create" buyers; and

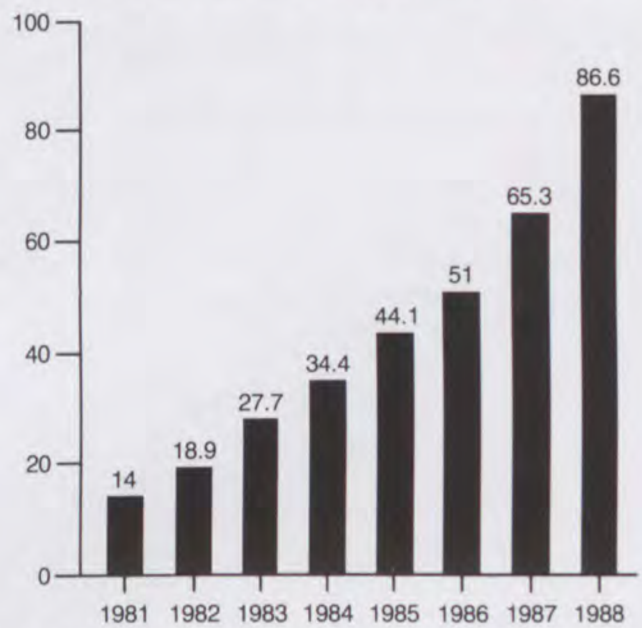
- Lenders who do not adequately or properly underwrite their loans.

Many times, some or all of the parties involved are actively trying to defraud the government. Compounding the problem is that overall activity in the program has increased dramatically, as the following charts illustrate.

Applications for FHA-Insured Mortgages for Single Family Homes *(in millions)*



Number of Homes Acquired by HUD Through Default on Single Family Insured Mortgages *(in thousands)*



(Source: Profiles of HUD, April 1989)

A large number of losses may be attributable to the economic downturn in the energy producing States of Alaska, Colorado, Oklahoma, Texas, and Louisiana. However, a pattern emerged in the other losses which can be attributed to the following systemic weaknesses:

- Inadequate loan origination criteria;
- Lax adherence to criteria by program participants; and
- Ineffective enforcement of program regulations by HUD.

Reports and Investigations

Loan origination problems have been identified by our office since 1983. Lenders, borrowers, and real estate agents have all misused the program to varying degrees. We have mentioned mortgage loan origination problems in every OIG Report to Congress since November 1984.

- Our audits and investigations during Fiscal Years 1983 and 1984 identified a pattern of underwriting problems. These were highlighted in newspapers and television shows, including CBS' 60 Minutes.
- In 1984, our office identified 19 mortgage companies with such serious problems that they were referred to the Department for sanctions. Members of Congress also raised concerns about Single Family fraud. Our office, the FBI, and the Veterans Administration OIG conducted major investigations in Camden, New Jersey, and Milwaukee, Wisconsin.
- In December 1984, we issued a summary report to highlight top management's need to focus on long-range Single Family Program improvements.
- In February 1985, we issued a Single Family report that concentrated on the Department's appraiser staff assignments, supervisory reviews, and failure to perform reviews.
- In 1985 and 1986, GAO issued reports about Single Family problems.
- In December 1986, we issued a report on why the Single Family fraud schemes in Camden, New Jersey, occurred.
- In September 1987, GAO issued a report on "Weaknesses in HUD's Single Family Housing Appraisal Program."
- In 1988, we prepared and submitted to the Department and to Congress "A Report on Ways to Further Reduce the Potential for Fraud and Abuse in FHA's Single Family Mortgage Insurance Program." We pointed out that claims against the FHA insurance fund rose dramatically, from $280 million in 1982 to $1.1 billion in 1987 and over $2 billion in 1988.

Major Recommendations

In our most recent 1988 report, we recommended that Congress and the Department take these steps:

Congressional Action:

1. Require Federal controls and certification of real estate appraisers.
2. Eliminate investor participation in the program.
3. Authorize the Department to levy civil monetary penalties.

4. Require indemnification by lenders if fraud is involved in the loan application process.

Departmental Action:

1. Increase capital requirements for HUD-approved mortgagees.

2. Closely monitor lenders, borrowers, investors, and real estate agents.

3. Provide more specific requirements for lender quality controls plans and loan underwriting.

4. Impose administrative sanctions against lenders who originate improper or fraudulent loans, and require that they indemnify HUD for such loans.

Present Status

The Department has taken a number of important steps to help improve the loan origination process. As part of the Secretary's reform package, some of the above-mentioned recommendations were accepted and others are under consideration. One of particular importance is an increase in the number of staff who monitor lenders. The Department also changed its rules and regulations to:

- Increase the down payments required by investors;

- Obtain deficiency judgments;

- Obtain credit reports on quickly assumed loans;

- Report foreclosures to national credit bureaus;

- Strengthen Mortgagee Review Board sanctions; and

- Deny HUD-insured loans to borrowers who previously defaulted on a HUD-insured loan.

Our office performed a number of audits which found mortgage lenders with extremely poor or fraudulent mortgage origination practices. The Department, through the Mortgagee Review Board, has taken administrative sanctions against these mortgagees.

The Future

Short-Term

We currently have 500 Single Family investigations open; we are continuing our work with FBI/Department of Justice task forces in cities around the country, including Chicago, Denver, Houston, Oklahoma City, Philadelphia, Seattle, and Washington, D.C. We are currently targeting 50 percent of our investigative resources to addressing Single Family fraud.

During the 6-month reporting period, our Single Family investigations resulted in criminal charges against 52 individuals or firms, 43 convictions, $231,200 in fines, and approximately $2 million in monetary recoveries.

On October 3, 1989, Secretary Kemp announced major reform proposals to:

- Authorize the Secretary to impose civil monetary penalties on HUD-approved lenders.
- Appoint a Chief Financial Officer for HUD and a Comptroller for FHA.
- Require annual audited financial statements for FHA.
- Commission an independent actuarial analysis, which will include development of a viable computer model.
- Unify FHA program and accounting functions.
- Modernize/improve FHA loan processing.
- Prohibit private investors in the Single Family program.
- Restrict second home loans.
- Require credit checks for all FHA loan assumptions.
- Authorize regional loan underwriting criteria.
- Contest FHA insurance payments in cases of fraud.
- Require State or HUD certification of appraisers.
- Improve the quality of program participants and increase monitoring of them.

Long-Term

The problem in all likelihood will continue to exist as long as people try to commit fraud and lenders do not prudently originate loans. However, the extent of the problem and the potential for fraud will be lessened because of the 1988 changes, particularly those involving investor mortgagors, and increased sanctions and monitoring by HUD.

Secretary Kemp's proposals, many of which require legislative approval, will, if implemented, further reduce the opportunity for fraud and abuse. In the long run, however, the problem can only be kept to a minimum with strong enforcement of program regulations by HUD staff.

Single Family Property Disposition

Background If a borrower has an FHA-insured loan but defaults on that loan, the lender usually forecloses and files an insurance claim with HUD. HUD pays the claim and becomes the property owner. HUD's Property Disposition Branches around the country are responsible for managing and arranging to sell these properties. HUD contracts with private individuals and companies, called settlement or closing agents, to handle the sales closings. HUD now sells more than 80,000 single family properties annually for more than $3 billion.

The Problem The Department often offers these properties for sale 10 percent or more below their fair market values (FMV's). The Department also maintains poor control over the collection of money which is generated from their sale, as illustrated by the "Robin HUD" case. The following are the primary reasons this situation developed:

1. The Department's emphasis on quickly reducing property inventories at the expense of obtaining a fair price. This was compounded by other factors such as poor qualifications of some HUD staff and improperly or inadequately supported property values (or changes to property values).

2. Outdated automated systems, numerous data entry errors, and poorly thought-out system changes.

3. Poor monitoring by HUD staff of the closing agents who handle property settlements.

OIG Reports Property disposition problems were identified in reports by our office dating back to 1983. There are two recent Property Disposition reports of note:

- In August 1988, we reported that returns to the FHA insurance fund were diminished, because properties were often listed for sale at values substantially below FMV. (Nationwide Internal Audit on Disposition of Single Family Acquired Properties, Audit Report No. 88-TS-123-0011.)

- In August 1989, we issued a follow-up report to another closing agent report we prepared in 1987. The new report covered the period from January to May of 1989. The report stated that problems still existed in HUD's handling of sales proceeds. (Handling of Proceeds from the Sale of Single Family Properties, Audit Report No. 89-TS-123-0006.)

In late May 1989, Secretary Kemp was briefed on the results of our draft report, and on June 8, 1989, he announced steps he was taking to address the property disposition problem. These included a new standard closing contract, stricter documentation, prompt wire transfer, swift review by HUD of closing packages, and greater accountability by HUD Field Office managers.

Major Recommendations In our Property Disposition audits, there are several recurring recommendations. The major ones are:

1. Reemphasize the importance of following existing instructions in offering properties for sale.

2. Make sure property disposition functions are properly staffed.

3. Replace outdated automated systems.

4. Improve HUD monitoring of closing/settlement agents.

5. Create a standard closing agent contract.

Present Status

The Department is in the process of implementing most of our recommendations. Inventory reconciliations are being performed, a new automated system is being developed and implemented, monitoring has been improved, and more staffing is being provided. Action is being taken on closing agents such as "Robin HUD." As a result of our investigations, one closing agent pled guilty; two others were indicted; and over $2 million were recovered through fines, repayments, or court-ordered restitution.

The Future

Short-Term

We are continuing our work with the FBI and the Department of Justice investigating closing agents. Problems will still exist with the collection of money, but the extent of the problem will be reduced because of a substantial commitment by the Department to improve the situation.

On October 3, Secretary Kemp announced more Single Family changes as part of his overall Departmental reform package. The actions the Secretary took during the last 5 months should have a very positive effect on Property Disposition problems.

The Department has established a working group under the Secretary's Task Force on Program Financial Management to study the Property Disposition Program. A report is expected on November 15, 1989.

With respect to receiving a fair value for properties sold, officials in the Office of Housing did not agree that properties were still being offered for sale at prices below their FMV's. Our office intends to conduct a comprehensive audit of the Property Disposition Program which should help resolve this disagreement, while at the same time evaluating the Department's progress with respect to efficient property disposition management.

Long-Term

If the Department's commitment continues, the situation will be addressed in large part. Undoubtedly, some problems will surface from time to time, but not to the extent they exist now.

Section 8 Discretionary Funding

Section 8 Housing Programs are designed to assist low-income families to obtain decent, safe, and sanitary housing. HUD is currently authorized to use certain assistance funds in a discretionary way without competition. The major Section 8 Programs are:

A. Moderate Rehabilitation;

B. Loan Management Set-Aside; and

C. Existing Housing Certificates.

Section 8 Moderate Rehabilitation Program

Background The Section 8 Moderate Rehabilitation Program, known as Mod Rehab, was authorized by Section 8 of the Housing Act of 1937, as amended. HUD provides Mod Rehab funds to public housing agencies (PHA's), who distribute the funds to project owners. The purpose is to upgrade substandard rental housing and provide rental subsidies for lower-income families.

The Problem HUD's funding allocation process was undocumented, contrary to pertinent regulations, and left a widespread perception that Mod Rehab was a Headquarters-driven program favoring certain PHA's, owners, developers, and consultants. The use of consultants was so widespread that it led to recurring charges of influence peddling.

PHA's failed to carry out the program in accordance with current requirements and HUD Field Office staff did not adequately assist or monitor PHA's. HUD and PHA's were not prepared for the coinsured financing of Mod Rehab projects, and HUD ended up insuring inflated mortgages and paying excess subsidies. In addition, low-income housing tax credits were provided to project developers without obtaining the benefits intended by Congress.

OIG Reports In August 1983, we reported that weaknesses in the PHAs' administration of the Mod Rehab Program could cost HUD more than $270 million in additional housing assistance payments (HAP's). (Section 8 Moderate Rehabilitation Program, Audit Report No. 83-HQ-103-0014.)

In October 1985, we issued a memorandum report which summarized the results of 33 audit reports issued during Fiscal Years 1984 and 1985. The report stated that rents were excessive in 31 audits and for 78 percent of the 5,200 units tested. If representative of conditions across the country, the excessive HAP's would be in the hundreds of millions of dollars.

In April 1989, we issued an audit report which pointed out numerous weaknesses that covered the entire spectrum of Mod Rehab development activities. In following up on our 1985 report, we concluded that the Department's actions were largely ineffective; previously disclosed conditions still prevailed; and the extent and severity of deficiencies had worsened. We estimated total excess assistance for the projects funded during Fiscal Years 1984 through 1988 could approach

$413 million for the remaining contract terms. (Section 8 Moderate Rehabilitation Program, Audit Report No. 89-TS-103-0005.)

Mod Rehab problems were reported to Congress in each of the OIG's Semiannual Reports starting with the 6-month period ending March 31, 1983, through September 30, 1986, and again in reports for the periods ending September 30, 1988, and March 31, 1989. Chapter 2 of the current Semiannual Report summarizes our most recent audits of five PHA's administering Mod Rehab funds.

Major Recommendations

In our 1983 report, we recommended that HUD tell its Field Offices and PHA's the types of problems and deficiencies found, in order to avoid their recurrence. We also recommended that HUD allocate additional resources to monitor the program.

In 1985, in response to increasing problems, we recommended a task force effort to: review PHA's with large potential overpayments; develop new program guidelines; and establish the mechanics to amend contracts and obtain repayments.

In our 1989 report, we noted that the program had not improved and made 21 specific recommendations designed to overcome programmatic weaknesses and to create management control systems to restore the public's and PHAs' confidence in HUD's ability to administer an effective Mod Rehab Program.

Present Status

Congressional Action:

After the release of our April 1989 report, the Mod Rehab Program became the subject of hearings by several Congressional Committees and Subcommittees. The Inspector General testified before the following:

- House Subcommittee on Employment and Housing (of the Committee on Government Operations) May 8, 1989, and June 16, 1989;
- House Subcommittee on Housing and Community Development (of the Committee on Banking, Finance, and Urban Affairs) May 11, 1989;
- Senate Appropriations Subcommittee on VA, HUD, and Independent Agencies, May 16, 1989; and
- Senate Committee on Banking, Housing, and Urban Affairs, August 2, 1989, and September 28, 1989.

Departmental Action:

In April 1989, in response to our audit, Secretary Kemp affirmed a policy of zero tolerance for program abuse. He cancelled all Fiscal Year 1989 fund awards that had not yet been committed to PHA's. The Department took steps to implement the recommendations in our 1989 audit report; however, the Office of Housing indicated that critical staff shortages and competing priorities make it difficult to do this quickly.

The Department is planning to review approximately 300 large Mod Rehab projects; with current staff resources, they estimate the review will be completed by December 31, 1990.

The Future

Short-Term

On October 3, 1989, Secretary Kemp announced numerous reform proposals which will affect Section 8 Discretionary Funding. The major ones are:

- Abolishment of discretionary Headquarters funding.
- Allocation of assistance through a formula or a competitive process with explicit selection criteria.
- Public disclosure of allocations and funding decisions and of all waivers of regulations.
- Registration of consultants.
- Prohibition of advance disclosure of funding decisions, including a $10,000 fine for any HUD employee who does so.

Long-Term

Beyond Fiscal Year 1990, the future is unclear. Congress has not decided whether to fund the program. If the decision is made to fund Mod Rehab, the Department should ensure that it has appropriate internal controls to prevent abuses such as those that occurred in the past.

Section 8 Loan Management Set-Aside Program

Background

The Section 8 Loan Management Set-Aside (LMSA) Program, originated in 1976, provides funds to financially troubled HUD-insured and Secretary-held housing projects. Troubled projects in need of LMSA assistance are identified by the HUD Field Office Loan Management staff. Projects are evaluated for several factors to determine the degree of need. For example, present occupancy levels, the number of tenants paying more than 40 percent of their income for rent, the owner's contribution, and the present mortgage balance are all factors to be considered. Projects with the highest rankings are selected based on fund availability. The intent is to increase a project's viability and to prevent a claim on the HUD insurance fund.

The Problem

The LMSA regulatory criteria were not used in the selection process, nor was there any documentation to support those projects that were selected. Further, the projects had not been evaluated for compliance with regulatory requirements. Program managers were directed to fund certain projects, but were not advised as to the basis of these decisons.

OIG Reports

In March 1989, we reported that discretionary funding was being provided to projects not experiencing emergencies, although discretionary funding is intended for emergencies that cannot wait for the regular funding process. We found that awards were made to several projects that were rated too low for funding under the regular program. Some projects were not considered worthy of assistance by Field Office staff. Consequently, these projects should not have been funded. (Section 8 Discretionary Loan Management Set-Aside Program, Audit Report No. 89-AO-119-0006.)

Major Recommendations

We recommended that all LMSA funding requests be measured against regulatory requirements before making funding decisions. We also recommended that discretionary LMSA assistance be processed through the Field Offices.

Present Status

On July 7, 1989, instructions were sent to all Field Offices implementing our recommendations. All future requests for discretionary funding must be initiated by the Field Offices and all LMSA awards will be fully documented.

The Future

Short-Term

On October 3, 1989, Secretary Kemp announced major reform proposals (summarized above in our Mod Rehab write-up) affecting Section 8. The main one is a proposal to eliminate discretionary funding in certain HUD programs, including LMSA.

Long-Term

The Secretary's actions and the changes in the way requests must be initiated are very positive improvements in the program and should eliminate the opportunity for fraud and abuse, as well as negate the perception problems.

Section 8 Existing Housing Certificates

Background Under the Existing Housing Certificate Program, HUD supplies public housing agencies (PHA's) with the financial difference between what tenants can afford (up to 30 percent of their adjusted income) and the fair market rent.

Section 213 of the Housing and Community Development Act of 1974 provides for the "fair sharing" of this assistance. HUD does this through its Regional and Field Offices. Some of the funds (usually no more than 15 percent) are kept in a Headquarters Reserve fund for use at the Secretary's discretion.

The Problem There were no criteria used to rate and rank PHA requests from the Headquarters Reserve Fund. There was also no documentation supporting the selection of one PHA over another. Rather than fair sharing funds to Field Offices, senior Headquarters officials decided which PHA's would receive the majority of funds.

OIG Reports In 1989, in response to a request from the Chairman of the House Subcommittee on Housing and Community Development, we conducted a review of the funding allocation process. HUD allocated $279 million of budget authority from the Headquarters Reserve for Fiscal Years 1988 and 1989. For 1989, this was more than 52 percent of the total Section 8 Existing Housing Certificates. Because of the lack of accountability and documentation, we were unable to determine whether PHA's were awarded certificates based on merit. (Review of Section 8 Existing Certificate Program Fund Allocation, Audit Report No. 90-TS-203-0001.)

Major Recommendations We recommended that HUD:

1. Issue written instructions about how to request funds.
2. Establish a standardized rating system for all requests.
3. Process all requests, whether fair share or Headquarters Reserve, through Field Office review and approval.

Present Status The Department agreed to implement our recommendations and took action that should adequately address our concerns.

The Future Short-Term

On October 3, 1989, Secretary Kemp announced major reform proposals (summarized in our Mod Rehab write-up) which will significantly affect all Section 8 Programs. During Fiscal Year 1990, we intend to review the actual use of Section 8 Existing Housing Certificates allocated under the discretionary process.

Long-Term

Secretary Kemp's reforms, combined with the Department's action on our recommendations, should help eliminate or minimize the present program problems.

Coinsurance Program

Background

The Coinsurance Program was put into operation in 1983. The program was designed to encourage lenders to make loans for the construction or rehabilitation of multifamily housing projects.

Approved lenders underwrite the loans and for each mortgage underwritten, the lender receives about 4 percent of the mortgage amount in processing and servicing fees. Most of these loans are placed in the Government National Mortgage Association's (GNMA's) Mortgage-Backed Securities (MBS) Program. The lender bears the first 5 percent of the mortgage balance as a deductible if a claim is to be paid. Any further losses are split 85 percent and 15 percent between HUD and the lender, respectively.

The Problem

Weaknesses existed in the program structure and HUD was not using available sanctions to enforce program requirements. Coinsuring lenders are not adequately complying with HUD's underwriting and servicing requirements. To varying degrees, lenders are:

— underwriting unsound loans,

— failing to detect indicators of troubled loans in a timely manner, or

— not taking adequate and timely actions to minimize mortgage defaults and coinsurance losses.

As of August 1989, 151 loans with a total insured mortgage value of over $900 million were in default. The General Accounting Office estimated that HUD's losses could approach $960 million.

OIG Reports

In 1983, we provided comments to program staff to establish guidelines for monitoring and taking enforcement actions so as to reduce HUD's vulnerability to losses.

In 1985, we issued our first report on the Coinsurance Program. We reported that poor lender underwriting practices resulted in inflated mortgages. (Section 223(f) Coinsurance Program, Audit Report No. 86-TS-112-0004.)

In January 1988, we issued an audit memorandum report on DRG Funding Corporation (DRG) because of the serious problems we found with DRG during our review of the Coinsurance Program. DRG, one of the largest coinsuring lenders, also had the largest number of defaulted loans. In September 1988, GNMA terminated DRG's participation in the MBS Program. Action was not taken against DRG by HUD until Secretary Kemp suspended it from all Housing programs and procurement contracts in March 1989. Currently, DRG is under investigation by the Department of Justice. (Review of DRG Funding Corporation Coinsurance Activities.)

In December 1988, our second report disclosed that lenders' underwriting practices were worsening and that their loan servicing was deficient. We also reported that the outstanding principal and accrued interest balance on coinsured loans in default was extremely high, nearly $700 million. (Report on Audit of the Section 223(f) Coinsurance Program, Audit Report No. 89-TS-112-0002.)

In March 1989, we issued a report on Benton Mortgage Company, one of the largest coinsuring lenders. We disclosed that Benton did not follow prudent underwriting practices and HUD requirements for 14 loans that were tested. (Benton Mortgage Company, Audit Report No. 89-TS-221-1005.)

Major Recommendations

We recommended that the Department:

1. Limit the amount of lender advances included in claims.

2. Require lenders to assume a greater share of any losses in those cases where lenders disregard HUD requirements.

3. Increase lenders' capital resource requirements.

4. Establish and implement a policy for more timely probation, suspension or withdrawal of approval of lenders who fail to comply with HUD's requirements.

5. Require lenders' loan loss reserves to be separately funded by cash or letter of credit.

Present Status

The Department, under Secretary Kemp, took many actions to address the program's problems, including implementing the recommendations in our last report. HUD recently completed a comprehensive evaluation of the Coinsurance Program that will result in major program changes.

The Future

Short-Term

On October 3, 1989, the Secretary announced plans to restructure the Coinsurance Program. Planned changes include significantly strengthening monitoring, capital and financial requirements, underwriting, and entry standards for coinsuring lenders.

We are working with Secretary Kemp and his key assistants to affect needed changes. However, the FHA fund will continue to suffer losses due to the foreclosures from poor underwriting procedures that existed in the past. Several lenders face strong administrative action or criminal prosecution. We are currently working with the Department of Justice on investigations of DRG and Benton.

Long-Term

Losses to the FHA fund should begin to decrease if the Department implements program design changes with a strong enforcement program and holds lenders accountable for following HUD requirements.

We plan to review implementation of the program design changes to assure that the program is working properly.

Title I – Property Improvement And Manufactured Housing

Background

HUD insures the loans that lenders make to individuals to finance the repair and improvement of existing buildings or to purchase manufactured housing. Manufactured housing loans are placed in GNMA Mortgage-Backed Securities (MBS) pools.

The Problem

Dealers are allowed to originate Title I loans, thus resulting in an inherent conflict-of-interest. HUD relies on lenders to monitor the dealers and to insure that prudent underwriting practices for loans are followed. Our work has shown, however, that the lenders are not adequately monitoring dealer activities or reviewing loan packages. This lack of supervision by the lenders resulted in improper use of property improvement loan proceeds by borrowers and in an increased number of defaults on manufactured housing loans. Losses, primarily through GNMA, are expected to exceed $500 million.

OIG Reports

In 1982, we reported that significant fraud and abuse existed in manufactured housing loans because of inadequate program design and lax enforcement of program requirements. (Special Operational Survey, Title I Mobile Home Loans, Audit Report No. 82-TS-182-0009.)

In 1984, we reported that property improvement loan proceeds were not being used for their intended purposes but for personal debts, living expenses, furniture, etc. (Title I Property Improvement Loan Insurance Program, Audit Report No. 84-TS-122-0005.)

In 1986, we reported that dealers and contractors involved in property improvement loans did shoddy work, overcharged for their work, and manipulated borrowers' credit information to get loans approved. Inadequate lender supervision allowed these deficiencies to occur. (Title I Property Improvement Loan Insurance Program (Dealer Loans), Audit Report No. 86-TS-122-0010.)

In 1988, we reported that HUD was incurring significant losses on manufactured housing loans because of improper underwriting and lack of lender supervision of dealers. (Review of the Title I Manufactured Home Loan Program, Audit Report No. 88-TS-122-0012.)

Major Recommendations

Property Improvement Loans

We recommended that the dealer loan portion of the program be terminated.

Manufactured Housing Loans

We recommended that HUD:

1. Terminate the program, or
2. Design the program similar to the Title II programs with stricter underwriting standards to prevent losses from recurring.

Present Status

Management's past promises to strengthen certain underwriting requirements have yet to take effect. GNMA has temporarily suspended its MBS Program for new Title I participants to study the implications of terminating the program.

The Future

Short-Term

On September 12, 1989, the Department agreed to submit a proposed rule to Congress terminating the Property Improvement Dealer Loan Program. On October 3, 1989, Secretary Kemp announced that the Title I Program was targeted for reform and that the Department would begin considering ways to restructure the program. Losses will continue but may not approach those of the past because the market is saturated, loan insurance premiums have been increased and few loans are currently being originated or insured.

Long-Term

The Department is preparing regulations to strengthen its underwriting requirements. This, coupled with aggressive enforcement actions, should ensure that property improvement loan proceeds are not misused.

HUD Programs Not Benefitting the Needy

In two programs, the Department is engaged in activities which do not benefit low- and moderate-income families. For example, HUD has insured retirement service centers offering such amenities as heated swimming pools, whirlpool spas, beauty salons, putting greens, bars, housekeeping and linen service; and luxury housing on a golf course in a resort community.

These two activities involve HUD insurance of mortgages for:

— financing the construction of Retirement Service Centers, and

— developing land under the Title X Program.

Retirement Service Centers

Background

The National Housing Act authorizes HUD to insure mortgages for financing the construction of multifamily rental or cooperative housing for low- or moderate-income families. Retirement Service Centers (Centers) are designed to house persons 70 or older who can live independently and afford to pay market rates for such services as meals, transportation, and organized social activities. Since December 1983, HUD has insured about $1.2 billion of mortgages to finance the construction of approximately 160 of these facilities. About half the mortgages are coinsured with the lenders; the remainder are fully insured by HUD.

The Problem

Retirement Service Centers are failing at an abnormally high rate or are financially troubled and in danger of default primarily because of poor underwriting by HUD and coinsuring lenders. In addition, we found that the Centers are targeting the upper fourth of the elderly income market, rather than benefitting low- and moderate-income families.

OIG Reports

Our 1988 and 1989 reviews in the Chicago, Denver, San Francisco and Atlanta Regions disclosed that 37 of 57 projects (involving $366 million in mortgages) were in default or were financially troubled. Common underwriting problems reported were:

- grossly underestimating operating expenses,
- allowing operating reserves to be underfunded, and allowing owners to use the reserves for ineligible purposes, and
- not ensuring that sponsors had adequate experience with Centers.

Major Recommendations

OIG's major regional recommendations to date have been that the Department should:

1. improve the underwriting of projects, and
2. restrict program participation to sponsors and management agents with sound past experience with projects of this type.

Present Status

In July 1989, Secretary Kemp suspended the existing program pending redesign to target the Centers to low- and moderate-income elderly.

The Future

Short-Term

We are currently drafting a multi-regional report summarizing the results of our four regional reviews, that will provide some broad recommendations for improvement.

HUD's Office of Policy Development and Research is studying the program to determine if the program can be restructured to make it financially viable and to determine if it is feasible to target the program to low- and moderate-income individuals.

Long-Term

The future of this program is unclear since HUD is in the process of making major reforms and will be issuing new rules governing program operation. However, significant insurance fund losses are expected on current projects. Based on the failure rates noted in the four Regions we audited, we estimate at least one-fourth of the projects approved will fail. These projects represent approximately $300 million in mortgages, an indeterminate portion of which would ultimately be losses.

Title X Land Development

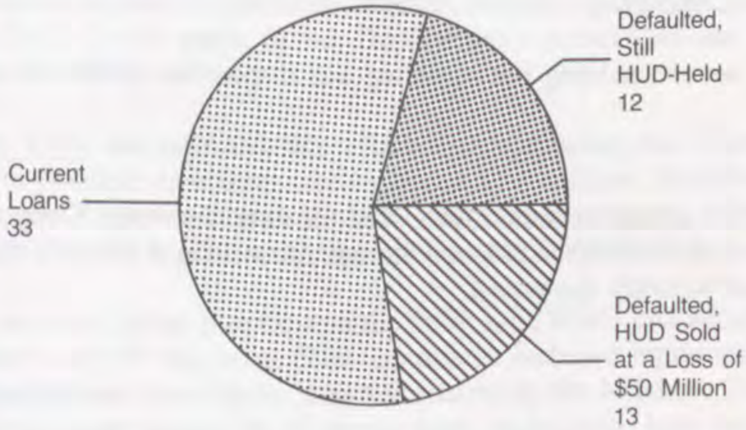
Background

The Housing and Urban Development Act of 1965 authorized HUD to insure mortgages for land development. The program provides mortgage insurance for the acquisition costs of land, offsite costs, site improvements, and related fees and charges. About 58 Title X loans have been insured by HUD since 1977 involving over $505 million of insured mortgages.

The Problem

The program has failed to meet statutory goals relating to the provision of moderate- and low-income housing and small builder participation. For example, one defaulted Title X land development loan was made for luxury housing on a golf course in a resort community area. The mortgage default rate has also been extremely high. The following chart shows the status of loans insured from 1977 through early 1989.

58 Insured Loans – $505 Million



OIG Reports

In March 1986, we questioned HUD's continued involvement in the program, especially in light of the private sector's involvement in financing similar land development projects without benefit of Federal assistance. (National Report, Title X Mortgage Insurance for Land Development Program, Audit Report No. 86-TS-112-0012.)

Major Recommendations

We recommended that the Department:

1. discontinue the program, or

2. restructure the program to ensure the proper balance of moderate- and low-income housing and the participation of small builders, and

3. take other action to ensure sponsor compliance with requirements and lower the default rate, such as:

   — centralizing project processing,

   — developing an early warning system to identify financially troubled projects and potential defaults,

   — taking sanctions against noncomplying sponsors, and

   — improving the monitoring of developers.

Present Status

HUD proposed to Congress in March 1986 that the Department's statutory authority to insure Title X loans be repealed. Congress, however, did not act on the Department's request to repeal the program. The program continued to deteriorate — mortgage defaults and lender claims increased — and HUD losses mounted.

In June 1989, the Secretary announced his intention to terminate the Title X Program. On August 11, 1989, a proposed rule was published in the Federal Register, announcing that the Department was temporarily suspending the program and considering its termination.

The Future

Short-Term

The Secretary also requested in June that our office review the use of consultants in the program, the circumstances surrounding the processing, and whether fraud or misrepresentation exists for the 18 projects not finally endorsed for insurance. This review is underway.

In addition, we are auditing the servicing and disposition of Title X projects.

Long-Term

In his October 3 announcement of proposed reforms, Secretary Kemp reiterated his intention of eliminating the program through rulemaking at HUD, with a request for legislation to ratify the repeal.

Multifamily Loan Servicing

Background

The National Housing Act, as amended, authorizes HUD to provide insurance to private lenders who make financing available to owners of multifamily housing projects targeted to low- and moderate-income households. During the term of the HUD-insured mortgage, a Regulatory Agreement between HUD and the project owner governs the operation of the project. The use of project assets and income for other than the necessary and reasonable operation of the project or for payments of unauthorized distributions to owners constitutes a violation of the Regulatory Agreement, and may also be a violation of Federal criminal law.

The Problem

Owners and management agents of multifamily projects insured by HUD are misusing or diverting project assets and income from project operations, in apparent willful disregard of their Regulatory Agreements with HUD. The misuse or diversion of project assets and income contributes to loan defaults, the physical deterioration of projects, the need for additional financial assistance from HUD, and potential losses to HUD in the event of the Department's foreclosure and sale of the properties involved.

OIG Reports

In August 1980, we reported that HUD loan specialists had failed to detect 96 actual or possible diversions totaling about $2.7 million, identified from our examination of financial reports for 250 multifamily projects. (Diversions of Multifamily Project Funds, Audit Report No. 80-TS-99-0035.)

In 1984, we participated in a Committee on Fraud, Waste and Mismanagement (Committee) study of this area. (The Committee included representatives of all HUD organizational components, and was chaired by the Inspector General.) The Committee's report faulted HUD for its poor multifamily loan servicing, and identified a need for:

- adjustment of servicer workloads;
- establishment of a uniform method of approving management agents and evaluating their performance;
- appropriate training for servicers;
- management support of Field Office sanction decisions and more guidance on imposing sanctions; and
- improvement of automated systems.

In February 1988, we identified about $19.1 million of misused or diverted assets or income, based on a review of 81 audits performed over the 3½ years ending March 31, 1987. (Nationwide Audit of the Misuse and Diversion of Assets and Income at HUD-Insured Multifamily Housing Projects, Audit Report No. 88-TS-112-0003.)

We also regularly issue audit reports on selected multifamily projects each year, most of which contain findings on the improper diversion or misuse of project assets and income. Many of these audits have been highlighted in each of our OIG Reports to the Congress since 1980.

Two audit reports issued on multifamily management agents this reporting period, Das A. Borden and Hall Financial Group of Texas, identified $2 million in irregularities in the management of 35 HUD-insured properties. These findings closely track the problems discussed above. (Das A. Borden and Company, Muscle Shoals, Alabama, Multiproject Management Agent, Audit Report No. 89-AT-214-1022; and Hall Financial Group (Hall), Dallas, Texas, Unapproved Acting Management Agent, Audit Report No. 89-AT-214-1020.)

Major Recommendations

In 1988, we recommended that the Department:

1. Develop a formal, long-range work plan for implementing the recommendations contained in the Committee's study, as described above under OIG Reports.

2. Develop a process for readily identifying project owners who may be vulnerable to the misuse or diversion of project assets and income.

3. Develop program enforcement instructions.

4. Issue a directive to the Field emphasizing the need for early detection of diversions and the submission of timely requests for administrative sanctions against violators.

Present Status

The problem still exists, but probably to a lesser degree due to the deterrent effect of a newly strengthened equity skimming statute, and a new double damages statutory provision established by the Housing and Community Development Act of 1987.

HUD has also developed and put into operation a new automated loan servicing system, which is intended to improve loan servicers' ability to detect diversions from multifamily projects.

The Future

Short-Term

A Departmental task force was recently established to review and recommend improvements in multifamily loan servicing.

The Office of Investigation continues to aggressively pursue diversions of funds and is working with the Department of Justice for prosecutions where appropriate.

Long-Term

The new penalties provided by the Housing and Community Development Act of 1987 are severe and will likely serve as a deterrent, especially when HUD begins applying these new enforcement tools on a regular basis. As part of the Secretary's Reform package, the Department has requested legislative authority to impose civil monetary penalties on owners who fail to comply with certain portions of the Regulatory Agreement.

Government National Mortgage Association

Background

The Government National Mortgage Association (GNMA) is a government corporation within HUD. Through its Mortgage-Backed Securities (MBS) Program, GNMA guarantees mortgage securities which are issued by private mortgage lenders. Lenders (issuers) create these securities, called GinnieMaes, by "pooling" individual loans (mortgages) which are insured or guaranteed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), and the Farmers Home Administration (FmHA).

The issuers sell the Mortgage-Backed Securities to security holders. The issuer usually services the pooled mortgages and, as monthly payments are collected, the issuer "passes through" the applicable amounts to the individual security holders. It is these payments that GNMA guarantees, and when issuers default (i.e., fail to make their required payments), GNMA steps in to ensure that investors are paid. GNMA collects guaranty fees from issuers. The MBS Program has been very successful, and currently, GNMA has an investment portfolio, representing excess guaranty fees, that exceeds $1.6 billion.

The Problem

Recently, GNMA has faced some significant evolving problems. In Fiscal Year 1989, GNMA's defaulted issuer portfolio has increased dramatically from about $3.1 billion to $12.5 billion. Several external factors have contributed to the issuer defaults. Economic conditions in the "oil patch" States caused unprecedented problems in the normal cash flow process from mortgagor to issuer to security holder.

In addition, certain programmatic policies adversely impacted issuer performance. For example, most VA loans are pooled into GinnieMaes. However, unlike FHA loans that are fully insured, VA provides only a limited guarantee; currently, the maximum is $36,000 on a $144,000 loan. VA policy is one of "no bid" at foreclosure sales, if they determine that the outstanding mortgage balance exceeds the property value by more than the guarantee limit. Issuers are required to make up any shortfalls in passing the proceeds on to security holders. In some areas of the country, the shortfalls average about $20,000. It is likely that the "no bid" policy will cause additional issuer defaults in the future. Currently, the total value of pooled VA loans exceeds $125 billion.

HUD's Multifamily Coinsurance Program and Title I Manufactured Housing Program also contribute to GNMA's problems. As discussed earlier in this chapter, these programs suffer from design flaws that negate the coinsurance aspects of the programs. Consequently, when poor underwriting results in excessive defaults and foreclosures, the issuer turns to GNMA to guarantee their required "pass through" payments. Four of the largest coinsured lenders and twelve of the largest Title I lenders have defaulted in this manner.

As a result of these defaults, GNMA currently has a defaulted issuer portfolio of $12.5 billion, being serviced by 22 contractors. However, GNMA's staff is not well equipped in terms of expertise or numbers to oversee this workload. Apart from the high cost of subservicing contracts, a high percentage of the loans in the portfolios are troubled loans. Thus, GNMA will need to advance significant funds to pay security holders.

OIG Reports

We have issued audit reports on the Multifamily Coinsurance Program and the Title I Manufactured Housing Program. In both audits we recommended significant program reforms to cut the losses to the Department.

On October 4, 1989, we issued a report concerning issuer monitoring. We pointed out that GNMA was not diligent in seeing that independent public accountants' (IPAs') audits of issuers were obtained timely. One of the more important monitoring tools for GNMA is the required annual audit of the issuer. The audit may provide an early warning of financial problems or identify noncompliance with GNMA procedures. Also, GNMA did not review these reports timely and consequently could not detect problems early.

Although we have not issued a report addressing the problems associated with VA "no-bids," we have been working actively with GNMA in developing recommendations to limit HUD's exposure. We are participating in the GNMA Financial Management Task Force which identified the VA "no-bid" as the major problem facing GNMA.

Recommendations

We have recommended that action be taken to reduce GNMA's exposure to the potential losses on securities backed by loans that are not fully insured. While several high level meetings between VA and HUD officials have taken place to discuss the VA "no-bid" issue, the problem remains open.

In our October report, we recommended prompt follow-up on overdue issuer financial statements (so that early actions can be taken when issuer problems are identified); expanded desk procedures for financial statement reviews; and improved oversight.

Present Status

Several changes are in process to assure timely review and follow-up on issuer problems disclosed in IPA audits. These include:

- Implementing a new electronic receipts and analysis system to identify high risk issuers.
- Changing the GNMA commitment system so that new commitments will not be issued unless current financial statements are on file.
- Hiring a contractor to assist in conducting analyses of issuers' financial worth.
- Taking administrative action against issuers who have not filed current financial statements.

The Future

Short-Term

Early in Fiscal Year 1990, we will issue a report concerning GNMA Asset Management containing several recommendations for improved operations.

Long-Term

In their 1988 Annual Report, GNMA set aside $120 million in reserves for anticipated losses primarily due to VA's "no-bid" policy. Additional loss provisions will be needed for future years, unless significant program changes are made by GNMA and/or VA increases their guarantee level.

Chapter 2

SIGNIFICANT AUDITS

The following Chapter describes in brief our significant audit findings during the last 6 months. Our work continues to point out the need for reform, and highlights problems, abuses, and deficiencies in existing HUD programs. The deficiencies uncovered serve to lend additional support to the need for reforms already proposed by Secretary Kemp, including the need for Congressional action to enhance HUD's and the OIG's ability to perform their respective duties and responsibilities more effectively. Some of our recommendations are reflected in the reforms being proposed by Secretary Kemp; other recommendations require additional corrective actions.

This Chapter covers the following program areas:

Public and Indian Housing;
Section 8 Programs;
Single Family Insured Programs;
Community Development Block Grant Program;
Urban Development Action Grant Program; and
Multifamily Housing Programs.

Public and Indian Housing

HUD's Public Housing Programs provide financial and other assistance to public housing agencies (PHA's) for housing for lower-income families and to remedy unsafe and unsanitary housing conditions. PHA's develop, own, and operate low-income housing projects. In addition to financial assistance, HUD also furnishes PHA's technical assistance to facilitate their planning, developing, and managing of projects.

Indian Housing Programs provide aid to Indian housing authorities (IHA's) for housing and related facilities for lower-income Indian and Alaskan natives. IHA's develop and operate rental and homeownership opportunity projects. HUD provides technical as well as financial assistance.

During this reporting period, our audit work focused on Public Housing Resident Management and Homeownership Programs; the Comprehensive Improvement Assistance Program; the Consolidated Supply Program; the San Antonio Housing Authority; the Mutual Help Homeownership Program in Alaska; and Verification of Tenant Income at the Dallas, Texas Housing Authority.

Public Housing Resident Management and Homeownership Programs

We completed a review of HUD's Public Housing Resident Management and Homeownership Programs to identify any problems impeding the implementation of recent provisions amending the United States Housing Act of 1937 (Act), as added by the Housing and Community Development Act of 1987, which authorizes these programs.

Resident management of public housing, together with public housing homeownership, have been looked upon as a means of reversing the physical, financial, and social deterioration of public housing, primarily in major urban areas. The Act establishes a legal basis for resident management by authorizing the formation of resident management corporations (RMC's) and their operation pursuant to management contracts with their respective public housing agencies (PHA's). RMC's with at least 3 years of experience in successfully managing public housing are authorized to purchase one or more housing properties from PHA's. The RMC's may offer the units involved for sale to the project's tenants or other eligible low-income households.

We determined that HUD needs to implement an ongoing evaluation agenda for the Public Housing Resident Management and Homeownership Programs. Although these programs have already been the subject of considerable evaluation, we determined that most of the existing evaluation data is inconclusive. Moreover, these programs need to be evaluated in light of the new 1987 Housing Act provisions which contain significant enhancements to public housing resident management and homeownership.

We also determined that there was a need for HUD to assume an active role in public housing resident management and homeownership training and technical assistance, due to the developmental stage of many of the RMC's. Similarly, we believe that handbook instructions and technical guides should be developed for use by PHA's, RMC's, and HUD staff to ensure timely, consistent, and effective compliance with applicable statutory and regulatory provisions, as well as to promote achievement of program goals and objectives.

Further, we reported that HUD needed to identify and report to Congress on the regulatory and statutory requirements that should be waived or amended for PHA's and RMC's pursuant to Section 20(d) of the United States Housing Act of 1937, as amended. We identified several possible areas for waiver or amendment, including maintenance wage rates, tenant eligibility for public housing, allocation of operating subsidies to RMC's, and statutory requirements relating to RMC property purchases and replacement housing.

In addition, we reported that the Department needed to resolve certain obstacles affecting the Carr Square RMC's (St. Louis) purchase application pursuant to Section 21 of the Act and to reevaluate the estimated cost savings that may result from this purchase. The obstacles concern primarily the feasibility or availability of various identified funding sources and methods to finance the RMC's purchase, and the ability of tenants or other eligible low-income families to ultimately afford to purchase the units in the project. (Kenilworth-Parkside (Washington, D.C.) is the only other RMC currently involved in purchasing projects from its PHA's pursuant to the Act.)

Our other findings related to the performance of the Cochran Gardens and Carr Square RMC's in St. Louis, Missouri. We believe that HUD needs to ensure that these RMC's are receiving fair compensation for their contractual services from the PHA. We also believe that the Cochran Gardens RMC needs to improve its performance in a number of areas, including applicant screening, compliance with HUD maintenance wage rate determinations, unit turnaround time, and annual tenant recertification. The RMC has actions underway to address these weaknesses.

Major Recommendations

Our report contained 31 recommendations to improve the Public Housing Resident Management and Homeownership Programs. HUD management was very receptive to our report and had already developed an action plan to implement our recommendations prior to issuance of our final report. We believe that significant improvements have been made since appointment by the Secretary of a new Special Assistant for Resident Management and Homesteading in mid-March 1989, and the establishment of a distinct management unit known as the Office of Resident Initiatives in June 1989. (Review of Public Housing Resident Management and Homeownership Programs, Audit Report No. 90-TS-101-0003.)

Comprehensive Improvement Assistance Program

We performed a series of audits as part of a review of public housing agencies' (PHAs') administration of the Comprehensive Improvement Assistance Program (CIAP). We found that PHA's are not following HUD program requirements including developing and administering long-range plans, adhering to budgetary controls, and following efficient procurement procedures. Five PHA's reviewed incurred $3.5 million in ineligible or unsupported CIAP costs.

The purpose of CIAP is to improve the physical condition and upgrade the management and operations of existing public housing projects and to assure that such projects will continue to be available to low-income families. These improvements are financed by annual contributions from HUD.

PHA's did not maintain strict accountability over CIAP costs incurred. One PHA held $2.2 million of CIAP funds in excess of actual cash needs, and thus received unneeded CIAP fund advances which inflated the investment and interest income amounts on its financial statements.

CIAP funds were spent on such items as ineligible renovations and unsupported salaries. PHA's also: (1) failed to follow HUD requirements for documenting and/or submitting contract/bid data; (2) did not maintain the required evidence of competitive negotiation for professional service contracts; (3) improperly administered and monitored contract work; (4) lacked adequate procurement policies and procedures; and (5) improperly developed a long-range CIAP plan.

Major Recommendations

We recommended that any excess CIAP funds be returned to HUD and that ineligible expenditures be disallowed; evidence be maintained on competitive negotiation procedures in the contract awards process; and administrative salary charges to CIAP be evaluated in future monitoring. Contract administration needs to be strengthened along with procedures for ensuring that PHA's expend CIAP funds for eligible, approved work items only. (Wilmington, Delaware Housing Authority, Audit Report No. 89-PH-209-1015; Housing Authority of the City of Crowley, Louisiana, Audit Report No. 89-FW-202-1009; Housing Authority of Kansas City, Missouri, Audit Report No. 89-KC-204-1013; Bristol, Connecticut Housing Authority, Audit Report No. 89-BO-202-1023; and Housing Authority of Portland, Oregon, Audit Report No. 89-SE-209-1005.)

Consolidated Supply Program

HUD's Office of Public Housing (OPH) and Office of Procurement and Contracts (OPC) have failed to properly oversee the Consolidated Supply Program (CSP) because of the large number of available products and the limited staffing devoted to this effort. The focus of attention has been on issuing updated CSP catalogs rather than assuring the program is meeting public housing agencies' (PHAs')needs with the best available products and prices. We identified deficiencies in the following program functions: (1) monitoring CSP sales; (2) updating CSP catalogs; (3) evaluating contractors for responsibility; (4) assuring fair and open competition for CSP contracts; and (5) monitoring CSP contractors and PHA's.

Under the CSP, HUD enters into open-end contracts with suppliers of common use items under which PHA's are entitled to make purchases. Consolidated supply contracts are intended to permit PHA's to take advantage of competitive procurement savings without having to incur the administrative expenses associated with the competitive process. This is made possible because HUD awards CSP contracts on a competitive basis.

OPH attributed the problems to a lack of staff. While staffing may be a factor, OPH staff spent considerable time and effort preparing solicitations and product catalogs for items PHA's did not purchase. The resources directed to these catalogs left little time for monitoring CSP sales, contractors, and PHA's. Although PHA's were asked to submit copies of CSP purchase orders to OPH, few did. Also, OPH made only limited use of the purchase orders that it did receive. This hampered OPH's efforts to detect contractors using their CSP contracts to do unauthorized work or to overcharge PHA's.

PHA's rely on HUD to make responsibility determinations for CSP contractors. This reliance was unfounded since OPC, the office responsible for determining contractor responsibility, limited its contractor evaluation to previous participation inquiries. As a result, a contractor without adequate financial and operational capacity, lacking a proven track record, or not demonstrating an ability to perform, may be awarded a CSP contract.

The CSP bidding process has also been manipulated by contractors, impacting on program integrity and fair and open competition. Contractors have submitted unrealistically low bids for certain items to bring down their overall average and assure a CSP contract. As a result, the CSP is not getting the best contractor prices.

Major Recommendations

We recommended that OPH be instructed to: (1) monitor CSP sales and adjust catalogs to better reflect products and items in demand by PHA's; and (2) shift staff resources to monitor CSP purchase orders. We further recommended that OPC be instructed to evaluate contractor responsibility according to the Code of Federal Regulations and Federal Acquisition Regulation requirements, and amend the current CSP bidding process. The need for additional staff would be better addressed once the program is streamlined and its focus directed to its efficient and effective administration. (Review of HUD's Consolidated Supply Program, Audit Report No. 90-AO-169/109-0002.)

San Antonio Housing Authority

We reviewed the operations of the San Antonio, Texas Housing Authority (PHA) pertaining to its Low-Income, Section 8 Existing, and Comprehensive Improvement Assistance Programs and found that the PHA failed to comply with program requirements, laws and regulations in a number of areas. Two of the PHA's nonprofit corporations generated revenues that exceeded their operating expenses. Because the savings were not passed on to the Federally assisted programs involved, the nonprofit corporations may not have acted as instrumentalities of the PHA in accordance with their Articles of Incorporation. As a result, the PHA may not have operated its projects according to Texas State law.

In addition, because the PHA may not have complied with certain regulations for one of its nonprofit corporations, excess operating reserves may have been used inappropriately. This inconsistency occurred because the nonprofit corporation purchased a private housing project for tenants other than low-income. As a result, housing units were not made available to low-income persons and the purchase created a deficit in the Section 8 Program operating reserve for Fiscal Year 1988. We believe that HUD should advise the PHA on the legal aspects of this matter.

The PHA's allocation of costs charged to HUD programs was not adequately supported. In addition, the PHA obtained goods and services without the benefit of competitive bidding and its Board did not approve all change orders. Our review also showed that Comprehensive Improvement Assistance Program (CIAP) costs were incurred in excess of the approved budget and without HUD approval and in some cases were unsupported. The PHA charged the Section 8 Existing Program with costs that were not associated with or necessary for program administration.

Major Recommendations

We made several recommendations to strengthen the PHA's procedures and improve program administration including requiring the PHA to: (1) furnish assurance that the apparent conflict-of-interest arrangement does in fact benefit the Federally assisted programs and discontinue obtaining goods and services from the nonprofit corporations if a benefit cannot be shown; (2) justify the allocation of costs charged to HUD programs and reimburse the programs for any costs that cannot be supported; (3) reimburse the CIAP and Section 8 Existing Program from non-Federal funds for any costs determined to be ineligible; and (4) establish income limits that will ensure project units are rented only to low-income persons. (Limited Review of the San Antonio Housing Authority, Audit Report No. 90-TS-201-1001.)

Anchorage Office's Administration of Mutual Help Program

The HUD Anchorage Office and Indian housing authorities (IHA's) are administering the Alaska Mutual Help Homeownership Program in a wasteful and costly manner. Projects are being developed that are sometimes infeasible, improperly designed, and inadequately constructed. Consequently, the housing being provided to Alaskan natives is often hazardous, unaffordable, maintenance-intensive, and generally unsuitable for the unique and demanding Alaskan environment. HUD's unit cost ceiling for development of Mutual Help housing in Alaska is a prime contributing factor to the shortcomings of the program. The per-unit ceiling of $92,200 in effect for the period covered by our review has not been adequate and was without any realistic relationship to the actual costs of developing Mutual Help housing in remote and rural regions of Alaska.

HUD's Mutual Help Homeownership Program is intended to provide decent, affordable, yet modest housing for low-income Native American families who are financially able and willing to own, operate and maintain their homes for 25 years. HUD contracts with IHA's to develop Mutual Help Program housing units. HUD agrees to provide the IHA with both financial and technical assistance to develop the units.

Despite over a decade of experience and the expenditure of about $300 million to develop over 3,000 units in the Mutual Help Program in Alaska, HUD has not been successful in providing Alaskan natives with adequate housing. The Anchorage Office has not: (1) adequately monitored IHAs' administration of the program; (2) enforced program requirements; (3) realistically evaluated IHAs' program administrative capabilities; and (4) ensured that participating homebuyers are financially able to maintain their homes and pay their obligations. In addition, the Anchorage Office approved over $5.2 million in amendment funding to correct design/construction deficiencies without establishing that the projects met HUD eligibility requirements, and did not establish procedures to ensure authorized repairs were appropriate or adequately performed. The Anchorage Office failed to ensure that $7.3 million in repairs to Mutual Help units were eligible for funding under the Department's Comprehensive Improvement Assistance Program (CIAP). This occurred because the Office did not establish policies, procedures, and administrative controls to ensure the eligibility of repairs for CIAP funding.

Our audit covered development activities of the Anchorage Office from September 1984 through December 1988; audit field work was done from July 1988 through January 1989. We inspected 42 projects consisting of 714 units from 5 IHA's, and concluded that each of the housing units had one or more unsatisfactory and hazardous housing conditions. We generally concluded that these units were structurally unsound, costly, and sometimes too sophisticated for the homebuyers to maintain or operate.

Although the Mutual Help Program provides housing that is better than what Alaskan natives previously had, such housing is nevertheless unsuitable and thus cannot be maintained or operated without continued reliance on Federal assistance. Between 1984 and 1988, this assistance amounted to over $19 million, with an additional $21 million having been requested since 1988. This situation occurred because HUD has concentrated on producing housing units in volume rather than on producing quality housing that can withstand the demanding climate and terrain in Alaska.

Our report raises significant questions as to the adequacy of HUD's Mutual Help Program in Alaska in providing suitable housing to Alaskan natives. The issues and mechanisms for providing such housing are both complex and difficult and suggest that the Mutual Help Program in remote areas of Alaska may be impractical to implement and administer by HUD.

Major Recommendations

We recommended, among other actions, that the Office of the Assistant Secretary for Public and Indian Housing: (1) develop a comprehensive and clear policy for the delivery of Mutual Help housing which mandates the development of quality, affordable, and suitable housing for Alaskan natives; (2) establish site, design, and construction standards for Alaska Mutual Help housing; (3) consider other alternative housing programs to meet the needs and financial resources of Alaskan natives such as converting units to the Conventional Low-Income Housing Program; (4) direct the Regional office to discontinue approving IHA requests for amendment funding until the Anchorage Office implements formal procedures for determining and documenting that repairs are eligible; (5) determine the total costs per unit of providing Mutual Help housing in remote areas of Alaska; and

(6) determine if the Mutual Help Program is the most desirable way to provide housing to natives in the remote areas of Alaska. The Office of Public and Indian Housing fully agreed with our findings and recommendations. (Anchorage Office's Administration of Development Activities in the Alaska Mutual Help Homeownership Program, Audit Report No. 89-TS-101-0007.)

Verification of Income – Housing Authority of the City of Dallas, Texas

Tenants participating in programs administered by the Housing Authority of the City of Dallas, Texas (DHA), omitted approximately $5 million in income. As a result of this understated income, 513 tenants underpaid their share of rent by approximately $1.4 million.

The DHA administers 12,986 units under Low-Income Housing and Section 8 Programs. Tenants are required to: (1) report changes in family income and composition to the Housing Authority; and (2) pay a fixed percentage of their adjusted income for rent. When tenants fail to properly disclose all sources of income, their portion of the unit rent is computed at a lower amount. Consequently, they receive a financial benefit for unit rent to which they are not entitled.

We performed a computer match and identified 513 tenants who omitted (failed to report and/or underreported) an estimated $5 million of family income. There were 272 tenants in public housing agency (PHA)-owned units and 241 Section 8 tenants who omitted family income of $3 million and $2 million, respectively. As a result, these families avoided estimated rent payments totaling $1.4 million. This amount includes $888,275 for PHA tenants and $558,911 for Section 8 tenants.

Major Recommendations

We recommended that HUD require the DHA to initiate appropriate corrective actions against PHA and Section 8 tenants identified in our computer match as having improperly reported their income. Specifically, the DHA should: (1) obtain retroactive recertifications of all PHA and Section 8 tenants identified as having omitted family income; (2) initiate action to recover estimated understated rent of $1.4 million; (3) terminate Section 8 rental assistance for all tenants who refuse to recertify or repay rent owed; (4) evict PHA tenants who refuse to recertify or repay back rent; and (5) consider civil action against those tenants who refuse to pay rent owed. (Verification of Income, Housing Authority of the City of Dallas, Texas, Audit Report No. 89-FW-209-1803.)

Section 8 Programs

Section 8 Programs assist low- and very low-income families in obtaining decent, safe, and sanitary housing through subsidies that are provided to tenants or owners, depending on the program involved. We audited Section 8 Existing Fair Market Rents and the Section 8 Moderate Rehabilitation Program, as described below. In addition to this work done during the current reporting period, Chapter 1 provides an overview of long-standing problems in the Section 8 Programs.

Fair Market Rents

Increased efforts need to be made by HUD to ensure that the Department's Section 8 Existing Fair Market Rents (FMR's) realistically reflect prevailing local market rents. HUD subsidies in certain areas of the country may be excessive by over $39 million annually, and understated by over $14 million annually in other areas, based on our limited review.

The Housing and Community Development Act of 1974 provides for housing assistance payments to aid lower-income families in obtaining a decent place to live and to promote economically mixed housing. The Act includes the requirement that HUD establish FMR's for dwelling units of various sizes and types suitable for occupancy by persons to be assisted. The FMR's represent the typical cost of standard quality rental housing available in the private rental market. Proposed FMR's are published annually in the Federal Register for public review and comment and then republished as final FMR's.

We concluded that while the system used by HUD to establish FMR's for the Section 8 Existing Housing Program was generally sound, it could be improved through the collection of more market-specific and timely rental data in some instances. While the Department's FMR system produces reasonable results for most areas, it sometimes results in unreasonable variations in some areas. These variations are primarily due to sampling and estimating problems and tend to occur mostly in certain nonmetropolitan/rural areas. In this regard, our review identified some locations where the Department's FMR's did not appear to accurately reflect prevailing local market rents. Out of a possible 2,755 areas throughout the country, we reviewed 142 FMR areas and determined that 116 should be evaluated by HUD for possible adjustment of the underlying FMR's. However, the areas that we reviewed were not selected on the basis of a statistical sample; therefore, we were unable to project the results of our audit to the Nation as a whole.

FMR's may not always realistically reflect prevailing local market rents for a variety of reasons. For example: (1) the data used in computing FMR's must be continuously adjusted and estimated in many instances; (2) census errors sometimes occur in estimating gross rents; (3) HUD has not aggressively acted to identify and address inaccurate FMR's in nonmetropolitan/rural areas where rent variations tend to occur; and (4) the Regional and Field Office Economic and Market Analysis Division (EMAD) staffs are not significantly involved in reviewing local rental markets and determining the propriety of prevailing and proposed FMR's.

HUD's Office of the Assistant Secretary for Policy Development and Research (PD&R) was of the opinion that the data in our report were not sufficient to support any conclusion regarding the accuracy of FMR's on a national basis. PD&R also advised that our contracted surveys were methodologically deficient because they were not based on a random sample and did not report any measure of sampling error. While we recognize the inherent limitations in our audit approach, we believe that the data presented are sufficient to suggest indications of areas where the FMR's may be in need of further evaluation by PD&R.

HUD's requirements for submitting public comments on FMR's and requesting FMR exception rents are not always consistently enforced, resulting in submissions that are based on a variety of data from various sources. Consequently, HUD's treatment of public comments on FMR's and requests for exception rents varies and does not always provide adequate assurance that the Department's approval actions on such submissions are appropriate.

Major Recommendations

We recommended, among other actions, that the Office of Policy Development and Research: (1) evaluate the FMR areas identified in our report as having questionable FMR's to determine if adjustments are necessary;

(2) identify other areas with questionable FMR's; (3) develop a cost effective survey instrument for proposing FMR revisions; (4) evaluate the feasibility of using Section 8 Certificate Program average gross rents as a means of identifying areas with questionable FMR's; (5) request additional funding for FMR surveys; (6) take measures to provide Regional and Field Office EMAD staffs with a greater role in identifying questionable FMR's and establishing FMR estimates; (7) make the requirements for submitting public comments on FMR's and requesting FMR exception rents more consistent; and (8) issue a directive calling for stricter enforcement of public comment submission requirements. (HUD's System for Establishing Section 8 Existing Fair Market Rents and Approving Fair Market Rent Exceptions, Audit Report No. 89-TS-103-0009.)

Moderate Rehabilitation Program

We continued to audit public housing agency (PHA) activities to determine whether the Section 8 Moderate Rehabilitation Program (Mod Rehab) is being effectively administered. Audits of five PHA's found that incorrectly computed rents and lack of compliance with program requirements could cost HUD more than $10.1 million over the 15-year contract periods.

The purpose of the Mod Rehab Program is to upgrade substandard rental housing and provide rent subsidies for lower-income families. HUD enters into contracts with PHA's or other eligible entities to administer the program. The PHA's solicit applications from owners or developers and then determine whether the units are feasible for inclusion in the program.

Our audits found several similar problems at each of the PHA's reviewed. Base and contract rents were not correctly computed; PHA's used insurance processing rents determined by coinsuring mortgagees rather than Mod Rehab procedures, even though those procedures did not provide the lowest rents. They also failed to properly determine the eligibility of costs for inclusion in the rents and did not adhere to the prescribed rent computation formula. One PHA failed to follow its own administrative plan or HUD requirements in determining unit eligibility. Units were approved that were ineligible because persons who were already receiving Section 8 assistance occupied the units, or because the occupants' income disqualified them for Section 8 assistance. At two PHA's, project owners obtained Mod Rehab assistance without an open and competitive selection process. Once the projects were approved, project developers obtained rental assistance in excess of the amount normally eligible under the program.

Major Recommendations

We made various recommendations in our audit reports including retroactively adjusting base and contract rents; recovering any excess assistance paid and reimbursing HUD for these amounts; and terminating assistance on ineligible units. (Housing Authority of the City of Tulsa, Oklahoma, Audit Report No. 89-TS-203-1007; Colorado Housing and Finance Authority, Audit Report No. 90-TS-203-1002; Housing Authority of the City and County of Denver, Audit Report No. 89-TS-203-1014; Gastonia, North Carolina Housing Authority, Audit Report No. 89-TS-203-1009; and Housing Authority of the City of Reno, Nevada, Audit Report No. 89-SF-203-1009.)

Single Family Insured Programs

Our audits of Single Family Insured Programs disclosed continuing problems in the Single Family Loan Management area and with the submission of

One-Time Mortgage Insurance Premiums to HUD. This section covers the Single Family Assignment Program (Loan Management Branch), One-Time Mortgage Insurance Premiums, and Mortgagee Review Board Activities.

Single Family Assignment Program (Loan Management Branch)

Our review of four HUD Field Offices disclosed serious weaknesses in the Assignment Program. The Single Family Assignment Program provides financially distressed mortgagors an opportunity to avoid foreclosure and retain their homes. Under this program, the mortgage is assigned to HUD and the Field Office has the responsibility for servicing the mortgage, e.g., collecting the mortgagor's payments owed to HUD. HUD's basic objective in servicing mortgages is to collect the debt in an orderly manner so that HUD can recover its investment and minimize its losses, while the borrower achieves debt-free homeownership.

At least three key factors contributed to problems in this program: (1) the payment plan established after the 3-year special forbearance period does not ensure that the mortgage obligation will be paid off because many mortgagors accrue significant deficiencies during periods of reduced or suspended payments; (2) the outstanding mortgage indebtedness may exceed the value of the property; and (3) interest rates for over 3,000 loans in the four Field Offices' portfolios generally exceeded the current market rate for HUD-insured loans.

We found that in most cases the Loan Management Branches (LMB's): (1) did not ensure delinquent mortgages were either under a forbearance agreement or in foreclosure; (2) were renewing forbearance agreements with mortgagors who missed or made no payments under previous agreements; (3) did not promptly follow up with mortgagors who missed payments; and (4) did not ensure that mortgagors obtained and maintained proper hazard insurance coverage.

We also attribute poor loan servicing and foreclosure delays to: (1) inadequate staff (loan servicers in three Field Offices handled portfolios of up to 1,200 loans whereas the benchmark portfolio size is 150 loans); (2) lack of effective follow-up procedures to identify delinquent loans requiring additional actions; and (3) poor management controls over servicers' performance.

In addition, we found the Chicago and Detroit Offices had 188 loans in an inactive servicing status, sometimes without any explanation. One effect of placing loans in an inactive status is that severely damaged and hazardous properties can remain open to the public for lengthy periods. We found these conditions for 10 of 31 inactive properties inspected.

Major Recommendations

Based on our findings, we recommended that the Assistant Secretary for Housing-Federal Housing Commissioner: (1) place delinquent mortgagors on fixed repayment plans after the 3-year special forbearance period expires; (2) implement policies to reduce the mortgage indebtedness to the value of the property; (3) reduce interest rates on loans that are in excess of the current market for HUD/FHA mortgages; (4) assure that Field Offices are adequately staffed; (5) issue specific supervisory review requirements over servicing activities; (6) cease placing defaulted loans in an inactive status; and (7) assure that Field Offices promptly refer uncollectible loans to foreclosure agents.

The Assistant Secretary for Housing-Federal Housing Commissioner generally concurred with our recommendations and indicated that corrective actions are being taken or planned. Until these deficiencies are corrected, it is our belief that the problems identified in the management of HUD's assigned single family inventory constitute material internal control weaknesses which should be reported to the President and the Congress under the Federal Managers' Financial Integrity Act. (Report on the Management of HUD's Assigned Single Family Inventory, Audit Report No. 90-TS-121-0004.)

One-Time Mortgage Insurance Premiums (OTMIP's)

As part of a multi-regional review, we conducted 21 external audits of mortgagees' payments of One-Time Mortgage Insurance Premiums (OTMIP's) in the Atlanta, Chicago, Denver, Fort Worth and San Francisco Regions. OTMIP's are required by HUD before it will insure a loan. We also reviewed HUD monitoring procedures at Headquarters and 13 Field Offices having jurisdiction over the 21 mortgagees audited. Five of the 21 mortgagee audits were referred to the Mortgagee Review Board for consideration of appropriate sanctions against the mortgagees for failing to remit or being significantly late in remitting OTMIP's.

We believe there are material weaknesses in HUD's internal controls over the submission of OTMIP's within 15 days as well as assuring that properly insured mortgages are or will be included in Government National Mortgage Association (GNMA) Mortgage-Backed Securities pools. These weaknesses should be reported to the President and the Congress under the Federal Managers' Financial Integrity Act. Problems disclosed during our review are described as follows.

The mortgagees were delaying payment of OTMIP's. Four of the 21 mortgagees had not paid 262 OTMIP's totaling $762,029. Twenty of the 21 mortgagees made late OTMIP payments, and nearly half of the payments were over 90 days late. HUD does not have adequate procedures for monitoring timeliness of OTMIP payments.

Also, the mortgagees did not pay the additional late assessment (interest) applicable to the late payments. HUD did not enforce its requirement that mortgagees pay an additional late assessment on OTMIP's not paid within 30 days after loan settlement. This resulted in interest of $67,383 on 556 loans not being paid to HUD by 12 (57 percent) of the 21 mortgagees. HUD did not enforce other requirements such as collecting interest due on payments over 30 days late.

In addition, mortgagees were not paying the OTMIP's applicable to loans sold to investor mortgagees and included in GNMA pools. At least 204 (78 percent) of the 262 uninsured loans were placed in GNMA pools. This created a potential GNMA liability of $16 million in the event of default on the loans.

Major Recommendations

Although the Department instituted certain corrective actions after the issuance of our initial mortgagee audit report (September 21, 1988) which should assist in decreasing late and unpaid OTMIP's, we made additional recommendations that: (1) GNMA verify that OTMIP's are paid on FHA loans before the related GNMA securities are approved for issuance; (2) the Office of Administration generate and distribute summary data to Field Offices showing mortgagees who submit late OTMIP's; and (3) the Office of Housing assure interest charges on late OTMIP's are properly assessed, mortgagees maintain a reasonable level of fidelity bond coverage, the timeliness of OTMIP payments is closely monitored, and stricter controls over mortgage insurance certificates are implemented.

GNMA found this report to be of major concern, but felt the problem and our proposed solutions could become harmful to GNMA. We believe GNMA's response to our report treated the collection of OTMIP's as an FHA/GNMA problem rather than as a Departmental problem. Better coordination between FHA and GNMA in the collection of OTMIP's and the review of financial statements may offer improved controls over both FHA's Single Family Insurance and GNMA's Mortgage-Backed Securities Programs. The Assistant Secretary for Housing generally concurred with our recommendations; however, the Office of Housing did not respond to our recommendation concerning the consolidation of its financial statement reviews with GNMA. The Assistant Secretary for Administration also concurred with our recommendations. (Payment of One-Time Mortgage Insurance Premiums (OTMIP's), Audit Report No. 90-TS-121-0002.)

Mortgagee Review Board Activities

HUD's Mortgagee Review Board (MRB) is authorized to take administrative sanctions against mortgagees ranging from suspension to withdrawal of approval when HUD regulations or requirements are violated. Two cases referred to the MRB are discussed below.

HUD Receives $2.13 Million Settlement

On June 29, 1989, following the MRB's approval of Talman Home Mortgage Corporation's (THMC's) settlement offer, THMC's Oklahoma City Branch Office executed a settlement agreement with HUD, whereby Talman paid HUD $2.13 million for losses on 55 loans and agreed not to submit claims for insurance benefits on another 58 loans, which could total $2.24 million in losses.

Earlier the Board had voted to offer Talman the opportunity to enter into a settlement agreement which would provide for indemnification to HUD for claim losses in connection with improperly originated loans cited in our January 26, 1988 audit report. The report disclosed that the mortgagee did not comply with HUD requirements and prudent lending practices in originating 119 FHA-insured loans totaling $5.19 million. The loans were ineligible primarily because the mortgagors did not make the minimum investment required. The loan officer involved in originating all 119 loans is no longer with the company and has been debarred by HUD. (Talman Home Mortgage Corporation, Audit Report No. 88-TS-221-1010.)

Benton Mortgage Under Review

On June 19, 1989, the Board elected to hold in abeyance its consideration of Benton Mortgage Company (BMC), Knoxville, Tennessee, pending completion of a more detailed review of the case. In an earlier meeting, the Board advised BMC that it was considering administrative action and offered BMC the opportunity to respond in writing; BMC responded on May 26, 1989.

BMC was cited for the following violations of HUD-FHA requirements (referenced in Chapter 1 under the Coinsurance Program): (1) failing to properly perform the valuation phase when underwriting insured project mortgages; (2) permitting mortgagors to include excessive costs and cost allowances in project mortgages; (3) incorrectly calculating the maximum insurable mortgage for Section 223(f) projects; (4) processing a HUD-FHA insured project mortgage which did not meet program eligibility requirements; (5) failing to obtain prior HUD-FHA approval of an identity-of-interest relationship between BMC and a mortgagor in connection with an apartment complex; and (6) failing to establish effective procedures ensuring that architectural and cost processing are performed to HUD-FHA specifications. (Benton Mortgage Company, Audit Report No. 89-TS-221-1005.)

Community Development Block Grant Program

The Community Development Block Grant (CDBG) Program was established by Title I of the Housing and Community Development Act of 1974 (P.L. 93-383), enacted August 22, 1974. The CDBG Program provides grants to states and units of general local government to aid in the development and revitalization of: (1) neighborhood communities (making decent housing available); (2) economic opportunities (principally for persons of low- and moderate-income); and (3) community facilities and services (providing a more suitable living environment). Our review this period covered Program Income, the Monitoring of Subrecipient Activities, and Community Rehabilitation Programs.

Program Income

Our review of CDBG activities disclosed that certain Field Offices did not effectively monitor grantees' use of program income and miscellaneous revenue. Program income represents monies produced by CDBG or Urban Development Action Grant (UDAG) activities, e.g., proceeds from sales of real property, rental income, loan repayments, fees for services, interest on deposits, and other sources. Miscellaneous revenues are produced by related community development programs of cities and counties subsequent to projects' completion.

The Field Offices failed to maintain adequate documentation to support their plans for monitoring grantees. Consequently, grantees were not provided adequate guidance concerning program income and miscellaneous revenue requirements. They also failed to provide adequate formal written procedures on monitoring requirements. Grantees did not properly oversee the grant income and revenue provisions of UDAG agreements because of this. Effective controls did not exist for using, reporting, and accounting for income in accordance with program regulations.

The following table lists the program income and miscellaneous revenues which were either not reported or went undetected, and in some cases where available, were not used.

Location	Program* Income	Miscellaneous* Revenue
Newark	$ 656,832	$ 6,985,000
Buffalo	1,216,326	9,526,000
Oakland	7,113,934	
Memphis	307,277	
New Orleans	501,368	
Des Moines	345,000	
San Francisco	410,135	
TOTAL:	$10,550,872	$16,511,000

*Program Income includes CDBG and/or UDAG program income. Miscellaneous Revenue includes CDBG and/or UDAG miscellaneous revenue.

Major Recommendations

We recommended appropriate corrective actions be taken to: (1) ensure program income and miscellaneous revenue are effectively monitored, and that the importance of providing technical assistance to grantees is reemphasized; (2) resolve the deficiencies found during the grantee site visits, e.g., require grantees to reimburse all ineligible amounts to their programs, and determine the eligibility of all unsupported amounts identified; (3) ensure the grantee establishes and provides its staff with written procedures to identify, collect, record and report program income and miscellaneous revenue to comply with HUD requirements; (4) establish procedures to assure subrecipient audits are conducted, reviewed and resolved; (5) conduct reviews to determine eligibility of rehabilitation loans; and (6) ensure proper monitoring and reporting of Local Development Corporations (LDC's) program income activities by the grantee through the implementation of adequate procedures. We also recommended that the grantee forward to HUD any interest earned due to excessive letter-of-credit drawdowns, and collect and report to HUD all program income and miscellaneous revenues due.

Monitoring Subrecipient Activities

Philadelphia, Pennsylvania

Our audit of Community Development Block Grant (CDBG) subrecipients' activities funded by Philadelphia's (grantee) Office of Housing and Community Development (OHCD) disclosed its delegate agencies and subrecipients were seriously deficient in contract compliance and administration, resulting in the inefficient and ineffective use of CDBG funds. These problems are attributed to the grantee's weak monitoring system, which attempts to oversee more than 100 entities administering over $50 million in annual expenditures. Our previous reports in 1980, 1986 and 1987 identified contract administration problems in rehabilitation and subrecipient programs involving program eligibility, as well as support for jobs created and job referral activity.

Significant deficiencies in subrecipient operations disclosed: (1) the Philadelphia Housing Development Corporation's Home Owner Maintenance Emergency Program was an emergency program in name only, resulting in possible ineligible expenditures of $6.2 million; and (2) Philadelphia Rehabilitation Plan's rehabilitation program had serious contract procurement problems, which could cause the $3.6 million disbursed for program years 10 through 13 to be ineligible.

The report contains 12 findings with ineligible and unsupported costs of $14,393,721 and $1,510,811, respectively. Our review confirmed the HUD Philadelphia Regional Office monitoring report dated November 15, 1988, which disclosed serious programmatic deficiencies in the grantee's rehabilitation programs.

Major Recommendations

We recommended that the grantee: (1) repay the CDBG Program for all ineligible costs and repay unsupported costs unless adequate documentation is provided; and (2) redesign its rehabilitation and economic development programs, consolidate operations to reduce costs and increase control, and enforce program requirements through comprehensive monitoring. (Community Development Block Grant Program, Subrecipient Activities, Office of Housing and Community Development, Philadelphia, Pennsylvania, Audit Report No. 89-PH-241-1013.)

County of Bergen, Hackensack, New Jersey

We examined the grantee's operations and found that: (1) the grantee and selected subgrantees did not always comply with the CDBG regulations, e.g., charging costs and budgeted amounts to their CDBG Program for ineligible activities, totaling $240,974 for ineligible costs incurred and $937,454 allocated for ineligible activities; and (2) the grantee failed to adequately monitor program activities. Consequently a subgrantee, the Housing Authority of Bergen County (HABC), made unnecessary drawdowns on its interest free $4,730,000 CDBG float loan, causing the United States Treasury to incur unnecessary interest costs when it borrowed the money to fund these drawdowns. Also, loan eligibility criteria were not always followed; thus $83,258 in Home Improvement Program (HIP) loans were found ineligible.

In addition, we found that the financial management system did not generate accurate reports; the grantee did not establish an effective system for monitoring subgrantees; and procurement requirements were not always followed.

Major Recommendations

We recommended the ineligible costs totaling $324,232 be disallowed and repaid to the CDBG Program from non-Federal funds and that the $937,454 be reprogrammed to eligible activities. We also recommended that the grantee strengthen its HIP criteria, financial management systems, and monitoring of subgrantees. The Grantee generally agreed with the findings. (Report on Audit, Community Development Block Grant Program, County of Bergen, Hackensack, New Jersey, Audit Report No. 89-NY-241-1029.)

Community Rehabilitation Activities

Section 312 Loans

We reviewed limited aspects of Davenport, Iowa's (City) administration of the Community Development Block Grant (CDBG) Program and Section 312 rehabilitation loans, concentrating on underwriting and rehabilitation of two multifamily housing complexes (Courtland and Roosevelt) and use of CDBG funds for one (Courtland). Our review was conducted to determine whether the City carried out its activities economically, efficiently and effectively and in compliance with the Housing and Community Development Act of 1974 and applicable HUD policies and procedures. Section 312 rehabilitation loans are direct loans made to assist rehabilitation of single family and multifamily residential, mixed use, and nonresidential properties in CDBG and Urban Homesteading areas certified by the local government.

The City made significant errors in underwriting two Section 312 rehabilitation loans for $600,000 and $1,239,500, respectively. The Courtland loan application significantly understated rehabilitation scope/financing. The Roosevelt loan application used unrealistic market rent and demand data. The City knew, or should have known, the loan applications were in error. Both loans went into default.

Neither owner made a loan payment and both projects were vacant. The Roosevelt owner ($1,239,500 loan) deeded the property to HUD in lieu of foreclosure. The City made loan payments for the Courtland owner ($600,000 loan) until defaulting in December 1988. Based on current markets, HUD faces substantial losses on the $1,239,500 loan, and on the $600,000 loan if foreclosed. We believe the City's eagerness for downtown redevelopment (and the anticipated positive impact) caused the poor quality loan underwriting.

Major Recommendations

We recommended that the City be required to indemnify HUD for losses on the $600,000 and $1,239,500 Section 312 loans. We also recommend the Omaha Office closely monitor future City Section 312 loan (multifamily) underwriting. (Community Planning and Development Program of the City of Davenport, Iowa, Audit Report No. 89-KC-241-1010.)

CDBG-Funded Rehabilitation Program

Community Development Block Grant funds are made available to cities and States to encourage housing rehabilitation. In a 1980 report, we discussed several problems hampering program effectiveness including poor cost estimates, failure to conduct inspections, poor contracting procedures and unnecessary repairs. To determine whether our 1980 recommendations were implemented, and whether they resolved the problems, we completed 14 audits this period covering 1988 activity of selected grantees. We are in the process of summarizing these audits in order to provide HUD management with an update on the improvements recommended and any additional changes needed.

The types of problems we have encountered include:

- The City of Wilmington, Delaware's procedures did not ensure that housing units rehabilitated with CDBG funds met required Housing Quality Standards (HQS). We inspected 15 of 44 properties rehabilitated during 1988 and found that 10 of the 15 had HQS violations, and 8 of the 15 had multiple violations. The grantee also needs to comply with its own contracting procedures to ensure obtaining the fairest and lowest price for rehabilitation work.

Major Recommendations

We recommended that the Field Office Manager require the grantee to: (1) bring units having HQS violations up to HQS, and adjust Housing Assistance Plan (HAP) goals to reflect units which failed; and (2) establish controls to ensure adherence to its written contracting procedures. (City of Wilmington, Delaware, Community Development Block Grant Rehabilitation Program, Audit Report No. 89-PH-249-1012.)

- Our review of the City of Chicago disclosed that the City did not: (1) conduct thorough inspections of completed repair work; (2) conduct comprehensive initial inspections and prepare work write-ups; and (3) always prepare and use repair cost estimates. The City also encouraged homeowners to certify to uncompleted repairs and, in one instance, approved a loan for an ineligible homeowner. Of 15 properties reviewed, 11 had work estimated at $21,919 which was not done; another 11 had work estimated at $6,895 which was incomplete or poorly completed; and eight had HQS violations which will cost about $10,290 to correct.

Major Recommendations

We recommended that the Regional Administrator-Regional Housing Commissioner instruct the City of Chicago to: (1) establish and implement formal written operating and performance procedures to assure compliance with HUD and City requirements; (2) correct poor or incomplete work items; and (3) repay the $27,000 loan made to an ineligible homeowner. (Community Development Block Grant Program, Residential Rehabilitation Activities, City of Chicago, Illinois, Audit Report No. 89-CH-249-1021.)

- The County of Orange, Santa Ana, California, did not include all needed repairs in its rehabilitation work and/or accepted repairs which were either incomplete or poorly done; did not adequately evaluate repair costs; took too long to complete repairs; and overstated its HAP accomplishments. These weaknesses were attributed to lack of adequate procedures and controls, as well as failure to follow prescribed requirements.

Major Recommendations

We recommended that the Field Office Manager require the County to: (1) establish, revise and/or follow existing procedures to address these problems; (2) follow sound contracting practices to ensure reasonable repair costs; (3) enforce timely completion of repairs; and (4) ensure HAP accomplishments are correctly stated by training county staff on HQS, and including only cases with all HQS violations corrected. (Audit Report On Community Development Block Grant Program Rehabilitation Activities, County of Orange, Santa Ana, California, Audit Report No. 89-SF-241-1010.)

Urban Development Action Grant Program

The Urban Development Action Grant (UDAG) Program is authorized by Title I of the Housing and Community Development Act of 1977 (1977 Act), Public Law 95-128. The Program is designed to assist cities and urban counties experiencing severe economic distress to help stimulate economic development activity needed to aid in local economic recovery. The local governments use these funds to make loans to private developers for commercial, residential or industrial projects.

We reviewed the programs of the City of Riviera Beach, Florida and the City of Tallapoosa, Georgia, to determine whether the grantees: (1) complied with applicable laws, regulations, and HUD requirements; and (2) administered their UDAG Programs in an efficient, effective and economical manner.

City of Riviera Beach, Florida

A 520-unit apartment complex constructed in the City of Riviera Beach was not properly managed nor was the developer's performance effectively monitored. The grantee paid the developer the full loan of $4.4 million although the developer's records showed the actual project cost was $4.3 million less than the $24.4 million the developer reported to the grantee. Based on a claim of cost overrun, which was not supported in the developer's records, the developer obtained additional loans of $3.5 million which caused the project to be overfinanced by $3.6 million.

Our audits were conducted under adverse conditions, making it necessary to issue three subpoenas to the developer and his accountant and to follow up with court-ordered enforcement to obtain access to the limited records provided. The records furnished were incomplete, inaccurate and not properly summmarized which made them very difficult to audit.

As a result of all the above, important UDAG Program requirements were not met. Specifically: (1) the developer received loan funds in excess of the recorded costs in the developer's accounting reports; (2) the grantee's lien securing the grantee's loan to the developer was improperly subordinated from second to fourth position; (3) the developer refused families receiving Federal housing assistance admission to the project; (4) the developer deleted two acres from the project without HUD approval; and (5) the developer also failed to maintain proper accounting records, allow HUD access to the records, provide annual financial statements to the grantee, and document compliance with requirements regarding labor standards and the creation of jobs.

We recommended the grantee: (1) recover the $4.4 million loan; (2) require the developer to permit families receiving Federal housing assistance to live in the project; (3) require the developer to develop the two acres as part of the UDAG project; and (4) improve monitoring procedures. The grantee officials of the City of Riviera Beach generally agreed with our findings. (Report on City of Riviera Beach, Florida, Urban Development Action Grant Program, Audit Report No. 89-AT-242-1026.)

In a separate, but related action, we obtained additional information which disclosed that Palm Beach County disbursed $800,000 of its CDBG funds to the City of Riviera Beach. The City loaned the $800,000 to the developer of the City's UDAG project, cited above. The $800,000 was an ineligible cost to the County's CDBG Program because it was used to construct new housing. HUD regulations state that CDBG funds may not be used for the construction of new housing.

We recommended that the $800,000 cost be determined as ineligible and appropriate sanctions taken against the County.

City of Tallapoosa, Georgia

The City of Tallapoosa (grantee) did not adequately monitor the developer's cost and progress in meeting its job and low- and moderate-income (LMI) objectives. The developer, a manufacturer of canned packing goods, was to expand its facilities through the purchase and installation of new capital equipment and create 54 new permanent jobs primarily for LMI individuals.

We found the grantee accepted and relied on incorrect data submitted by the developer regarding project costs, new jobs and LMI benefits. Because required monitoring was not effectively performed, the grantee did not know that the developer's information, which indicated accomplishment of the project's objectives, was incorrect.

We found that the developer's records could not support: (1) the allowability of over $1 million in program costs; and (2) creation of any of the required 54 new permanent jobs. This occurred even though the developer reported 59 new jobs and that its LMI objective had been accomplished.

Major Recommendations

We recommended that the Atlanta Regional Office require the grantee to support the allowability of the $1 million or reduce the UDAG share in funding these costs. We further recommended that the office evaluate whether the grantee and the developer were likely to meet the grant's jobs and LMI requirements. If the evaluation indicates these requirements will be met, we recommended the grantee be required to closely monitor the developer's performance.

The grantee generally agreed with our conclusions. (Urban Development Action Grant Program, City of Tallapoosa, Georgia, Audit Report No. 89-AT-242-1021.)

Multifamily Housing Programs

During the reporting period, we audited the Housing Development Grant Program. In addition to this work in the Multifamily Housing Program area, Chapter 1 discusses recurring problems found in the areas of Retirement Service Centers and Multifamily Loan Servicing.

Housing Development Grants

The owners and general contractors for two multifamily projects receiving grant funds under the Housing Development Grant Program incurred $1.2 million in unsupported or ineligible costs. The owners also failed to contribute another $1.8 million to the projects as required by the grant agreement.

The Housing Development Grant (HDG) Program is intended to increase the availability of rental housing for lower-income people in areas where there is a severe shortage of such housing. Development grants are used to help private developers construct or substantially rehabilitate rental housing in those areas.

- Brunswick Housing Development Group, Ltd., violated HUD requirements in the development of Cypress Mill Plantation, a multifamily project in Brunswick, Georgia. The project received an HDG Program grant and a HUD-insured mortgage. The owner and/or general contractor: (1) incurred $757,677 in unsupported or ineligible grant costs; (2) paid the general contractor $688,613 in overstated and/or unsupported costs; and (3) failed to make equity contributions of $664,500 according to the terms of the grant agreement. The general contractor was an identity-of-interest firm whose two principals were general partners of the Brunswick group.

  Major Recommendations

  We recommended that HUD require the project owner to reimburse HUD the excess grant payments, obtain a refund from the general contractor, and make the required equity contributions. The Assistant Secretary for Housing-Federal Housing Commissioner agreed with our recommendations and has stated that HUD will seek recovery of the funds. (Development Costs and Related Matters – Cypress Mill Plantation, Brunswick, Georgia, Audit Report No. 89-AT-211-1023.)

- Due to ineligible and inadequately supported charges included in the project settlement submission, the grantee for Dickey Hill Forest Apartments in Baltimore, Maryland, drew down $505,786 more in HDG funds than was appropriate. In addition, the grant agreement required the project owner to make an equity contribution of at least $1.1 million. Instead, the owner borrowed additional funds, secured by liens against the project. The grantee also failed to disburse HDG funds timely and implement adequate monitoring systems.

  Major Recommendations

  We recommended that the grantee reimburse the $505,786 and make the required equity contribution. (Housing Development Grant -Dickey Hill Forest Apartments – Department of Housing and Community Development – Baltimore, Maryland, Audit Report No. 89-PH-219-1017.)

Chapter 3

SIGNIFICANT INVESTIGATIONS

This Chapter describes some of the more significant prosecutive actions taken during this reporting period. The Chapter is divided into:

Single Family;
Rental Assistance;
Public Housing;
Multifamily;
Title I Property Improvement Program; and
Community Development Block Grant Program.

Single Family

Investigations continued to concentrate on mortgage fraud schemes in the Single Family Mortgage Insurance Programs. Over 50 percent of our investigative resources were devoted to pursuing fraud in the Single Family Programs. Our investigations of lenders, real estate agents, investors, mortgagors and others involved in such schemes resulted in criminal charges against 52 individuals/firms, 43 convictions, $231,200 in fines and approximately $2 million in monetary recoveries.

The following are highlights of our more significant investigations conducted during this period.

HUD Closing Agent Indicted

An Arlington, Texas escrow closing agent under contract to HUD was indicted by a Federal Grand Jury on charges of embezzling Federal funds and associated banking violations. The 79-count indictment charged the closing agent with converting $2.5 million in proceeds from the sale of 55 HUD-owned residential properties to her own use. The indictment also alleged that on 24 separate occasions, the closing agent used $235,450 gained from her unlawful activities to conduct a series of illegal banking transactions which were designed to avoid Federal reporting requirements.

Following the indictment, the Department of Justice filed a lawsuit under the False Claims Act seeking recovery of the $2.5 million. The indictment and lawsuit resulted from an investigation performed by HUD-OIG and the Federal Bureau of Investigation, with assistance from the Internal Revenue Service Criminal Division. The closing agent has been suspended from participating in HUD programs. (United States vs. Reba Louise Lovell, Northern District of Texas.)

Additional Prosecutions Result from Washington, D.C. Task Force

A continuing task force investigation of mortgage fraud in the District of Columbia resulted in additional convictions of a strawbuyer, a broker, and a settlement attorney. The three subjects were sentenced to a minimum of 2¼ years in prison, received 5 years probation, and were ordered to pay $5,000 in fines. The attorney began working for HUD subsequent to the time of his improper actions as a

HUD attorney. As part of his plea agreement, the attorney subsequently resigned his HUD position. He has also been suspended from participating in HUD programs.

To date, 29 individuals have been sentenced in this investigation, and civil and criminal recoveries amount to $4.1 million. The sentences total over 84 years of incarceration and 52 years of probation. The task force consists of the HUD- and VA-OIG's and the FBI; the investigation is continuing. (United States vs. Peter Novick, et al., District of Columbia.)

Equity Skimmer Sentenced

Two Seattle, Washington real estate speculators were sentenced following their guilty pleas to equity skimming, mail fraud and defrauding HUD. The speculators diverted rental income and defaulted on mortgages for 60 homes in the Seattle area, 30 of which were either HUD-insured or guaranteed by the Department of Veterans Affairs (VA). One of the speculators was sentenced to 18 months in jail. They were placed on a total of 6 years probation and were ordered to make restitution totaling approximately $49,000. The Seattle Equity Skimming Task Force, comprised of agents from the FBI, Postal Inspection Service, VA- and HUD-OIG's, conducted the investigation. The two speculators have been suspended from participating in HUD programs. (United States vs. Byron Owen Daily and Elaine Hicks, Western District of Washington.)

Investor Convicted for Skimming Rents on FHA and VA Mortgages

A Texas investor/speculator was sentenced in California on equity skimming and mail fraud charges. The investigation involved 19 FHA-insured loans and two VA-guaranteed loans for condominiums in the Dallas/Arlington, Texas area. He was placed on 5 years probation, ordered to perform 9 months community service, and directed to pay restitution of $18,642. The sentence resulted from an OIG investigation in the Dallas/Arlington, Texas area. (United States vs. David Bruce Mofford, Northern District of Texas.)

Corporation Fined $150,000

A Columbus, Ohio corporation was fined $150,000 on charges of deceptive practices in treating properties for termite infestation. The firm earlier pled guilty to 15 counts of securing writings through deception and forgery. The charges were based on a joint investigation by the HUD-OIG and the Criminal Investigation Division of the Ohio Department of Agriculture. The investigation found that the corporation conspired to defraud multifamily builders and single family homeowners by certifying termite treatments which were not actually performed. The majority of the dwellings had FHA-insured loans which required a certificate that termite prevention chemicals had been applied. The corporation has been suspended from participating in HUD programs. (State of Ohio vs. Terminex, Inc.)

Developer Indicted on Strawbuyer Scheme

A builder/developer was indicted by a Federal Grand Jury in Shreveport, Louisiana, on a total of 40 counts of conspiracy and making false statements in connection with a single family strawbuying scheme. A joint investigation by the HUD-OIG and the FBI determined that the builder/developer allegedly solicited 12 individuals to apply for and close HUD-insured loans as investors. The loans were immediately assumed by the developer. The strawbuyers were paid a fee for their part in completing the financing on the properties and reimbursed for all out-of-pocket expenses incurred at the loan closings. HUD has a loss exposure of about $778,500. (United States vs. Michael D. Willis, Western District of Louisiana.)

Investor Guilty of Equity Skimming

A Minneapolis, Minnesota real estate investor pled guilty to equity skimming charges. The investor routinely assumed Federally insured loans and then knowingly failed to make mortgage payments on over 40 loans while collecting rental monies during the same period. The investigation was a joint HUD-OIG/FBI effort. The investor has been suspended from participating in HUD programs. (United States vs. John Jacobson, Sr., District of Minnesota.)

Broker Indicted for Fraud

A Topeka, Kansas real estate broker and two associates were indicted by a Federal Grand Jury on a total of 18 counts of conspiracy and making or causing false statements to HUD. The indictment pertains to both owner/occupant and investor insured loans, and states that the individual allegedly paid some buyers to act as purchasers. Losses on those properties included in the indictment totaled $185,000. (United States vs. Edward W. Brogan, et al., District of Kansas.)

Businessman Required to Pay $115,000 in Restitution

A Missoula, Montana businessman was sentenced to 63 months in prison, ordered to make restitution to HUD of $115,000 and fined $2,000 after pleading guilty to two counts of mail fraud. He assumed 39 FHA-insured loans and collected over $150,000 in rents without making any mortgage payments. The businessman has been suspended from participating in HUD programs. (United States vs. Ernest L. Bowers, District of Montana.)

Former Area Management Broker Indicted on Mail Fraud

A former Area Management Broker (AMB) under contract with HUD was indicted by a Federal Grand Jury in Fresno, California, on 17 counts of mail fraud. The AMB allegedly established two "dummy" companies which he then used to inflate his billings to HUD by approximately $134,000. (United States vs. Walter L. Moore, Eastern District of California.)

Two Real Estate Investors Sentenced to Prison

Two Denton, Texas real estate investors were sentenced in connection with the submission of false statements to HUD to obtain HUD-insured single family mortgages. The two investors, who operated a single family strawbuyer scheme and made and caused false statements to HUD about occupancy, were sentenced to a total of 179 days incarceration with 10 years probation, ordered to make restitution to HUD totaling $104,767, and directed to perform 716 hours of community service. Both investors have been suspended from doing business with HUD. (United States vs. William Edward Cantrell and Charles W. Kurth, Eastern District of Texas.)

Real Estate Investors Indicted on Fraud and Equity Skimming Charges

Two real estate investors were indicted by a Federal Grand Jury in Fresno, California, on 15 counts of submitting false statements to HUD, mail fraud and equity skimming involving at least 13 HUD-insured properties. The indictment was the result of a joint investigation by the HUD-OIG and the FBI which developed evidence that the investors allegedly used strawbuyers to obtain HUD-insured loans on single family homes. The investors became involved in equity skimming activities by using fictitious names and business entities. HUD's loss is estimated at approximately $300,000. One investor has been debarred from participating in HUD programs. (United States vs. Anthony D. Phelps and Alan F. Hall, Eastern District of California.)

Closing Attorney Ordered to Pay $100,000 in Restitution

A real estate closing attorney in Goodlettsville, Tennessee, was sentenced in U.S. District Court after his conviction on 27 counts of submitting false loan applications and closing documents to the government. The attorney was ordered to pay restitution of $100,000, and was sentenced to 5 years in prison with all but the first 6 months suspended, and was placed on probation for 4.5 years to run concurrently with the 6 months incarceration. He has been suspended from participating in HUD programs. (United States vs. Douglas Randall Berry, Middle District of Tennessee.)

Investor Pleads Guilty to False Statement Charges

A Baltimore, Maryland real estate investor pled guilty to two counts of making false statements to HUD in connection with submitting false information about occupancy to obtain six FHA single family insured mortgages. The investor was placed on 3 years probation, ordered to pay a $40,000 fine and perform 200 hours of community service. He was issued a limited denial of participation from participating in HUD programs. (United States vs. Daniel J. Plunkett, District of Maryland.)

Five Investors Sentenced to Prison

Five real estate investors were sentenced in Dallas, Texas, in connection with a single family equity skimming scheme. Sentences totaled 6 years in prison, 12 years probation, $3,000 in fines, and 400 hours of community service. All five of the defendants pled guilty for their participation in the scheme which involved 47 residential properties. (United States vs. David C. Story, Susan R. Story, Douglas Byers, Michael Bird, and Anthony Dycus, Northern District of Texas.)

Real Estate Company Ordered to Pay $362,623 in Restitution

A former owner of a real estate company and her husband/business partner in Tulsa, Oklahoma, were each sentenced to 5 years probation and ordered to make restitution totaling $362,623. Both defendants pled guilty to two counts each of making false statements. The guilty pleas followed a joint investigation by the FBI and OIG which disclosed that various employees of the company falsified information submitted to HUD to qualify otherwise unqualified buyers. Falsifications included information regarding down payments, "work equity" down payments, and false gift letters. This joint investigation resulted in convictions of eight individuals. Seven subjects pled guilty to charges and one subject was convicted at a jury trial. Six subjects were real estate agents and two subjects were individuals who were paid a fee to qualify to acquire a HUD-insured mortgage. (United States vs. Karen Kay Lujan, et al., Northern District of Oklahoma.)

Borrower Indicted for Misusing Social Security Number

A Houston, Texas mortgagor was indicted by a Federal Grand Jury for using the Social Security Number (SSN) of another individual on an application for a HUD-insured loan. The borrower also provided the mortgage company with copies of a W-2 Form, an income tax form and a pay stub which had been altered to reflect the same SSN. The charges included one count of misuse of an SSN and one count of making false statements to HUD. The indictment was the result of a joint investigation by the Houston Single Family Task Force comprised of the FBI and the HUD-OIG, and the Department of Health and Human Services. (United States vs. Anthony J. Gage, Jr., Southern District of Texas.)

Rental Assistance

Our office conducted investigations of individuals who defrauded the various Housing Assistance Programs. The most prevalent type of violation involved falsification of documents relating to tenants' eligibility so that they received assistance to which they would not otherwise be entitled. The following actions were recorded:

- Individuals Indicted: 58
- Individuals Convicted: 48
- Restitution/Repayments: $1,042,040
- Total Fines: $27,837

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

Tenant Indicted for Failing to Disclose Property Ownership

A Federal Grand Jury in Los Angeles returned a nine-count indictment against a Section 8 tenant who was charged with making false statements and theft of government property. The tenant allegedly failed to disclose ownership of her residence for which she collected assistance checks in excess of $27,000. The checks, which were issued to a fictitious landlord, were allegedly used to make mortgage payments. The tenant has been suspended from participating in HUD programs. (United States vs. Patricia Ann Winston, Central District of California.)

Tenant Ordered to Make Restitution of $13,628

A Section 8 tenant in Boston, Massachusetts, pled guilty to three counts of making false statements by failing to disclose her total income and assets over a 17-month period. She was given a 21-month suspended jail sentence, placed on 3 years probation, ordered to make restitution of $13,628 to HUD, fined $15,000, and ordered to perform 300 hours of community service. The tenant has been suspended from participating in HUD programs. (United States vs. Lucy Prado, District of Massachusetts.)

Tenant Sentenced on False Statement Charges

A Section 236/Rent Supplement tenant in Springfield, Massachusetts, was sentenced on four counts of making false statements and conversion of government funds for her own use. The judge ordered a 2-year suspended sentence, 5 years probation, and required the tenant to pay restitution of $16,602 to HUD. The tenant failed to report her total family composition and income. (United States vs. Nana Boateng, District of Massachusetts.)

Tenant Required to Make Restitution

A Section 8 tenant was sentenced in San Francisco, California, on one count of furnishing false statements to HUD, after failing to report her total income as a stockbroker. The tenant received a 2-year suspended sentence with 5 years of probation, a 90-day electronic home detention requirement, and was ordered to perform 500 hours of community service and make restitution of $13,132. (United States vs. Jacqueline R. Washington, Northern District of California.)

Tenant Charged for Concealing Inheritance

A tenant in Seattle, Washington, was charged with two counts of making false statements to qualify for housing assistance and supplemental Social Security payments by concealing an inheritance of more than $300,000. He allegedly received housing assistance payments totaling $12,401 to which he was not entitled. The investigation was conducted with assistance from the Department of Health and Human Services OIG. (United States vs. Frank J. Luketa, Western District of Washington.)

Tenant Charged for Failing to Report Income

A criminal complaint was filed by the OIG with the U.S. Magistrate in San Jose, California, against a Section 8 tenant who was also a welfare eligibility worker for the County of Santa Clara. The tenant allegedly failed to report her true income and benefitted from $12,291 in overpaid assistance. (United States vs. Beverly Jordan, Northern District of California.)

Tenant Indicted on False Statement Charges

A Federal Grand Jury in Harrison, Arkansas, returned a three-count indictment against a Section 8 tenant for submitting false statements to the Texarkana Housing Authority. The indictment charged the tenant with fraudulently certifying her income. She allegedly received over $9,000 in housing assistance to which she was not entitled. (United States vs. Emmer Lene Ford, aka Emmer L. Muldrew, Western District of Arkansas.)

Public Housing

Four Individuals Indicted for Bribery, Forgery, False Statements and Theft

A Cuyahoga County, Ohio Grand Jury indicted the Wayne Metropolitan Housing Authority Executive Director, a Cuyahoga Metropolitan Housing Authority Moderate Rehabilitation Director and two developers on 14 counts of bribery, forgery, falsification of records, false statements and theft. The individuals allegedly conspired to submit false land contracts to HUD and the local housing authority to justify increased subsidized rents which resulted in an overpayment totaling an estimated $65,000. The four individuals have been suspended from participating in HUD programs. The HUD-OIG and the FBI conducted a joint investigation in this case. (State of Ohio vs. John Rafferty, et al.)

Contractor Pleads Guilty to Embezzlement

A former contractor, who worked as a Relocation Specialist with those displaced through a Neighborhood Assistance Program administered by a county agency in Los Angeles, California, pled guilty to three counts of theft and five counts of embezzling public money. The investigation, conducted jointly by the HUD-OIG and the FBI, developed evidence that the former contractor diverted $65,000 in checks payable to various displacees and, with the assistance of a bank employee, deposited the checks in her personal bank account. (United States vs. Juanita Maria Tachvighi, Central District of California.)

Housing Authority Director Pleads Guilty to State Ethics Violations

The former Executive Director of the Green County, Pennsylvania Housing Authority pled guilty in State Court to two counts of violating provisions of the Pennsylvania Ethics Act pertaining to failure to report gifts and loans. He improperly accepted gifts and loans from a housing authority contractor. He was placed on 2 years probation, fined $7,900, and barred from holding an official government position for 5 years. The charges resulted from a State of Pennsylvania investigation, with OIG assistance, concerning kickbacks to the former Executive Director from contractors for whom bids were rigged. (Commonwealth of Pennsylvania vs. Louis J. DeMola.)

Housing Authority Employee Found Guilty of Making False Statement

An employee of the Charleston, West Virginia Housing Authority, who is the son of the former Manager of the HUD Charleston Office, was found guilty of one count of making a false statement. The employee calculated inflated rents on behalf of a landlord who participated in the Section 8 Moderate Rehabilitation Program, which provided guaranteed above-market-rate rents to landlords who rehabilitate residences, rent them to housing authority clients, and maintain the residences so they meet minimum property standards. He has been suspended from participating in HUD programs. The investigation was conducted by the Charleston Police Department with FBI assistance. (United States vs. Mark Smith, District of West Virginia.)

Housing Authority Employee Indicted for Theft

A former Anne Arundel County, Maryland Housing Authority employee was indicted by a County Grand Jury for stealing more than $8,000 in rent receipts she collected from tenants in a HUD-subsidized apartment house. She has been suspended from participating in HUD programs. The investigation was conducted by the Anne Arundel County Police Department with assistance from the HUD-OIG. (State of Maryland vs. Yvette Denise Chapman.)

Three Individuals Guilty of Bribery

A former Administrative Officer of the Tingit-Haida Regional Housing Authority pled guilty in Anchorage, Alaska, to accepting a $20,000 bribe and filing a false tax return. One partner of a contracting firm also pled guilty and another was found guilty after a 2-week trial in Anchorage. The bribes were given by the contractor and accepted by the Administrative Officer in return for an inflated 5-year lease for office and storage space for the Housing Authority. In addition, a major part of the $1.5 million in Comprehensive Improvement Assistance Program funds granted to the Housing Authority in 1984 was being funneled to the contractor. Five individuals have been suspended from participating in HUD programs as a result of this investigation. The investigation was conducted jointly by HUD-OIG, FBI and IRS. (United States vs. Frank Lee Naccarato, Felipe Tagaban, et al., District of Alaska.)

Multifamily

Project Manager Charged with Theft and Interstate Transportation of Stolen Property

A former Warren, Michigan housing project manager was charged with theft and interstate transportation of stolen property from various HUD-insured projects after converting approximately $600,000 in program funds to his personal use. The manager allegedly deposited the project's general operating reserve monies into his personal brokerage account. (United States vs. James Kowich, Eastern District of Michigan.)

Project Manager Charged with Embezzling Rent Receipts

The former project manager of the HUD-assisted Golden Rule Apartments, Washington, D.C., was charged with theft for allegedly embezzling rent receipts totaling at least $36,000 from the project. The HUD-OIG conducted the investigation and the arrest was made by the D.C. Metropolitan Police Department. (Superior Court of the District of Columbia vs. Charyn Johnson.)

Title I Property Improvement Program

Borrower to Pay Restitution on False Statement Charges

A Little Rock, Arkansas home improvement loan borrower was placed on 5 years probation and ordered to pay $14,261 in restitution for making a false statement to HUD. The borrower previously pled guilty to a one-count charge of applying for an FHA Title I Home Improvement Loan in the amount of $15,000 with no intention of making repairs or residing at the property to be improved. (United States vs. Emmett Marion Willis, Jr., Eastern District of Arkansas.)

Bank Official Indicted for Filing False Claims

A Vice President of a Federal Savings and Loan Association in Broken Bow, Nebraska, was indicted by an Omaha Federal Grand Jury on six counts of filing false claims for FHA Title I Home Improvement loans totaling $80,000. The indictment alleged that the Vice President made false statements on Title I Claim for Loss Application Vouchers for the six home improvement loans. He was also aware that the borrowers used Title I Home Improvement Loan proceeds for other than the intended purpose. He has been suspended from participating in HUD programs. (United States vs. James H. Varney, District of Nebraska.)

Community Development Block Grant Program

Mayor Sentenced for Theft and Forgery

The former Mayor of Colmar Manor, Maryland, was sentenced to 9 months in a Prince Georges County Jail work-release program after pleading guilty in State Court to one count of theft and four counts of forgery. The Court ordered restitution of $39,505, most of which was identified as HUD Community Development Block Grant funds taken from the town treasury. The former Mayor has been suspended from participating in HUD programs. The Prince Georges County prosecuting attorney conducted the investigation with OIG assistance. (State of Maryland vs. Joseph Slaton Anthony; Audit Report No. B-79-HS-24-0004.)

Contractor Fined for Submitting False Invoices

A rehabilitation contractor in Salt Lake City, Utah, was placed on 1 year probation and fined $500 for submitting false invoices to the Davis County Housing Authority in connection with a Section 312 rehabilitation project. The contractor received approximately $8,000 in HUD funds to which he was not entitled by submitting inflated invoices to avoid paying the required matching funds for the project. (United States vs. Marvin Blosch, District of Utah.)

Chapter 4

LEGISLATION AND REGULATIONS

In accordance with our legislated responsibility to prevent and detect fraud and abuse and to further the economy and efficiency of programs and operations, we continually review proposed legislation and HUD regulations. During this reporting period, we also submitted suggestions for legislative proposals or revisions to HUD's Office of General Counsel.

Our recommendations regarding the Single Family and Title X Land Development Programs are already addressed in Chapter 1. Several of our recommendations are incorporated in Secretary Kemp's Reform Program. Highlighted below are a few of the other suggestions we offered.

Recommendations and Suggestions

Section 235 Refinancing

HUD's Section 235 Program was designed to provide homeownership opportunities to low- and moderate-income mortgagors. HUD subsidizes mortgage interest payments for qualified mortgagors through assistance payments contracts between HUD and the mortgagees. In Fiscal Year 1988, estimated subsidies for this program were about $193 million. Much of this assistance is due to the fact that HUD is subsidizing loans at interest rates well above present market rates. Many of these contracts were let in the early 1980's, when interest rates soared to 17.5 percent.

We estimate that as many as 22,000 high-interest mortgagors still receive monthly assistance. Some mortgagors with 17.5 percent interest rate mortgages are being subsidized to 9 percent. There is little incentive for the mortgagor to refinance if he or she is paying a below market interest rate.

By taking prompt action, the OIG estimates that savings over the life of the Section 235 assistance contract could amount to $391 million. This amount is net of closing costs which would be paid by HUD.

We continue to work with HUD officials in developing Section 235 refinancing proposals.

H.R. 2850, a bill to amend Section 235 of the National Housing Act to provide for refinancing of mortgages, loans, and advances of credit for which assistance payments are provided under the lower-income homeownership program, was introduced in July 1989. Although it does not provide mortgagors an incentive to refinance, it contains the other necessary elements to implement a refinancing program.

U.S. Housing Act of 1937

We made several suggestions for revisions to the U.S. Housing Act of 1937. For example:

- Section 8 of the Act should be amended to prevent future HUD administrations from arbitrarily capping the new construction or substantial rehabilitation fair market rents at some unsupported percentage. For the past few years, these rents have been capped at 3 percent regardless of the actual construction cost rate of inflation.

- Section 21(a)(3)(C) should be amended to extend the date for the sale of properties by public housing agencies (PHA's) to Resident Management Corporations (RMC's) from September 30, 1990, to 1 year or more later. Two RMC's are currently engaged in purchasing projects from their respective PHA's; however, it is not certain at this time whether they can meet the statutory target date. Moreover, the statutory target date precludes other RMC's from engaging in project buy-outs.

- Section 21(a)(3)(A)(IV) should be amended to eliminate the one-for-one replacement provision relating to project buy-outs by RMC's. There simply are not enough housing development funds in HUD's budget to meet replacement housing needs under Section 21. A PHA can use its vacant units to meet the one-for-one replacement, but this would likely preclude other RMC's at the PHA from engaging in project buy-outs (e.g., Cochran Gardens in St. Louis would be adversely affected if the PHA uses its vacant units for the Carr-Square buy-out). In addition, affected projects could wind up with a disproportionate share of modernization (Comprehensive Improvement Assistance Program) funds, compared to other PHA's in the allocation area.

Housing and Community Development Act of 1975

We suggested amending the Housing and Community Development Act of 1975, Title II, Section 3(6), with respect to the establishment and community operation of housing development corporations by public housing agencies (PHA's), to provide some controls over what housing development corporations may or may not do. The Section states that a PHA includes any State, county, municipality, or other government entity or body authorized to engage or assist in the development or operation of low-income housing. HUD uses this statutory provision as the authority for PHA's to establish housing development corporations. However, the statute is silent on the operation of such entities.

Our audits have identified many abuses by such corporations, including conflicts- or identities-of-interest on the part of board members of the agencies and corporations, and inequitable arrangements between the PHA's and the housing development corporations. The San Antonio Housing Authority review discussed in Chapter 2 of this report exemplifies the types of abuse that exist. We believe the statute should clarify requirements for and responsibilities of these corporations.

National Housing Act

We suggested changes to the Multifamily Mortgage Insurance Program portion of the National Housing Act, which permits mortgagors to claim an allowance as part of the cost certification. The amount depends on whether the mortgagor is acting as the builder or has an identity-of-interest (IOI) relationship with the builder/general contractor. The Act prohibits a builder's profit if the Builders and Sponsors Profit and Risk Allowance (BSPRA) is provided. This provision allows excessive profit to be paid to developers from mortgage proceeds.

To permit BSPRA, the developer claims an IOI relationship exists with the general contractor. Although the mortgagor may legally create a limited partnership to be the general contractor, the partnership is, in fact, a paper creation for the sole purpose of qualifying the mortgagor under HUD requirements for BSPRA. Also, through the mechanism of an IOI subcontractor, the developer arranges for receipt of a "builder's profit" by the true general contractor.

This misrepresentation allows the mortgagor to claim BSPRA in lieu of Sponsors Profit and Risk Allowance (SPRA), yet also to include the "builder's profit" in the certification of actual cost as part of the subcontractor's costs. Since the mortgagor could have entered into an arms-length, fixed-price contract, the arrangement increases construction costs by about 10 percent for the benefit of the developer. We proposed rescinding the provision for BSPRA and limiting the developer to SPRA.

Legislation and Regulation Review

Some of the other significant legislative proposals and regulations we reviewed during the past 6 months, e.g., the proposed HUD Reform Act of 1989 (H.R. 3101) and the proposed HUD Accountability Act, were a direct result of publicity the Department received during that time. We did not support either of these since neither adequately addressed the problems and abuses noted in HUD's funding processes.

On the other hand, we supported a proposal to fully terminate the Title X Program (covered in Chapter 1). On more than one occasion, we opposed regulations proposed for the Community Housing Resource Board Program because the Office of Fair Housing and Equal Opportunity had not responded to recommendations we made in a previous audit report.

Chapter 5

PREVENTION ACTIVITIES AND SPECIAL EFFORTS

This Chapter highlights efforts to prevent fraud, waste, and abuse and to improve the economy and efficiency of Departmental programs and operations. The Chapter describes our work in five areas:

Tenant Integrity Initiatives;
Awareness Publications;
President's Council on Integrity and Efficiency;
HUD Hotline; and
Monitoring Audit Quality.

Tenant Integrity Initiatives

Our Office has been involved in several initiatives to prevent and detect tenant fraud. These include: a Tenant Integrity Program; conducting income computer matches; and supporting income verification measures.

Tenant Integrity Program

Our Office, in cooperation with the Public Housing Authorities Directors Association, has continued its series of 15 workshops across the Nation on a Tenant Integrity Program (TIP). This program is designed to teach public housing agency (PHA) staffs how to prevent, detect and take action on tenant error and fraud. The TIP emphasizes the importance of quality intake procedures in preventing abuse through the effective use of forms, policies, interviewing, and verification techniques. The goal of the program is to ensure that scarce housing resources are properly provided to only eligible applicants and tenants. The response to these workshops has been enthusiastic. Approximately 1,200 people from over 500 PHA's attended our first 11 workshops.

Because of the high level of interest and attendance at our workshops, the Public Housing Authorities Directors Association has asked us to conduct eight additional workshops in 1990. Preliminary sites include: Hartford, Connecticut; Buffalo, New York; Washington, D.C.; Louisville, Kentucky; New Orleans, Louisiana; Phoenix, Arizona; Riverside, California; and Portland, Oregon.

A videotape that gives an overview of the TIP has been produced by our office and distributed to all PHA's by HUD's Office of Public and Indian Housing.

Computer Matching

Since our last Semiannual Report, much progress has been made in our computer matching effort. Some of the results are as follows:

- Florida State-Wide Match. We have 13 PHA's in Florida participating in our first State-wide computer matching project. They are: Broward County; Clearwater; Dade County; Ft. Lauderdale; Ft. Walton Beach; Hialeah; Jacksonville; Key West; Lee County; Northwest Regional; Pompano Beach; Tallahassee; and Tampa. From these 13 PHA's with approximately 36,750 units, we have

57,500 unique Social Security Numbers (SSN's) that we matched against Florida State wage data, Office of Personnel Management data of active and retired Federal employees, Department of Defense data of military personnel, and U.S. Postal Service data on its employees.

Preliminary results or "raw hits" were provided to the PHA's at the end of September 1989, for investigation and follow-up. No actions can be taken until PHA's have independently confirmed this information. After that is done, they will calculate any overpayments and take appropriate corrective measures.

- Other Matches in Progress. Ongoing computer matches include:

  - Texas. OIG audit staff issued audit reports with results from the Ft. Worth and Dallas PHA's. The Ft. Worth audit identified 68 tenants who omitted $739,351 of income resulting in $176,864 of overpaid assistance. The match at the Dallas PHA identified 513 tenants who omitted $5 million in income resulting in $1.4 million of overpaid assistance. See Chapter 2 for additional details.

  - Colorado. The Denver PHA is in the process of analyzing responses from wage earning confirmations and will begin the computations of overpaid assistance shortly.

  - Connecticut. Two matches are in progress in Connecticut at the Hartford and New Haven PHA's. We have just received the "raw hits" from the State of Connecticut Department of Labor and will be producing reports for follow-up.

  - Missouri and Illinois. We are in the initial stages in Missouri at the St. Louis County PHA, and in Illinois at the Chicago PHA. These PHA's are in the process of creating the tenant data tapes to send to us.

Except for special cases, these will be the last single computer matching projects. Further matches will be offered on a State-wide basis. Our next planned State-wide match will be the State of Pennsylvania. Invitation letters recently went to all PHA's in the State.

- Front-End Verification. One alternative to computer matching is front-end income verification—a way to check an applicant's income before he/she becomes a tenant. At the time a potential tenant applies for assistance, his or her Social Security Number can be sent, either electronically or manually, to some State employment offices to verify reported income or lack of income. Our Office has completed a survey of 22 States to determine which ones would consider allowing PHA on-line access to their data bases. We will start working with those States willing to allow front-end matching. We will prioritize the list and start to determine the best access method(s) that could be made available to all PHA's in those States.

Authority to Require Social Security Numbers

On February 5, 1988, the President signed into law The Housing and Community Development Act of 1987. Section 165 of the Act authorizes HUD to require applicants and participants (and members of their households over 6 years of age) in HUD-administered programs involving loans, grants, or rental assistance, or mortgage or loan insurance, to disclose to HUD their Social Security Numbers (SSN's) or Employer Identification Numbers, as appropriate. These provisions make disclosure of these numbers a condition of initial or continuing eligibility for participation in the programs involved.

The new regulations will be found in Part 750, Disclosure of Social Security Account Numbers by Applicants and Participants in Certain Rental Housing Assistance Programs. This regulation implements the SSN requirements for the rental housing assistance programs, unassisted mortgage and loan insurance and coinsurance programs, assisted mortgage and loan insurance programs, and community planning and development programs. The final regulation was published in the Federal Register on September 27, 1989.

Access to State Wage Data and Requirement for Consent Form

On November 7, 1988, the McKinney Amendments of 1988 were enacted into law. Section 904 contains both access to State wage data and the requirement for consent forms. This law became effective in September 1989.

A proposed rule has been submitted to the Office of Management and Budget. The rule would require certain applicants and participants in HUD's assisted housing programs to sign and submit consent forms permitting: (1) HUD, the PHA or the owner responsible for determining eligibility for or level of benefits to verify employee income information with previous or current employers; and (2) HUD or the PHA responsible for determining eligibility for or level of benefits to request wage and claim information from the State agency responsible for the administration of the State unemployment law. The Department of Labor must also publish regulations to implement this law. They are currently drafting regulations.

Awareness Publications

Awareness publications are intended to increase program participants' and HUD employees' knowledge of program vulnerabilities and enhance their ability to detect and prevent waste and mismanagement. During this period, we issued a Fraud Information Bulletin (FIB) entitled "Reviewing Independent Auditor Reports," and a third issue of the "OIG Communique."

The FIB provides guidance to HUD staff on how to use the information contained in audit reports for monitoring program participants. It identifies "red flags" which indicate serious problems may exist and contains guidance on performing additional analyses to determine the extent of the problems.

The "OIG Communique" represents a continuing effort to keep program participants informed of our work. The third issue discusses current fraud cases that we have investigated and provides an update on our computer matching activities and our Tenant Integrity Program.

We also translated a Program Integrity Bulletin entitled "Things You Should Know" into Chinese. This bulletin provides applicants and tenants with information they need to know so they do not violate program rules regarding their eligibility or level of benefits for Federally assisted housing. This bulletin is also available in English, Spanish, and Vietnamese.

President's Council on Integrity and Efficiency

The Inspector General is a member of the President's Council on Integrity and Efficiency (PCIE) and an active participant of the Audit Committee. In this role, he assisted in the development of the PCIE Policy Statement on Quality Control Reviews. The policy statement recognizes the requirement for an external quality control review of each Office of Inspector General as stipulated in the Inspector General Act Amendments of 1988 and the General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. The Office of Inspector General also participated in the ongoing Inspector General Planning Roundtable. This Roundtable meets periodically to discuss planning strategies, practices and procedures. More recently, at the request of the Communications Subcommittee of the PCIE, the OIG prepared and distributed the first PCIE Directory. The directory includes pertinent information not only about PCIE members, but the Coordinating Conference and the Council of Counsels as well.

HUD Hotline

Hotline activities rose significantly during the 6-month reporting period with 229 new complaints opened. This volume nearly equalled the 234 complaints opened for the entire 1988 Fiscal Year and brings the total number of opened complaints to 3,790 since inception of the Hotline in February 1979.

In addition, another 236 reportings of suspected abuse were made but lacked sufficient detail to warrant further consideration. However, many of these reportings were provided to program staff to assist them in monitoring HUD programs. The increased volume of Hotline activity is most likely the result of recent media coverage of HUD activities, although other initiatives such as the Tenant Integrity Program, awareness publications, etc., had an impact.

Corrective actions were taken on 35 percent of the 119 cases closed during the period. Monetary actions totaled over $34,400, consisting of repayments to HUD, program administrators, and program participants. Other actions included employee reprimands for Standards of Conduct violations, enhancements to HUD procedures, maintenance repairs to assisted housing complexes, etc.

The Hotline not only facilitates HUD's efforts to eliminate fraud and abuse, but its operation can directly benefit concerned individuals who take the initiative and report suspect actions. Corrective actions taken during this period can be credited with enhancing subsidized tenant program operations. Enforcement actions in various projects resulted in the correction of health and safety defects, better supervision and maintenance of tenant waiting lists, and the elimination of such practices as charging application fees and pre-setting rents without considering amenities, etc. A description of specific actions taken on cases already closed follows.

- A Section 8 tenant was required to reimburse $5,366 in overpaid subsidy, fined an additional $50 in court fees, received a 1-year suspended sentence and was placed on 4 years probation. The tenant failed to report her employment with the Social Security Administration and her actual income between 1982 and 1987.

- A tenant vacated a Section 8 subsidized unit when collection activities were initiated against him to recover $12,632 in unpaid rent. Of this amount, $4,256 represented overpaid subsidy received because the head of the household reported no income when in fact he worked as a corrections officer for the local government.

- A developer was barred from participating in HUD's Single Family Mortgage Insurance Programs for 1 year after failing to correct numerous construction deficiencies (water leaks, inoperable windows, needed painting, etc.) on a townhouse with FHA mortgage insurance.

- A property manager's employment was terminated for not following tenant selection procedures. A review found 13 tenants moved in ahead of others on the waiting list. Although these tenants were determined to be eligible for assistance, those previously bypassed were given priority for upcoming vacancies.

- A HUD employee resigned following allegations of conflict of interest in connection with the purchase of a property in HUD's Property Disposition Program. The employee obtained inside information not available to the general public concerning the property. He was issued a proposed removal notice and was unsuccessful in his appeal.

- A rent subsidy tenant was removed from the Section 8 Program and was ordered to repay $1,370 for ineligible subsidy payments. The actions were taken in lieu of prosecution following an allegation that the tenant had not reported all income and owned such items as a cabin cruiser boat, new car, etc.

- Employees of subcontractors on a Community Development Block Grant-funded project received $11,777 for underpaid wages. The underpayment was detected after an audit of allegations that HUD funds were being wasted on a rehabilitation project. The underpayment resulted from the subcontractors not paying prevailing wages in accordance with the Davis-Bacon Act.

Monitoring Audit Quality

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

The Department annually receives more than 37,000 non-Federal audit reports. These include audits of State and local governments under the Single Audit Act, as well as entities participating in Federally insured housing programs and the Government National Mortgage Association Mortgage-Backed Securities Program. Only about 4,600 reports are controlled and issued by the HUD-OIG. The majority of non-Federal audit reports are submitted directly to HUD program managers. HUD offices rely on these audits to provide financial and compliance information necessary for proper administration and oversight of Federal programs.

OIG monitoring activities include performing desk reviews of issued reports and more extensive on-site quality control reviews (QCR's) of audit work supporting non-Federal audit reports. When necessary, clarifications and revisions of audit reports are obtained. In some instances, where the non-Federal audit work is found to be substandard or the non-Federal auditor has previously been advised of similar major inadequacies, the OIG will initiate referrals to appropriate regulatory and professional groups. Referrals have been made to the American Institute of Certified

Public Accountants (AICPA) and appropriate State Licensing Boards. In each case, we requested that the AICPA or State Board review the case and take appropriate sanctions. HUD may also take sanctions, including debarment, suspension, and limited denial of participation.

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

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

	Single Audits			Other Audits			
	(Cognizant Assignments and General Oversight Entities)			(HUD Program Audits)			
	Independent Public Accountant	State & Local Auditor	Total	Independent Public Accountant	State & Local Auditor	Total	Grand Total
STATISTICAL TABLE							
Total Reports Issued[1]	2,083	103	2,186	2	0	2	2,188
1. Reports issued without change or with minor changes							
a. Based on desk review	1,862	94	1,956	2	0	2	1,958
b. Based on QCR	36	3	39	0	0	0	39
Total without change or minor changes	1,898	97	1,995	2	0	2	1,997
2. Reports issued with major changes							
a. Based on desk review	140	5	145	0	0	0	145
b. Based on QCR	45	1	46	0	0	0	46
Total with major changes	185	6	191	0	0	0	191
3. Reports with significant inadequacies							
a. Based on desk review	0	0	0	0	0	0	0
b. Based on QCR	10	0	10	6	0	6	16
Total with significant inadequacies	10	0	10	6	0	6	16
4. Total Quality Control Reviews including reports not issued[2]	81	4	85	158	0	158	243
5. Number of auditors referred to State Boards/AICPA[3]	3	0	3	3	0	3	6
6. Number of auditors against which other sanctions were taken	5	0	5	1	0	1	6

[1]This does not include Defense Contract Audit Agency and Single Audits for which we are not the cognizant/general oversight agency as well as certain HUD-audited programs.

[2]This includes QCR's done on reports not included in line 1.

[3]This does not include an additional four Independent Auditors who were referred to their State Board for possible licensing violations.

The following is a brief description of standards violations disclosed as a result of our monitoring efforts during the reporting period.

Frequently Identified Audit Deficiencies

- Independent Auditors (IA's) failed to document in the working papers the audit plan used to accomplish the objectives of the review.

- The IAs' working papers did not contain supporting documentation required for compliance testing.

- The IA's did not adequately document the study and evaluation of the auditee's existing internal controls in order to determine the extent of audit testing required.

- The IA's failed to obtain written representation from management and the auditee's counsel as part of an examination made in accordance with generally accepted auditing standards.

Examples of Extremely Deficient Audits

An IA performed an audit of a HUD-approved mortgagee. We conducted a quality control review (QCR) and found nonadherence to HUD audit guide requirements as well as GAO and AICPA auditing standards. We noted that the IA did not perform sufficient tests on stock transactions to ensure their effect on HUD-acceptable net worth, did not question the mortgagee's ability to continue operations and did not disclose material instances of noncompliance. The mortgagee ceased operations 1 month after the date of the IA's report.

Another IA performed an audit of a housing authority. We conducted a quality control review of the working papers and found significant departures from generally accepted government auditing standards. Our review disclosed the study and evaluation of internal accounting and administrative controls was insufficient, the working papers did not support conclusions reached on some compliance items, and due professional care was not exercised in planning, supervising and conducting the audit. Shortly after completion of the audit by the IA, an audit and investigation by the OIG were initiated. There were serious administrative deficiencies noted and, in addition, some assistance payments were fraudulent.

During the reporting period, five IA's were debarred and one IA agreed to a voluntary exclusion. A debarment action is a governmentwide exclusion for a specified period of time, generally not to exceed 3 years. In another case, the IA was suspended and later debarred for an indefinite period of time. The voluntary exclusion, in which the IA agreed not to participate in HUD programs, was for 5 years.

Results of Referrals to State Boards/ AICPA/HUD

During the reporting period, sanctions were administered against three IA's by State Boards.

- An IA signed an agreement with the State Board that stipulated: for 1 year, each audit report had to have an independent pre-issuance review by another Certified Public Accountant (CPA); and the IA shall obtain 64 hours of continuing professional education (CPE) in the area of government auditing.

- Another IA agreed to a public reprimand and a peer review, and not to perform HUD-related audits during the limited denial of participation.

- An IA agreed not to renew his permit to practice as a CPA in that State.

In addition to sanctions administered by State Boards, the AICPA found violations of Rules 202 and 501 of the Code of Professional Conduct regarding an IA. The IA was required to complete 180 hours of CPE and have two future engagements reviewed.

Chapter 6

ADMINISTRATIVE/PROSECUTIVE ACTIONS AGAINST HUD EMPLOYEES

If the presence of fraud, waste, abuse and mismanagement is to be eliminated from government, appropriate action must be taken in all cases where employees are found to have acted improperly. The following are examples of prosecutive actions taken against HUD employees during this semiannual reporting period.

HUD Accountant Indicted for Embezzlement

A former HUD accountant in the Denver Regional Office was indicted by a Federal Grand Jury on six counts of theft of government funds. He allegedly embezzled more than $1 million. He was terminated from his HUD position.

The former employee was also sued civilly by the Federal Government for the more than $1 million embezzled. The civil suit requested a transfer of the funds back to the Federal Government, including the titles to an automobile and a home which the accountant purchased with the embezzled funds. Special Agents from the FBI and the OIG seized money, securities, and property totalling $480,987 traced from the embezzled funds. (United States vs. Douglas R. Turner, District of Colorado.)

Former Public and Indian Housing Official Indicted

The former HUD General Deputy Assistant Secretary for Public and Indian Housing was indicted by a Federal Grand Jury on five counts of conspiracy, bribery, and conflict of interest in connection with a $400,000 HUD development contract award. The indictment charged that the former employee benefitted when his wife was given cash and was assisted in obtaining a City contract by the Chairman of the Board of the firm which was awarded the HUD development contract. The Chairman of the Board was also indicted on the same charges. The former HUD official has been suspended from participating in HUD programs. This was a joint OIG/FBI investigation. (United States vs. James Baugh, District of Columbia.)

Former Deputy Assistant Secretary Sentenced to Prison

A former HUD Deputy Assistant Secretary for Program Policy and Development, Office of Community Planning and Development, was sentenced in Washington, DC, to 18 months each on two counts of receipt of gratuities. Sentences are to run concurrently. The former HUD official previously pled guilty to the receipt of cash payments from a grantee totalling $8,100 and an all-expense paid vacation for him and his family worth in excess of $4,900. The former official was directly responsible for approving a $700,000 grant to benefit the program recipient.

After pleading guilty to one count of conspiracy to defraud, the former official was also sentenced in Mississippi to serve 1 year and 1 day in prison. The sentence is to run concurrently with the sentence imposed in the case in Washington, DC. He was charged with using his position to award grants of Federal money to a firm in Jackson, Mississippi, conspiring with an individual to seek and handle bond issues involving a community development activity in Biloxi, Mississippi, and promoting business activities from which he would personally benefit. The investigation was conducted jointly by the FBI and the HUD-OIG. (United States vs. DuBois L. Gilliam, District of Columbia and Southern District of Mississippi.)

Employee Fails to Disclose Financial Interest

A Construction Analyst voluntarily retired after unsuccessfully appealing a proposed removal action. The employee was charged with falsifying several "Confidential Statement of Employment and Financial Interest" forms by failing to disclose ownership in a large number of properties, some of which were insured with FHA mortgages.

Employee Sentenced for Misusing Government Vehicle

A Loan Specialist was suspended for 10 days following a General Services Administration hotline complaint alleging misuse of a government vehicle by the employee. The employee denied using a government vehicle to travel with others to a video store.

Employee Suspended for Misusing Government Equipment

An Equal Opportunity Specialist was suspended for 5 days without pay after he admitted using a government computer and government-issued software for preparing personal letters.

Employees Sanctioned for Standards of Conduct Violation

An Equal Opportunity Specialist was terminated from HUD employment and a second one was suspended for 90 days, respectively, for their involvement in real estate transactions in violation of the Standards of Conduct.

Chapter 7

STATISTICAL SUMMARY

Department of Housing and Urban Development
Office of Inspector General

	April 1, 1989 through September 30, 1989	Fiscal Year 1989
Audit Activities		
• Cash Recoveries[1]	$25,646,138	$37,354,891
• Cost Efficiencies Realized[1]	$21,178,007	$21,178,007[2]
• Commitments to Recover Funds[1]	$50,479,334	$79,832,731
• Cost Efficiencies Sustained[1]	$20,054,184	$26,064,554
• Suspensions of Persons/Firms Doing Business with HUD	8	19
• Debarments of Persons/Firms Doing Business with HUD	8	58
• Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board	0	2
• Subpoenas Served	41	169
• Material Weaknesses Reported	2	9
• Reports Issued		
Internal Audit Reports:	35	66
External Audit Reports:	103	214
Audit-Related Memoranda Issued:	41	69
Non-Federal and Other Agency Reports Accepted:	2,621	5,491
Investigation Activities		
• Cash Recoveries/Savings	$3,510,001	$10,637,405
• Commitments to Recover Funds	$273,195	$931,208
• Cost Efficiencies	$10,345	$324,374
• Total Fines Levied	$546,437	$1,031,593
• Indictments	161	349
• Convictions	135	287
• Total Years of Prison Sentences	84	228
• Suspensions of Persons/Firms Doing Business with HUD	62	122
• Debarments of Persons/Firms Doing Business with HUD	73	154
• Personnel Actions Initiated Against HUD Employees	39	61
• Subpoenas Served	71	146
Program Integrity Activities		
• Awareness Publications Issued	5	8
• Hotline Complaints Opened	229	390
• Proposed Legislation and Regulations Reviewed	129	210

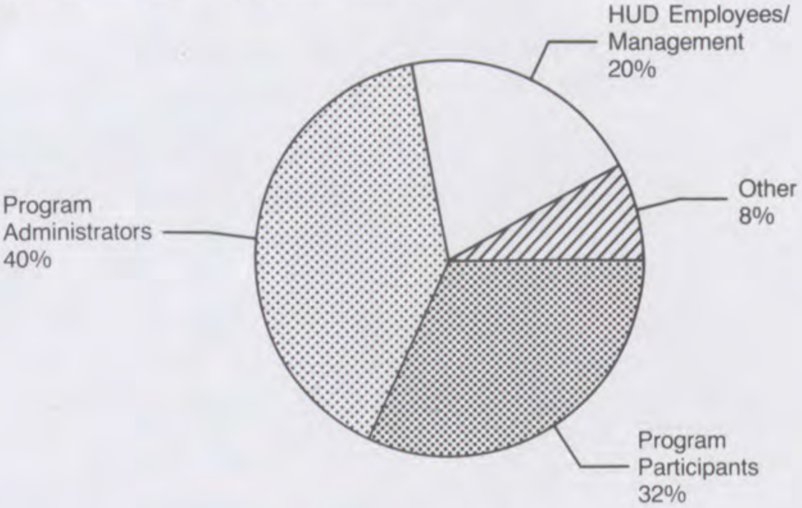
[1]Includes amounts due to HUD program participants.

[2]This is the first reporting period we have reported this category.

Hotline Activities

The following chart depicts the distribution by subject for the 229 hotline complaints received during the past 6 months.

Distribution of Hotline Complaints by Subject
April 1, 1989 Through September 30, 1989



The following is a summary of actions taken on 42 of 119 closed complaints found valid during the reporting period:

- Cash Recoveries/Claim Collections = $34,382
- Administrative Actions/Probation = 63 months
- Procedural Improvements = 16 instances
- Participants Benefitting from Program Enforcement = 10 instances
- Removal from HUD Programs or Subsidy Reduced = 6 instances
- Reprimands = 5 instances

Audit Recommendations

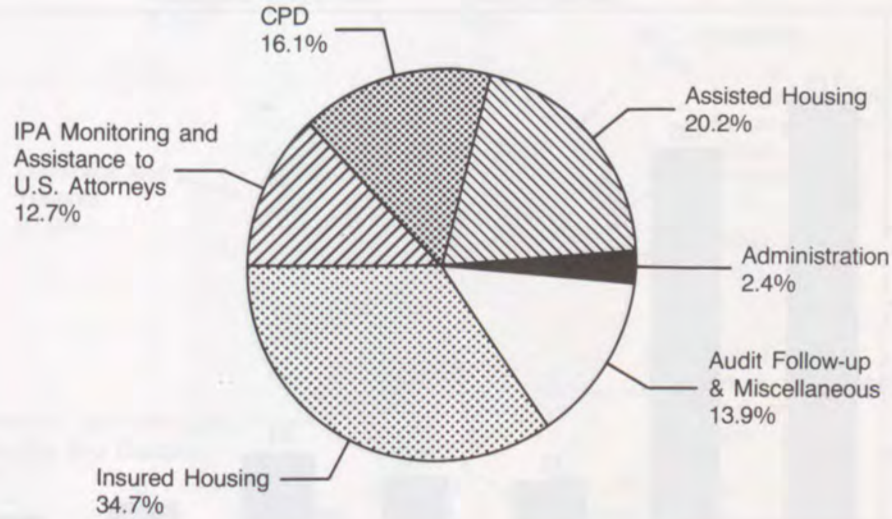
Following are statistics on the inventory of open audit recommendations and the activity during the reporting period:

- Audit recommendations undetermined at 4/1/89 = 1,654
- Audit recommendations issued during the period = 1,661
- Audit recommendations determined during the period = 2,260
- Audit recommendations undetermined at 9/30/89 = 1,055
- Audit recommendations undetermined over 6 months old = 26 ($1,494,000)

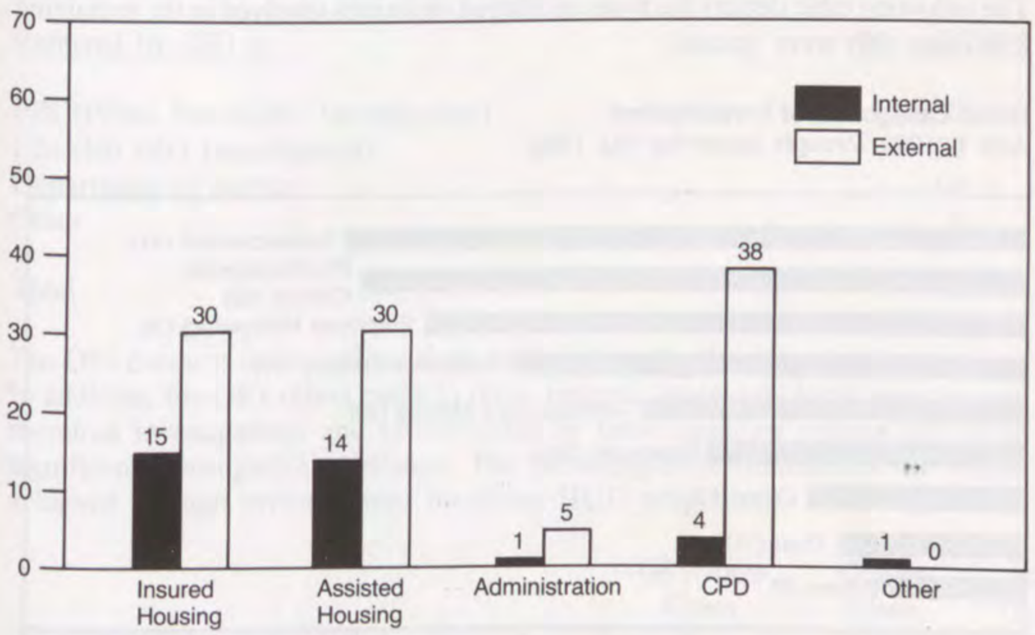
Audit Resources and Results

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

Distribution of Audit Staff Time by Program Area and Type of Audit
April 1, 1989 Through September 30, 1989



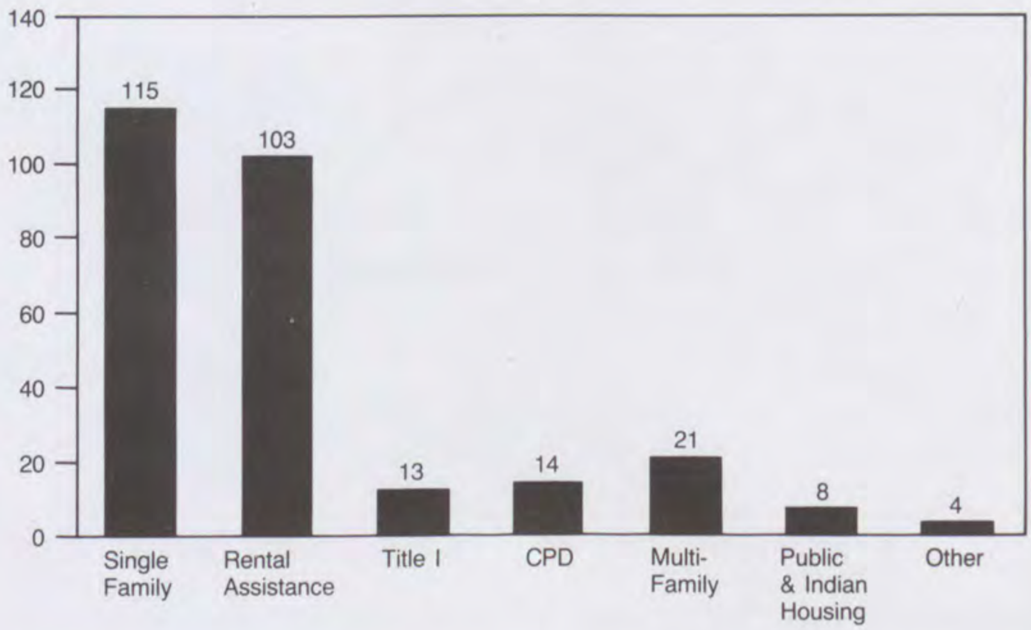
Distribution of Audit Reports Issued by Program Area and Type of Audit
April 1, 1989 Through September 30, 1989



Investigation Cases Opened

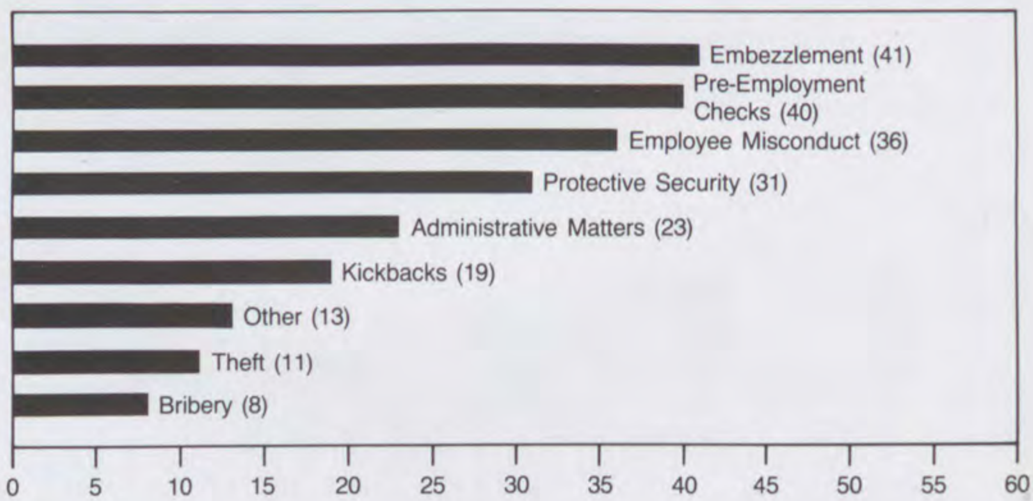
The following tables break down the 500 investigation cases opened during the last 6 months. Of these cases, 278 involved false statement violations as shown below.

False Statement Investigation Cases Opened
April 1, 1989 Through September 30, 1989



The following table depicts the types of alleged violations involved in the remaining 222 cases that were opened.

Other Categories of Investigation
April 1, 1989 Through September 30, 1989



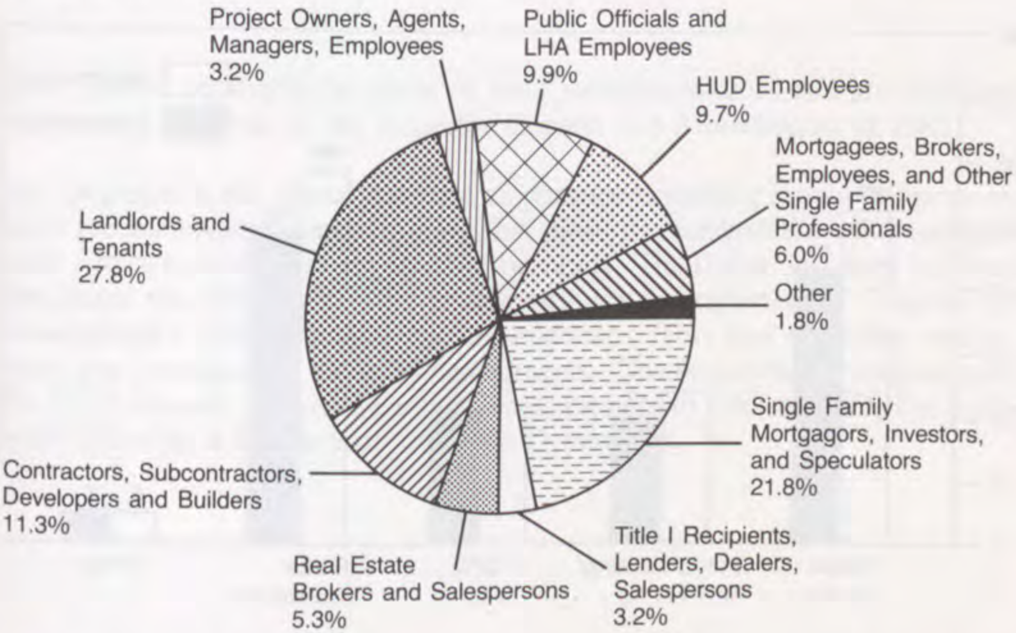
Pending Cases

As of September 30, 1989, we had 1,651 investigation cases either in process or awaiting investigation. Of these, 765 were FBI/other cases, 676 were cases of the OIG, and 210 were OIG-completed cases pending with the U.S. Attorney.

Closed Cases

The OIG closed 498 investigation cases during the reporting period, involving 504 individuals and firms. The following graph represents a breakdown of the subjects.

Distribution of Subjects of Investigation by Category
April 1, 1989 Through September 30, 1989



Investigation Cases Referred for Prosecution

The OIG referred 146 investigation cases for prosecutive consideration as follows:

Referred by OIG to:	No. of Cases
FBI (Prima Facie-OIG Investigation)	2
FBI (No OIG Investigation)	72
Department of Justice	64
Other	8
Total	146

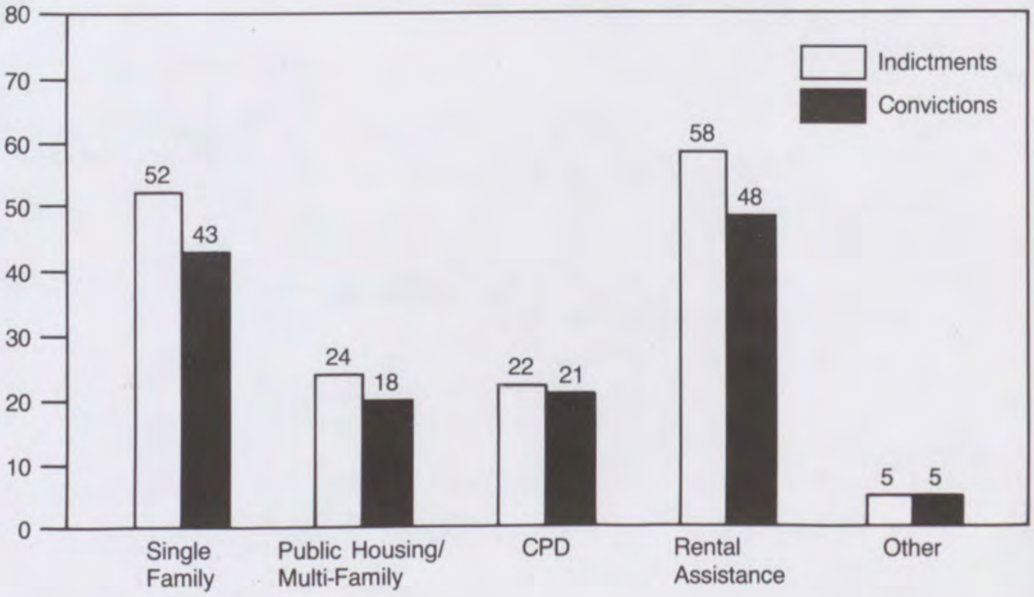
Prosecutions and Recoveries

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

	OIG/Joint Cases	Others Alone	4/1/89-9/30/89	FY 1989 Total
Cash Recoveries	$2,632,889	$877,112	$3,510,001	$10,637,405
Total Fines	$262,387	$284,050	$546,437	$1,031,593
Persons/Firms Indicted	120	41	161	349
Persons/Firms Convicted (Including pre-trial diversions)	85	50	135	287
Total Years Prison Sentences	40	44	84	228
Total Years Suspended/Probated Sentences	399	222	621	1,183

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

Prosecutions
April 1, 1989 Through September 30, 1989



Chapter 8

AUDIT RESOLUTION AND FOLLOW-UP

This Chapter highlights the status of audit recommendations and provides new information required by the Inspector General Act Amendments of 1988.

The Department has placed renewed emphasis on reaching timely decisions on audit recommendations and ensuring that those recommendations that management agrees to implement are acted on promptly. The Under Secretary has been designated the official with overall responsibility for reporting to Congress on management's actions on audit recommendations. This new reporting requirement was mandated by the 1988 amendments. This requirement, coupled with the HUD scandals and the Secretary's commitment to reform HUD, has made audit follow-up a high priority with the Department.

AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH NO MANGEMENT DECISION AT 9/30/89

Report Number	Report Title	Issue Date
*86SE1003	Overstated Tenant Utility Allowances at the Seattle Housing Authority Seattle WA	02/21/86
89CH0005	Effectiveness of Establishing Fair Market Rents Chicago Regional Office	03/17/89
89NY0003	Effectiveness of Establishing Fair Market Rents Caribbean Office	03/30/89
*88NY1011	Management of Jobs Bill Program Albany NY	03/31/88
*89AO0004	HUD's Implementation of the Federal Managers' Financial Integrity Act	01/11/89
*89TS0004	Evaluation of Community Housing Resource Boards Program (CHRB's)	03/31/89

*Significant audit reports described in previous semiannual reports.

Reason for Lack of Management Decision	Target Date for Management Decision
The decision on this report is being deferred pending the outcome of Kings County, which has a similar issue regarding tenant utility allowances.	12/31/89
This report is part of a consolidated report that was issued on September 27, 1989. The decisions on the recommendations in this report will be made at the same time as the decisions on the consolidated report.	12/31/89
This report is part of a report that was issued on September 27, 1989. The decisions on the recommendations in this report will be made at the same time as the decisions on the consolidated report.	12/31/89
This report was referred to Headquarters because of disagreement between the Office of Audit and program staff at the Regional Office. The Headquarters program staff is reviewing additional data requested from the Field Office before making a decision.	12/31/89
HUD is in the process of reforming its Management Control Program under FMFIA.	12/31/89
The Assistant Secretary-Designate for Fair Housing and Equal Opportunity is evaluating the program before deciding on termination.	11/30/89

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WITH MANAGEMENT DECISION WITHIN THE LAST YEAR WITHOUT FINAL ACTION AT 9/30/89

Report Number	Report Title
86AT1006	Chattanooga Housing Authority Section 8 Moderate Rehabilitation Program Chattanooga TN
86TS0010	Title I Property Improvement Loan Insurance Program Dealer Loans
86AO0006	Review of Technical Assistance Program - Community Planning and Development
87PH1002	Section 8 New Construction And Substantial Rehabilitation Program - Maryland Community Development Administration Annapolis MD
87CH1007	Public Housing Authority - Detroit Housing Department Detroit MI
87NY1051	Cupey Bajo Nursing Home San Juan Municipio PR
87SE1007	Low-Rent Housing and Mutual Help Programs Anchorage City and Boro AK
88AO0801	More of HUD's Appropriation Could be Financed from User Fees
88NY1006	Community Development Block Grant Program Mineola NY
88TS0003	Misuse and Diversion of Assets and Income at HUD-Insured Multifamily Housing Projects
88PH1006	Procurement Activities - Philadelphia Housing Authority Philadelphia PA
88TS0007	Section 8 New Construction and Substantial Rehabilitation Program and other Related Activities of State Housing Finance Agencies
88FW0003	Assisted Housing Management Branch New Orleans Office
88AO1005	Holland Consulting, Inc. Livonia MI
88FW1017	Low-Rent Public Housing & Section 8 Existing Program of East Baton Rouge Parish Baton Rouge LA

[1]The target date established by management was not met, but the management decision was made less than 1 year before 9/30/89.

Issue Date	Decision Date	Final Action Target Date
12/18/85	10/14/88	09/28/90
02/28/86	09/18/89	04/30/90
08/15/86	02/10/89	12/31/89
12/22/86	03/17/89	07/31/90
03/24/87	01/24/89	1
06/01/87	08/10/89	08/01/90
09/29/87	09/30/89	08/31/90
12/01/87	04/04/89	12/31/89
12/18/87	05/22/89	06/10/90
02/04/88	09/18/89	09/01/90
03/25/88	09/20/89	09/30/90
03/29/88	04/10/89	1
06/10/88	10/01/88	04/30/90
06/17/88	03/11/89	03/15/90
06/29/88	03/21/89	03/14/90

Report Number	Report Title
88FW1018	Section 8 Voucher Program Managed by Bexar County San Antonio TX
88TS0012	Review of the Title I Manufactured Home Loan Program
88TS0013	Review of Economic Development & Public Facility Grants in State CDBG Program
88BO1028	Moderate Rehabilitation Program - Holyoke Housing Authority Holyoke MA
88BO1030	Section 8 Moderate Rehabilitation Program - Lynn Housing Authority Lynn MA
88FW1019	Section 8 Low-Rent Public Housing & Section 8 Existing Programs San Benito TX
88SF1013	Urban Development Action Grant Compton CA
88NY1803	Public Housing Agency Atlantic City NJ
88CH1022	Section 8 Housing Voucher Program Toledo OH
88PH1017	Section 8 Existing and Housing Voucher Programs - Bucks County Housing Authority Bucks County PA
88SF1016	Section 8 Moderate Rehabilitation Program, Housing Authority San Diego CA
89PH1003	Executive House - Multifamily Housing Program Philadelphia PA
89SF1002	Freedom West - Multifamily Mortgagor San Francisco CA
89NY0001	Flexible Subsidy Program
89AO1801	Misuse of Consolidated Supply Contracts in Public Housing Authority Overcharges Washington DC
89TS0001	Nationwide Audit of the Housing Voucher Program Phase I - Compliance with Housing Quality Standards
89TS0002	Section 223(f) Coinsurance Program

[1]The target date established by management was not met, but the management decision was made less than 1 year before 9/30/89.

Issue Date	Decision Date	Final Action Target Date
08/24/88	11/14/88	10/15/89
08/29/88	05/23/89	03/31/90
08/29/88	01/23/89	12/31/89
09/07/88	01/11/89	10/31/89
09/09/88	09/30/89	03/31/90
09/09/88	11/21/88	11/17/89
09/19/88	03/09/89	1
09/28/88	09/06/89	03/31/90
09/29/88	01/25/89	01/15/90
09/30/88	08/14/89	12/31/89
09/30/88	09/30/89	03/31/90
10/28/88	08/03/89	08/02/90
11/04/88	03/29/89	11/27/89
11/15/88	09/27/89	10/31/90
11/23/88	09/08/89	12/31/89
12/06/88	09/30/89	06/30/90
12/09/88	05/04/89	02/28/90

Report Number	Report Title
89BO1005	Housing Innovations, Inc. – Mortgagor Operations Boston MA
89CH0003	Management of HUD's Assigned Single Family Inventory
89CH1005	Comprehensive Improvement Assistance Program Peoria IL
89TS0003	Summary Report-Monitoring of Subgrantee Performance
89AT1009	City of Biloxi Community Development Block Grant Program Biloxi MS
89AT1010	Cumberland Cove Apartments Raleigh NC
89SF1004	Housing Authority Las Vegas NV
89NY1021	Comprehensive Improvement Assistance Program Cohoes NY
89FW1003	King's Cove Apartments Moore OK
89CH1008	Low-Income Housing Program & Comprehensive Improvement Assistance Program Clintonville WI
89SE1002	Continental Ventures Realty, Inc. Wasilla AK
89TS1005	Benton Mortgage Company Knoxville TN
89AO0005	Administration of Performance Incentives, Comprehensive Marketing Systems, Inc.
89FW0001	Regional Accounting Division & Selected Program Areas Fort Worth Regional Office
89PH1011	Community Development Block Grant Program Subrecipient Monitoring Washington DC
89TS0005	Audit of Section 8 Moderate Rehabilitation Program

Issue Date	Decision Date	Final Action Target Date
12/20/88	03/10/89	12/31/89
12/23/88	06/23/89	10/30/89
12/28/88	08/15/89	10/30/89
01/10/89	04/11/89	06/30/93
01/11/89	03/31/89	09/01/90
01/13/89	06/16/89	12/31/89
01/20/89	07/18/89	02/28/90
01/31/89	06/23/89	10/15/89
02/16/89	07/05/89	12/31/89
02/24/89	06/23/89	11/15/89
03/03/89	08/07/89	06/30/90
03/20/89	09/30/89	11/15/89
03/24/89	09/19/89	11/30/89
03/31/89	07/28/89	** 03/31/90
03/31/89	09/20/89	08/31/90
04/26/89	09/29/89	03/31/90

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS AT 9/30/89

Dollar Value (In Thousands)

	Number of Audit Reports	Questioned Costs	Unsupported Costs
A. For which no management decision had been made by the commencement of the reporting period	120	$ 75,642	[$47,878]
B. Which were issued during the reporting period	134	$ 66,047	[$33,487]
Subtotals (A + B)	254[1]	$141,689	[$81,365]
C. For which a management decision was made during the reporting period	177[1]	$ 87,078	[$58,563]
(I) Dollar value of disallowed costs –			
Due HUD	77	$ 31,271	[$18,017]
Due program participants	80	$ 26,041	[$11,855]
(II) Dollar value of costs not disallowed	71[1]	$ 29,766	[$28,691]
D. For which no management decision had been made by the end of the reporting period	77	$ 54,611	[$22,802]
E. Reports for which no management decision was made within 6 months of issuance	60	$ 42,284	[$22,208]

[1]Includes reports involving questioned costs which were determined to be due to HUD program participants at the time of the management decision.

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE AT 9/30/89

	Number of Audit Reports	Dollar Value (In Thousands)
A. For which no management decision had been made by the commencement of the reporting period	27	$16,979
B. Which were issued during the reporting period	26	$23,669
Subtotals (A + B)	53[1]	$40,648
C. For which a management decision was made during the reporting period	31[1]	$24,606
(I) Dollar value of recommendations that were agreed to by management -		
Due HUD	13	$11,311
Due program participants	14	$ 9,055
- Based on proposed management action	20[1]	$15,034
- Based on proposed legislative action		
(II) Dollar value of recommendations that were not agreed to by management	8[1]	$ 4,356
D. For which no management decision had been made by the end of the reporting period	22	$16,042
E. Reports for which no management decision was made within 6 months of issuance	18	$17,045

[1]Includes reports involving costs efficiences which were determined to be realized by HUD program participants at the time of the management decision.

Appendix 1

AUDIT REPORTS ISSUED

The Inspector General Act of 1978 requires the identification of each audit report completed by the Office of Inspector General during the reporting period. In addition, the Inspector General Act Amendments of 1988 require, where applicable, the total dollar value of questioned costs and the dollar value of recommendations that funds be put to better use. The following is a list of those reports and related dollar values.

INTERNAL AUDIT REPORTS ISSUED

Report Number	Report Title	Issue Date
HOUSING		
89-AT-103-0002	Section 8 Fair Market Rents Region IV	04/25/89
89-AT-121-0003	Monitoring and Control Over Closing Agents - Property Disposition Branch Tampa Office	04/26/89
89-AT-101-0004	Internal Controls Over Rapid Housing Payments System Louisville Office	09/27/89
89-BO-109-0003	Control Over Receipt of Independent Auditor Reports Boston, Hartford, Manchester Offices	05/31/89
89-CH-129-0008	Citizen Complaint - Purchase Money Mortgage Account Detroit Office	05/15/89
89-CH-123-0009	Single Family Property Disposition Branch Indianapolis Office	06/20/89
89-CH-123-0011	Management of HUD's Assigned Single Family Inventory Chicago Regional Office	08/11/89
89-DE-123-0003	Monitoring and Control Over Closing Agents - Property Disposition Branch Denver Regional Office	06/14/89
89-DE-182-0004	Section 8 Moderate Rehabilitation Program - Special Operational Survey Region VIII	07/20/89
89-FW-123-0002	Monitoring and Control Over Closing Agents - Property Disposition Branch Ft. Worth Regional Office	06/27/89
89-FW-123-0003	Management of HUD's Assigned Single Family Inventory - Loan Management Branch Tulsa Office	08/25/89
89-KC-103-0001	Section 8 Existing Housing Program, Fair Market Rents Kansas City and St. Louis Offices	05/19/89

Potential Monetary Benefits			
Questioned Costs			Funds to be Put to Better Use
Unsupported	Other	Total	
	$198,720	$198,720	

Report Number	Report Title	Issue Date
89-KC-121-0002	Monitoring and Control Over Closing Agents - Property Disposition Branch Kansas City Regional Office	06/23/89
89-KC-101-0003	Comprehensive Improvement Assistance Program Kansas City Regional Office	09/25/89
89-PH-103-0002	Section 8 Existing Housing Program, Fair Market Rents Philadelphia Regional Office	05/05/89
89-PH-123-0003	Monitoring and Control Over Closing Agents - Property Disposition Branch Richmond Office	07/05/89
89-PH-108-0004	Public Housing Agency Decontrol Program - Region III Philadelphia, PA	08/31/89
89-SE-123-0003	Monitoring and Control Over Closing Agents - Property Disposition Branch Seattle Regional Office	05/25/89
89-SE-109-0004	Limited Review of Approval of Comprehensive Improvement Assistance Program - Administrative Staffing and Planning Services Portland Office	09/25/89
89-SF-129-0003	Monitoring and Control Over Closing Agents - Property Disposition Branch Phoenix Office	05/16/89
89-SF-103-0004	Section 8 Existing Housing Program, Fair Market Rents San Francisco Regional Office	05/22/89
89-SF-123-0005	Management of HUD's Assigned Single Family Inventory San Francisco Regional Office	07/24/89
89-SF-101-0006	Field Office Monitoring of North Las Vegas Housing Authority Las Vegas NV	08/24/89
89-SF-119-0007	Underwriting and Monitoring of Retirement Service Centers San Francisco Regional Office	09/27/89
89-TS-103-0005	Section 8 Moderate Rehabilitation Program	04/26/89
89-TS-123-0006	Handling of Proceeds from the Sale of Single Family Properties	08/25/89

Potential Monetary Benefits			
Questioned Costs			Funds to be Put to Better Use
Unsupported	Other	Total	
$14,886		$14,886	

Report Number	Report Title	Issue Date
89-TS-101-0007	Anchorage Office's Administration of Development Activities in Alaska Mutual Help Program	08/29/89
89-TS-111-0008	Flexible Subsidy Program	09/26/89
89-TS-103-0009	HUD System for Establishing Fair Market Rents and Approving Exception Rents in the Section 8 Program	09/26/89
COMMUNITY PLANNING AND DEVELOPMENT		
89-CH-141-0007	Accountability Monitoring Chicago Regional Office	05/05/89
89-CH-141-0010	Community Development Block Grant Program Indianapolis Office	07/11/89
89-NY-145-0004	Monitoring Activities CDBG Program Income Newark Office	08/09/89
89-NY-145-0005	Monitoring Activities CDBG Program Income Buffalo Office	08/11/89
ADMINISTRATION		
89-AO-171-0007	Limited Review of Procurement - Mortgage Backed Securities Program	04/11/89
89-AO-161-0008	Unliquidated Obligations in Merged Accounts	06/29/89

Potential Monetary Benefits			
Questioned Costs			Funds to be Put to Better Use
Unsupported	Other	Total	
$39,731		$39,731	$956,833
$9,525,999	$1,216,326	$10,742,325	

EXTERNAL AUDIT REPORTS ISSUED

Report Number	Report Title	Issue Date
HOUSING		
89-AT-202-1018	Knox County Housing Authority, Safeguarding Cash & Other Monetary Assets & Section 8 Existing Program Knoxville TN	04/11/89
89-AT-203-1019	Urban Renewal and Community Development Agency, Section 8 Existing Housing Program Barbourville KY	04/25/89
89-AT-214-1020	Hall Financial Group Dallas TX and Atlanta GA	04/26/89
89-AT-214-1022	Das A. Borden and Company, Multiproject Management Agent Muscle Shoals AL	05/08/89
89-AT-211-1023	Report on Development Costs and Related Matters, Cypress Mill Plantation Brunswick GA	05/19/89
89-AT-212-1025	Smith Realty Co., Management Agent for Central Methodist Gardens Atlanta GA	06/16/89
89-AT-221-1028	One-Time Mortgage Insurance Premiums, City Federal Savings Bank Jacksonville FL	08/07/89
89-AT-221-1029	One-Time Mortgage Insurance Premiums, Lakeside Mortgage Corporation Decatur GA	08/07/89
89-AT-221-1030	One-Time Mortgage Insurance Premiums, First Georgia Savings Bank Brunswick GA	08/07/89
89-AT-221-1032	One-Time Mortgage Insurance Premiums, Mortgage America, Inc. Birmingham AL	08/08/89
89-AT-202-1033	Housing Authority of Hazard - Review of Internal Controls Hazard KY	09/11/89

Potential Monetary Benefits			
Questioned Costs			Funds to be Put to Better Use
Unsupported	Other	Total	
$12,497		$12,497	
	$916	$916	
$1,002,911	$41,816	$1,044,727	
$100,330	$917,329	$1,017,659	
$30,009	$1,698,404	$1,728,413	$571,028
$117,784	$16,866	$134,650	
	$596	$596	

Report Number	Report Title	Issue Date
89-BO-204-1020	Woonsocket Housing Authority - Comprehensive Improvement Assistance Program Woonsocket RI	05/09/89
89-BO-202-1023	Bristol Housing Authority - Comprehensive Improvement Assistance Program Bristol CT	06/13/89
89-BO-204-1025	Lawrence Housing Authority - Comprehensive Improvement Assistance Program Lawrence MA	07/13/89
89-BO-202-1026	New London Housing Authority - Comprehensive Improvement Assistance Program New London CT	08/24/89
89-BO-212-1030	Roxse Homes, Inc. Boston MA	09/27/89
89-BO-204-1031	Lowell Housing Authority - Comprehensive Improvement Assistance Program Lowell MA	09/28/89
89-CH-202-1012	Low-Income Housing Program Decatur IL	04/05/89
89-CH-215-1013	Central Park Place and Technico-Op, Incorporated Cleveland OH	04/14/89
89-CH-229-1016	Bryant And Consultants, Incorporated Greenwood IN	05/26/89
89-CH-229-1017	Indianapolis Realty Indianapolis IN	06/13/89
89-CH-209-1019	Low-Income Housing Program River Rouge MI	07/03/89
89-CH-202-1020	Low-Income Housing Program and Section 8 Housing Program Crookston MN	07/14/89
89-CH-212-1022	Alpha Plaza Apartments East St. Louis IL	07/20/89
89-CH-221-1025	ESI Mortgage Corporation Independence OH	08/23/89

Potential Monetary Benefits			
Questioned Costs			Funds to be Put to Better Use
Unsupported	Other	Total	
$2,807	$29,464	$32,271	
	$175,126	$175,126	
$35,420	$49,040	$84,460	
$429,515		$429,515	
	$7,774	$7,774	
$861	$36,043	$36,904	

Report Number	Report Title	Issue Date
89-CH-203-1027	Section 8 Housing Assistance Payments Program Aurora IL	09/29/89
89-DE-229-1003	Hamilton Tilton, Inc. Denver CO	05/11/89
89-DE-209-1005	Butte Public Housing Authority Comprehensive Improvement Assistance Program Butte MT	08/21/89
89-DE-212-1006	Pines of Yellow Creek - Mortgagor Operations Evanston WY	08/31/89
89-DE-221-1007	One-Time Mortgage Insurance Premiums, Mortgage Plus, Incorporated Denver CO	09/15/89
89-DE-209-1009	St. George Housing Authority - Safeguarding Assets St. George UT	09/26/89
89-FW-202-1006	Section 8 Existing, Low-Rent Public Housing and Comprehensive Improvement Assistance Programs Quanah TX	04/07/89
89-FW-212-1007	Instar Corporation - Multifamily Mortgagor Operations Oklahoma City OK	05/11/89
89-FW-203-1008	Town of Bernalillo Housing Authority - Limited Review of Irregularities Bernalillo NM	06/29/89
89-FW-202-1009	Housing Authority - Comprehensive Improvement Assistance Program Crowley LA	08/29/89
89-KC-209-1009	Housing Authority - Section 8 Moderate Rehabilitation Program Omaha NE	04/06/89
89-KC-212-1011	Baden Plaza Apartments, Existing Multifamily Rental Housing Program Section 223(f) St. Louis MO	06/28/89
89-KC-204-1013	Housing Authority - Comprehensive Improvement Assistance Program Kansas City MO	08/31/89

Potential Monetary Benefits

Questioned Costs			Funds to be Put to Better Use
Unsupported	Other	Total	
$815	$19,800	$20,615	
$63,473	$243,604	$307,077	
$329,611	$11,777	$341,388	
$48,203	$130,175	$178,378	
$73,438	$16,092	$89,530	
$178,907	$499,607	$678,514	$65,812
$10,911	$95,975	$106,886	$226,000
	$17,550	$17,550	

Report Number	Report Title	Issue Date
89-NY-209-1028	Transitional Housing Supportive Housing Demonstration Program New York NY	09/22/89
89-PH-203-1014	Special Audit - Section 8 Units and the Inspection Process Philadelphia PA	07/25/89
89-PH-209-1015	Wilmington Housing Authority - Comprehensive Improvement Assistance Program Wilmington DE	08/17/89
89-PH-219-1017	Dickey Hill Forest Apartments, Housing Development Grant Baltimore MD	09/29/89
89-SE-209-1005	Housing Authority - Comprehensive Improvement Assistance Program Portland OR	09/25/89
89-SE-203-1006	Section 8 Housing Voucher Program Hillsboro OR	09/25/89
89-SE-212-1007	Sunrise Apartments, Multifamily Mortgagor Tacoma WA	09/29/89
89-SF-202-1007	Public Housing Authority - Safeguarding Monetary Assets and Inventory Upland CA	04/24/89
89-SF-202-1008	Public Housing Authority - Review of Comprehensive Improvement Assistance Program North Las Vegas NV	05/11/89
89-SF-203-1009	Housing Authority - Section 8 Moderate Rehabilitation Program Reno NV	06/20/89
89-SF-229-1012	Contract Escrow Services - Escrow Deposits Bell CA	08/28/89
89-TS-221-1006	Mountain View Mortgage Company Rancho Cucamonga CA	06/27/89
89-TS-203-1007	Section 8 Moderate Rehabilitation Program Tulsa OK	07/11/89
89-TS-221-1008	Far West Mortgage Corporation El Cajon CA	07/13/89
89-TS-203-1009	Section 8 Moderate Rehabilitation Program Gastonia NC	07/24/89

Potential Monetary Benefits

Questioned Costs			Funds to be Put to Better Use
Unsupported	Other	Total	
$178,550	$250,806	$429,356	$1,428,000
$55,616	$24,690	$80,306	
	$1,659,786	$1,659,786	
$36,608	$66,036	$102,644	
$83,784	$48,764	$132,548	
$89,608	$24,222	$113,830	
	$228,928	$228,928	$104,728

Report Number	Report Title	Issue Date
89-TS-221-1010	Security National Service Corporation Santa Ana CA	08/08/89
89-TS-221-1011	Statewide Business Brokers Carlsbad CA	08/08/89
89-TS-221-1012	Manchester Mortgage Company South Pasadena CA	08/10/89
89-TS-221-1013	MidFirst Mortgage Company San Antonio TX	08/18/89
89-TS-203-1014	Section 8 Moderate Rehabilitation Program Denver CO	09/05/89
89-TS-203-1015	Section 8 Moderate Rehabilitation Program Reno NV	09/05/89
89-TS-221-1016	Delson Financing Mortgage Bankers Phoenix AZ	09/22/89
COMMUNITY PLANNING AND DEVELOPMENT		
89-AT-242-1021	Urban Development Action Grant Program Tallapoosa GA	05/08/89
89-AT-241-1024	Community Development Block Grant Program Rehabilitation Activities Charlotte NC	05/25/89
89-AT-242-1026	Urban Development Action Grant Program Riviera Beach FL	07/03/89
89-AT-241-1027	Community Development Block Grant Rehabilitation Program Albany GA	08/03/89
89-AT-241-1034	Community Development Block Grant Program Income Memphis TN	09/27/89
89-BO-241-1017	Community Development Block Grant and Rehabilitation Activities Worcester MA	04/18/89
89-BO-241-1018	Community Development Block Grant Program, Rehabilitation and Economic Development Programs Fall River MA	04/18/89

Potential Monetary Benefits

Questioned Costs			Funds to be Put to Better Use
Unsupported	Other	Total	
$324,056	$359,794	$683,850	$287,604
$1,001,374		$1,001,374	
			$394,000
	$4,400,000	$4,400,000	
	$27,102	$27,102	

Report Number	Report Title	Issue Date
89-BO-241-1019	Community Development Block Grant Rehabilitation Activities Lowell MA	04/26/89
89-BO-242-1021	Urban Development Action Grants Central Falls RI	05/18/89
89-BO-241-1024	Community Development Block Grant Rehabilitation Activities Pawtucket RI	06/27/89
89-BO-241-1027	Community Development Block Grants, Program Income and Miscellaneous Revenues Haverhill MA	08/24/89
89-BO-241-1028	Community Development Block Grants, Program Income and Miscellaneous Revenues Quincy MA	09/07/89
89-BO-241-1029	Community Development Block Grants, Program Income and Miscellaneous Revenues Lynn MA	09/12/89
89-CH-241-1014	Community Development Block Grant Program Kankakee IL	05/01/89
89-CH-259-1015	Community Development Block Grant Program Residential Rehabilitation Activities Warren MI	05/15/89
89-CH-249-1018	Community Development Block Grant Program Residential Rehabilitation Activities Cleveland OH	06/27/89
89-CH-249-1021	Community Development Block Grant Program Residential Rehabilitation Activities Chicago IL	07/21/89
89-CH-241-1023	Community Development Block Grant Program Battle Creek MI	07/28/89

Potential Monetary Benefits			
Questioned Costs			Funds to be Put to Better Use
Unsupported	Other	Total	
	$65,773	$65,773	
$82,888		$82,888	
$27,000		$27,000	

Report Number	Report Title	Issue Date
89-CH-241-1024	Community Development Block Grant Program and Urban Development Action Grant Program Muskegon MI	08/11/89
89-CH-241-1026	Community Development Block Grant Program Eau Claire WI	08/30/89
89-DE-242-1004	Urban Development Action Grant Program Sioux Falls SD	07/21/89
89-DE-241-1008	Use of Community Development Block Grant Program Income Pueblo CO	09/26/89
89-DE-241-1010	Salt Lake County - Use of Community Development Block Grant Program Income Salt Lake City UT	09/26/89
89-FW-241-1010	Income Produced by Community Development Block Grant Programs & Related Community Development New Orleans LA	09/26/89
89-KC-241-1010	Community Planning and Development Program Davenport IA	04/19/89
89-KC-241-1012	Community Development Block Grant Program Kansas City MO	08/08/89
89-KC-249-1014	Community Development Block Grant Program and Urban Development Action Grant Program Des Moines IA	09/29/89
89-NY-241-1027	Community Development Block Grant Program Humacao Municipio PR	05/26/89
89-NY-241-1029	Community Development Block Grant Program Bergen County NJ	09/29/89
89-PH-249-1012	Community Development Rehabilitation Activities Wilmington DE	05/10/89
89-PH-241-1013	CDBG Program Subrecipient Activities Office of Housing and Community Development Philadelphia PA	07/17/89
89-PH-242-1016	Community Development Programs Bristol Township PA	08/21/89

Potential Monetary Benefits			
Questioned Costs			Funds to be Put to Better Use
Unsupported	Other	Total	
	$255,579	$255,579	
$4,800	$123,466	$128,266	
	$1,201,249	$1,201,249	$114,000
$41,150	$34,096	$75,246	
$2,176,754	$310,355	$2,487,109	
$764,619	$261,702	$1,026,321	
	$324,232	$324,232	$937,454
$1,510,811	$5,393,721	$6,904,532	$9,888,036
$4,206		$4,206	

Report Number	Report Title	Issue Date
89-SE-244-1003	Community Development Block Grant Program Rehabilitation Activities Portland OR	07/14/89
89-SE-249-1004	Community Development Block Grant Program Income Seattle WA	09/08/89
89-SF-241-1010	Community Development Block Grant Program Rehabilitation Activities County of Orange Santa Ana CA	06/29/89
89-SF-241-1011	Community Development Block Grant Rehabilitation Activities San Diego CA	07/10/89
89-SF-249-1013	City and County Community Development Block Grant – Program Income and Related Miscellaneous Revenues San Francisco CA	09/22/89
89-SF-249-1014	Community Development Block Grant Program and Related Community Development Activities Oakland CA	09/29/89
ADMINISTRATION		
89-AO-261-1005	Housing Assistance Council Washington DC	09/22/89
89-AT-262-1031	United Schools Of America, Inc. Miami FL	08/08/89
89-BO-262-1022	Connecticut Institute for the Blind Hartford CT	05/31/89
89-NY-262-1025	New York City Partnership New York NY	04/25/89
89-NY-262-1026	United Jewish Appeal New York NY	04/28/89

Potential Monetary Benefits			
Questioned Costs			Funds to be Put to Better Use
Unsupported	Other	Total	
	$16,515	$16,515	$84,060
	$4,795,626	$4,795,626	
$43,873	$7,925	$51,798	
$6,604	$3,985	$10,589	

AUDIT REPORTS PREPARED BY INDEPENDENT AUDITORS AND OTHER FEDERAL AGENCIES AND ACCEPTED BY THE INSPECTOR GENERAL

Report Title
List of 2,621 Reports Available on Request (Total Dollars)

Potential Monetary Benefits

Questioned Costs			Funds to be Put to Better Use
Unsupported	**Other**	**Total**	
$16,629,841	$1,627,170	$18,257,011	$1,192,045

Appendix 2

AWARENESS PUBLICATIONS

Fraud Information Bulletins (FIB's)

81-1	Procurement – Contract Award Process
81-3	Procurement – Contract Administration
81-5	Single Family – Underwriting for Mortgage Insurance
82-2	Single Family Property Disposition Program – Repair and Maintenance Activities
83-1	Accountability Monitoring
83-2	Travel
84-1	Time and Attendance and Leave Abuse
84-2	The HUD Hotline
84-4	Conventional Low-Rent Housing Program
84-5	Tenant Eligibility
84-6	Diversion of Funds From Multifamily Projects
85-2	Computer Matching
87-1	Microcomputer Security
89-1	Reviewing Independent Auditor Reports

Program Integrity Bulletins (PIB's)

P-86-1	Public Housing Agency Commissioners and the Low-Income Housing Program
P-86-2	Asset Management
P-86-3	Title I
P-86-4	Mortgagee Review Board
P-86-5	Computer Matching
P-86-6	Rehabilitation Activities
P-86-7	Avoid Loan Fraud
P-87-1	Section 8 Moderate Rehabilitation Program
P-87-2	GNMA Mortgage-Backed Securities
P-87-3	Indian Housing Authority Commissioners and the Low-Income Indian Housing Programs
P-87-4	Fee Appraisers
P-87-5	Monitoring Subrecipients in the Community Development Block Grant Program
P-87-6	Preventing Fraud in HUD's Single Family Insurance Programs
P-87-7	Fraud in Single Family Loan Originations
P-88-1	Locking Out Tenant Fraud and Abuse
P-88-2	Things You Should Know
P-88-3	Information for Independent Auditors for Use in Conducting HUD Audits of Non-Federal Entities
P-88-4	Avoiding Embezzlement of PHA Funds
P-88-5	Misuse and Diversion of Funds – HUD-Insured and HUD-Held Multifamily Projects

Other

Integrity in Public Service – A Guide to the Standards of Conduct (March 1989)

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

Director, Publications and Awareness Division
Office of Inspector General, HUD
451 Seventh Street, S.W., Room 8254
Washington, D.C. 20410-4500

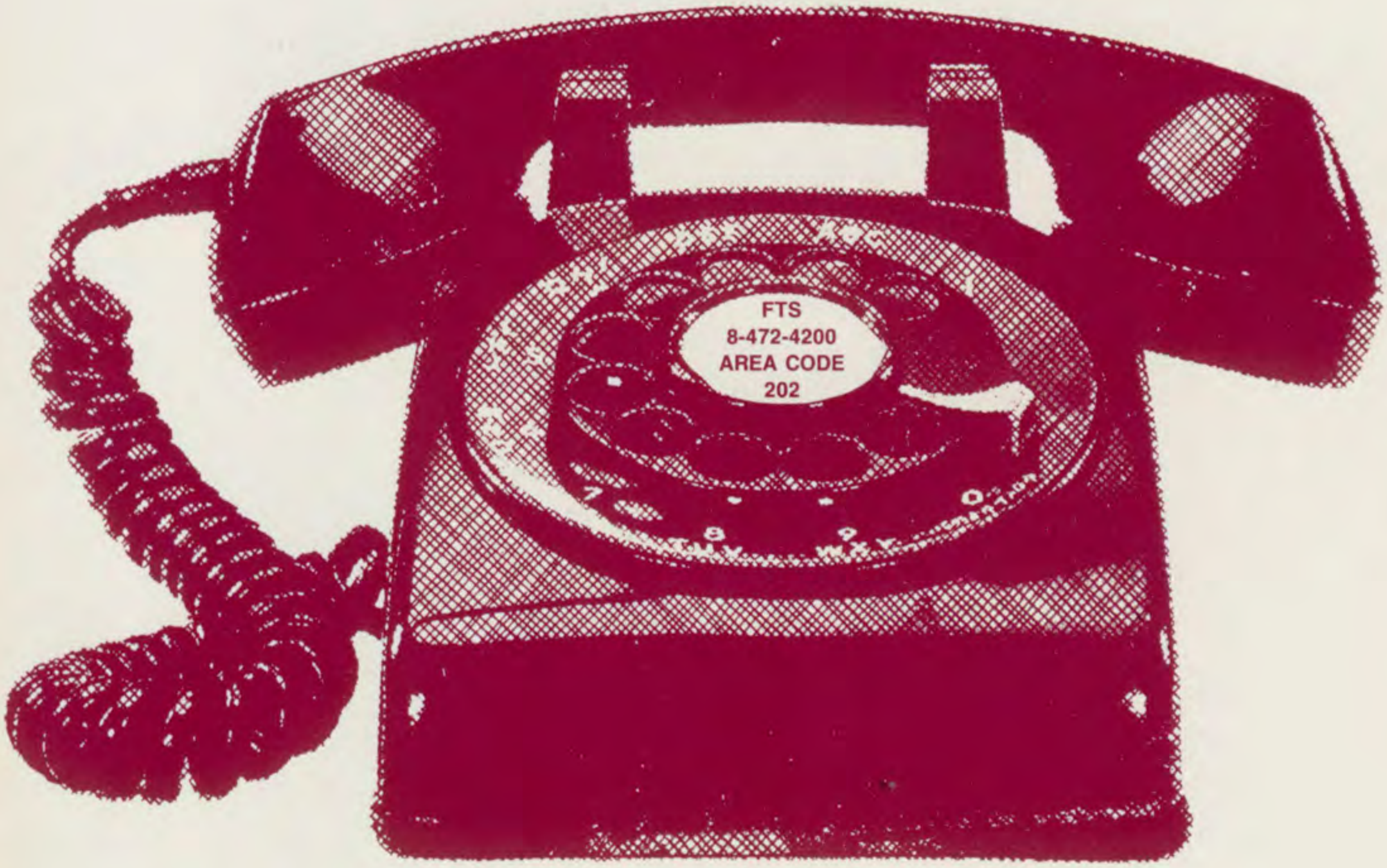
Appendix 3

GLOSSARY

AICPA	American Institute of Certified Public Accountants
AMB	Area Management Broker
CDBG	Community Development Block Grant
CFR	Code of Federal Regulations
CIAP	Comprehensive Improvement Assistance Program
CPA	Certified Public Accountant
CSP	Consolidated Supply Program
EMAD	Economic and Market Analysis Division
FBI	Federal Bureau of Investigation
FHA	Federal Housing Administration
FIB	Fraud Information Bulletin
FmHA	Farmers Home Administration
FMR	Fair Market Rents
FY	Fiscal Year
GAO	General Accounting Office
GNMA	Government National Mortgage Association
HDG	Housing Development Grant
HIP	Home Improvement Program
HQS	Housing Quality Standards
HUD	Department of Housing and Urban Development
IA	Independent Auditor
IHA	Indian Housing Authority
LDC	Local Development Corporation
LMB	Loan Management Branch
LMI	Low- and Moderate-Income
LMSA	Loan Management Set-Aside
MBS	Mortgage-Backed Securities
MMI	Mutual Mortgage Insurance
MRB	Mortgagee Review Board
OHCD	Office of Housing and Community Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPC	Office of Procurement & Contracts
OPH	Office of Public Housing
OTMIP	One-Time Mortgage Insurance Premium

PCIE	President's Council on Integrity and Efficiency
PD&R	Policy Development & Research
PHA	Public Housing Agency
QCR	Quality Control Review
RMC	Resident Management Corporation
SSN	Social Security Number
TIP	Tenant Integrity Program
UDAG	Urban Development Action Grant
VA	Veterans Administration/Department of Veterans Affairs

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



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

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