Report No. 23
For the 6-month
Period ending
March 31, 1990

Inspector General's Report to the Congress

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

PROFILE OF PERFORMANCE

Department of Housing and Urban Development
Office of Inspector General Activities

	October 1, 1989 through March 31, 1990
• Cash Recoveries	$18,628,079
• Cost Efficiencies Realized	$14,756,842
• Commitments to Recover Funds	$62,367,760
• Cost Efficiencies Sustained	$16,829,572
• Total Fines Levied	$315,709
• Persons/Firms Indicted	185
• Persons/Firms Convicted	143
• HUD Employees Convicted	1
• Suspensions of Persons/Firms Doing Business with HUD	53
• Debarments of Persons/Firms Doing Business with HUD	44
• Mortgagees/Lenders Sanctioned as Result of Referrals to HUD Mortgagee Review Board	5
• Material Weaknesses Reported	6
• Subpoenas Served	34
• Proposed Legislation and Regulations Reviewed	90

For additional details see Chapter 7, Statistical Summary.

Inspector General's Report to the Congress

Report No. 23
For the 6-Month Period ending March 31, 1990

U.S. Department of Housing and Urban Development

TABLE OF CONTENTS

TABLE OF CONTENTS (continued)

THE INSPECTOR GENERAL'S MESSAGE TO CONGRESS

This report highlights the activities and accomplishments of our office for the 6-month period ending March 31, 1990.

This has been a busy period for our office as well as the Department. Much of what has taken place is a direct result of the increased Congressional and media interest in Departmental programs and the activities of our office. Last October, Secretary Kemp announced a series of reforms to improve the efficiency and effectiveness of HUD programs and operations. Congress considered and passed the majority of these measures as the HUD Reform Act on December 15, 1989. The Department is now implementing these reforms. In addition, Congress has continued to hold a series of hearings on past, as well as current, HUD problems. We have been called upon to testify several times during the period on the Coinsurance, Public Housing and Moderate Rehabilitation programs.

While many positive actions have been taken or are in process, their success will be largely dependent upon the cooperation of the Congress, HUD management and career staff, and our office. As I stated in our last report—adequate staffing, continuity of leadership and management accountability are essential if the reform measures are to work.

There are five items in particular that I want to bring to your attention. First, Secretary Kemp and his staff are continuing to place high priority on **audit resolution and follow-up**. The fact that the Under Secretary has been designated as the official with the overall responsibility for reporting to Congress on management's actions on audit recommendations demonstrates this commitment. Although there has been a significant decrease in the number of overdue actions, there are still many recommendations in the pipeline that need to be acted on. My office will continue to work with the Secretary, the Under Secretary, and senior staff on these matters.

Second, the increasing demands for OIG resources to assist U.S. Attorneys and the FBI, and review such activities as Coinsurance, Moderate Rehabilitation, and Public Housing programs have placed a tremendous strain on our existing resources. We have asked for **additional staff for Fiscal Year 1991**. Without these resources, we will not be able to fully respond to the demands and expectations placed on us by the Congress, the Secretary, and the general public.

Third, I continue to support legislation granting the statutory IG's **the authority to subpoena critical witnesses**. This legislative proposal is a result of our inability during the HUD scandals to require appropriate persons to be interviewed. Although we have the power to subpoena records and files, we do not have the power to subpoena witnesses.

Fourth, I support the proposed **Office of Inspector General Law Enforcement Act of 1990**, S. 2080 and H.R. 4149, which would provide full law enforcement authority to all criminal investigators in the Offices of Inspector General. Without such authority, investigators will remain at risk and cases will be delayed.

Fifth, my office disagrees with the opinion rendered by the Department of Justice Office of Legal Counsel regarding **the investigative authority of the Inspectors General**. The opinion stated that the IG's authority covers only agency employees, contractors, grantees, and other recipients of Federal funds. We see no justification in the Inspector General Act to support such limitations, and more importantly, it will result in certain types of cases not being investigated at all. Hopefully, this situation will be resolved in the near future.

The past 15 months have been hectic ones. Many lingering problems have been acted on by Secretary Kemp and Congress. New problems are being addressed, and systems are in place to track corrective actions and instill accountability. I find this refreshing. I also believe the HUD scandals have been the impetus for much needed oversight by the Congress – not just of HUD, but of other Departments and agencies as well. Such oversight is essential if Inspectors General are to be successful in their legislated mission. I welcome this oversight and hope that Congress continues to exercise this important role.

Paul A. Adams

Paul A. Adams
Inspector General

EXECUTIVE SUMMARY

During this six-month period, the Department acted to remedy many of the problems described in our previous report. This semiannual report discusses these actions as well as our significant audit and investigative results during the past six months.

Update of HUD Problems

Chapter 1 updates the status of long-standing problems that were highlighted in the last semiannual report.

Inadequate **internal controls** throughout the Department remained the leading problem at the close of the reporting period, and it cut across all programs. Since 1983, 90 material internal control weaknesses have been identified, mostly through our audits. Of these, many still exist. The Department has taken some actions and has planned other strategies. However, it needs to strengthen further its management control program.

The **Single Family** mortgage insurance program continues to have problems in both loan origination and property disposition.

The Department initiated steps to restore competition to **Section 8 discretionary funding** in response to our previous audits.

Secretary Kemp proposed terminating the **Coinsurance Program**. Closedown issues are being addressed and some lenders are under investigation.

Changes are being implemented in the two Title I programs—**Property Improvement Loans** and **Manufactured Housing Loans**—as a result of our audits. The changes are intended to strengthen loan underwriting requirements, including tighter controls on dealer participation.

Two programs with high default rates and a poor record of serving the needy—**Retirement Service Centers (ReSC)** and **Title X Land Development**—were described in major audits this period. We questioned whether the ReSC program, which was suspended, is affordable to low- and moderate-income persons. For the Title X program, which was terminated by the Secretary, we recommended procedures for an orderly phaseout.

We continued to find chronic problems in **multifamily loan servicing**, although the Department is implementing improvements.

The management of assets of the **Government National Mortgage Association** by subservicers was not adequately monitored by the Department. Although GNMA risk potential was lowered by the termination of the Coinsurance program and curtailment of single family investor loans, we believe the risk could be lessened further with better monitoring.

Significant Audits

Chapter 2 describes our most important audits during the six-month reporting period.

Public and Indian Housing

The **Public Housing Agency (PHA) Decontrol Program** was not being implemented effectively. The program was intended to allow greater flexibility for well run agencies, leaving HUD to concentrate its monitoring resources on problem agencies. However, we found that some of the 17 decontrolled agencies in the Philadelphia Region had known deficiencies, 15 agencies failed to meet one or more of the quality standards, and the majority questioned the benefit of decontrol. The Department suspended the program and is designing a replacement with more meaningful standards and results. (Page 19)

PHA administration of the **Comprehensive Improvement Assistance Program (CIAP)** had serious weaknesses. We found that 28 of 34 agencies audited had weak or nonexistent controls over modernization contractors. We also identified $4.6 million in ineligible and unsupported CIAP costs. The Department initiated regulatory and monitoring changes to correct the deficiencies. (Page 20)

We disclosed $1.1 million in questionable expenses at the **Housing Authority of the City of Passaic, New Jersey**. This included excessive compensation (the Executive Director was paid three times the budgeted rate), improper leave payments, and unsupported travel and legal payments. As a result, nine Passaic officials were suspended and the Department took over management of the agency pending court actions. (Page 22)

The use of **Housing Development Corporations (HDC)** by PHA's was almost totally unregulated by HUD. PHA's have established nonprofit corporations to perform various housing-related services. However, HUD had no regulations concerning HDC's and Field Offices were unaware of the extent of HDC activities. The interrelationships with HDC's may jeopardize PHA assets. We recommended that the legal status of HDC's be studied and that appropriate regulations be issued. (Page 24)

Section 8

Housing assistance payment processing issues were reviewed in the second phase of our audit of the **Housing Voucher Program**. We found deficiencies in setting payment levels (10 of 18 PHA's) and in processing tenant applications (92 percent). We also identified two administrative problems. First, budget line item restrictions hamper the ability of PHA's to fully use funds available. Second, the ''portability'' feature, permitting tenants to use vouchers in a different jurisdiction, had an adverse impact on the issuing PHA. (Page 25)

The Department's system of **Accounting and Budgeting for Section 8 Funds** was not reliable. There were deficiencies in controls, procedures, and data input. In addition, there was no long-range planning to project the financial effect of Section 8 contracts in future years. (Page 26)

Four audits of **Moderate Rehabilitation Program** projects were issued. They showed that incorrect rents, ineligible units and noncompliance with regulations could cost HUD more than $15.7 million over the 15-year contract periods. (Page 27)

A special rent increase was improperly granted at a **New Construction Program** project in Somerset, Pennsylvania, costing HUD $405,605 in excess housing assistance payments. The increase, which did not meet HUD requirements, was granted by HUD Headquarters in May 1987 after being disapproved by the Pittsburgh Field Office. (Page 29)

Title X Land Development Projects

Through October 1989 HUD had insured 65 Title X mortgages totalling $633 million and paid claims on 32 of them.

HUD processing of **Insurance Commitments** was questionable in 10 of 17 projects audited, including six projects which should not have been approved. We concluded that poor controls by HUD contributed to the nearly 50 percent default rate in Title X. There were indications of inappropriate consultant influence on HUD decisions in six cases, including five of those which should not have been approved. (Page 30)

Also contributing to the HUD losses in Title X was ineffective **Monitoring, Servicing and Disposition** of projects by HUD. Weaknesses included failure to identify projects in trouble, inadequate servicing of defaulted mortgages, and untimely foreclosure and sale to minimize losses. (Page 31)

Single Family Insurance Program

Audits showed continuing problems in single family housing **Loan Origination** with respect to loan limits, down payments, borrower qualifications, property valuation, investor loans, and closing documentation. Five mortgage companies were referred to the Mortgagee Review Board for administrative sanctions. (Page 32)

In the wake of the ''Robin HUD'' scandal (see Page 49), we reviewed HUD **Property Disposition** branches in Denver, Los Angeles, Houston and New Orleans. Although conditions were improved since previous reviews, we still found that improvement is needed. (Page 35)

Multifamily Housing

We audited three of HUD's programs of mortgage insurance for construction or rehabilitation of multifamily housing projects.

We found that one-third of 190 **Retirement Service Centers** had defaulted or were in a troubled status. Mortgages totalling $1.6 billion were to provide housing for persons 70 years of age or older. HUD insured 108 of the mortgages and coinsured the rest.

Underwriting deficiencies were the primary problem, both for HUD-insured loans and coinsured loans. There was overestimation of income, cash flow and project absorption rates, and underestimation of operating expenses. Recommendations of HUD field economists were often disregarded.

Based on our recommended corrective actions, the Department is studying whether to terminate or restructure the program. (Page 37)

In the **Housing Development Grant Program (HODAG)** we noted that HUD was not monitoring state and local grantees and the grantees were not monitoring owners. Five years after the program's inception, only 8 of 249 HODAG contracts were settled. In four completed projects we found $3 million in unsupported and/or unreasonable charges. We also concluded that the Field Office Housing Development Division was understaffed to perform the settlements. (Page 39)

Five audits showed continuing problems with **Multifamily Owners/Management Agents** regarding project operations. There were instances of substandard housing quality, improper expenses, unreasonable costs, unauthorized cash withdrawals, and excessive fees. (Page 40)

Community Planning and Development

Program Income in the Community Development Block Grant Program (CDBG) was neither reported adequately nor spent properly. In a review of 29 local grantees throughout the country, we identified $20 million of program income not reported to HUD as required and $19 million spent on ineligible or unsupported uses. Program income originates from interest on deposited funds, sale of properties and other Title I activities. It may be used for Title I purposes. (Page 42)

The CDBG-funded **Rehabilitation Program** was not accomplishing the objective of bringing properties up to housing quality standards. In a review of 12 grantees in 10 states, we found a lack of inspections to identify health and safety violations, payments for incomplete or inadequate work, poor contract administration, and uncorrected code violations. In 9 of 12 grantees, health and safety violations still existed after rehabilitation was completed. (Page 43)

Government National Mortgage Association (GNMA)

GNMA had serious weaknesses in the selection and monitoring of **Subservicers**. As a result, GNMA lacked assurance that its 23 subservicers were meeting requirements for servicing 259,000 loans totalling $12.5 billion. In one large subservicer, we found weak cash controls, improper expenses, untimely appraisals and inadequate file documentation. We also noted that HUD's internal control weaknesses caused duplicate securities payments of over $200,000. (Page 45)

Significant Investigations

Chapter 3 describes the major investigations during the reporting period.

Single family mortgage insurance investigations resulted in 72 criminal cases, 59 convictions, $93,925 in fines and $2.6 million in recoveries. (Page 49)

The most publicized case was ''Robin HUD,'' a HUD contract **closing agent** in Maryland who embezzled at least $5 million in proceeds from sales of HUD-owned properties. She pled guilty to stealing government property and submitting a false income tax return. (Page 49)

Closing agents in Texas, Indiana, and Alabama were also indicted/convicted in three cases involving $4.5 million in embezzlement. (Page 49)

Interagency **task forces** in Oklahoma and the District of Columbia continued to result in numerous prosecutions for mortgage fraud.

- The Oklahoma Task Force, a joint effort of the OIG and the Federal Bureau of Investigation (FBI), has resulted in 47 indictments and 40 convictions since 1987. In a recent case, an Oklahoma City real estate agent/investor was sentenced to five years in prison and ordered to make restitution of $1,798,105. (Page 50)

- The Goldnet Task Force in D.C. has resulted in 33 sentencings since May 1985. It is a joint effort of the OIG, the FBI and the Department of Veterans Affairs OIG. (Page 51)

Indictments and convictions stemming from **Equity Skimming** investigations continued. In the biggest case, two Philadelphia brothers were found guilty of buying 50 homes, keeping the rental revenues and letting the homes go into foreclosure. The loss to HUD was more than $1 million. (Page 54)

Fraud by tenants in **Rental Housing Assistance** programs led to 49 indictments and 43 convictions in this period. The defendants were fined a total of $79,100 and ordered to make restitution totalling $464,298. The typical charge was falsifying income to become eligible for assisted housing that is intended for low- and moderate-income persons. (Page 55)

There were many criminal cases involving officials of **Public Housing** agencies throughout the country. Executive directors of PHA's in New Jersey admitted receiving bribes totalling more than $175,000 from two contractors. Bribery and kickback cases in New Orleans, Atlanta, Anchorage, and Charleston, West Virginia, were completed. PHA officials in several other cities were guilty of embezzling agency funds. (Page 57)

Officials and contractors of **Community Planning and Development** programs were brought to court in California, Kentucky and Illinois for embezzlement and fraud. In East St. Louis, Illinois, the executive assistant to the Mayor was indicted along with two contractor officials for conspiracy. (Page 60)

Remaining chapters of the report cover legislation and regulation reviews, prevention activities, actions against HUD employees, statistical summaries, and audit follow-up. There are appendices listing audit reports issued, awareness publications, and HUD material internal control weaknesses.

Chapter 1

UPDATE OF HUD PROBLEMS

In our last Semiannual Report to Congress, we highlighted eight major problem 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. The Coinsurance Program

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

On the following pages, an update on these problems and the actions being taken by the Department are discussed. Details of audits and investigations related to these topics are provided in Chapters 2 and 3.

Internal Controls

Since auditors, investigators and program monitors are limited in number, the real antidote to fraud, waste and abuse is a thorough system of internal controls implemented by management.

Material weaknesses in HUD's internal control and financial management systems have precluded reasonable assurance of: (1) compliance with laws, regulations, and policies; (2) safeguarding of assets; and (3) generation of reliable statistical and financial information for effective decision making. Since 1983, 90 material weaknesses have been identified in HUD's operations; 42 of these still existed at December 31, 1989, according to Secretary Kemp's FMFIA Assurance Statement to the President. (See Appendix 3)

Systems of internal control and financial management are required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Implementing guidelines are published by the Office of Management and Budget in Circulars A- 123, "Internal Control Systems," A-127, "Financial Management Systems," and A-130, "Management of Federal Information Resources."

Control Problems Identified

HUD's Management Control Program is intended to provide compliance with FMFIA objectives. In our six prior audits of the program, we identified the need for:

- Top management commitment, involvement and accountability
- An independent coordination and quality assurance function over all phases of the control program
- A combined program to address all applicable OMB circulars
- Evaluations along financial management system or program lines
- Better documentation of system design
- Control testing at both Headquarters and field locations
- Information tracking systems to control all evaluations and corrective actions

Last year's "HUD Scandals" underscored the need to strengthen HUD's FMFIA program. Further evidence was provided in a February 1990 General Accounting Office (GAO) report in which GAO declined to express an opinion on the Federal Housing Administration financial statements because of serious internal control weaknesses and loss of control over the property inventory. Moreover, an audit of the non-FHA funds could not be completed because the records were unauditable.

Current HUD Actions

Secretary Kemp has taken or initiated actions to address the Department's control weaknesses. These actions include:

- Establishing a high level position of Chief Financial Officer (CFO) that will be accountable for financial and management controls. Comparable positions of Comptroller for the five major programmatic areas were also established.
- Transferring the FMFIA Program coordination function from accounting operations to the CFO to give it greater independence and higher level attention.

- Issuing a 1989 FMFIA Assurance Statement to the President and the Congress that accurately and openly reported known weaknesses, including 11 new material weaknesses identified by HUD management.

- Completing studies of 26 systems by a Financial Management Task Force convened by Secretary Kemp and headed by the Under Secretary to identify corrective actions in key programmatic areas representing 95 percent of HUD's annual budget. Recommendations are now being reviewed and implemented as appropriate.

- Requesting $33 million for financial management system improvements in the FY 1991 budget.

Actions Still Needed

Although we are encouraged by the efforts to date, these improvements will take time, resources and continued commitment from HUD, OMB and the Congress. To help ensure continuation of this commitment, we believe the following actions need to be taken:

- Documenting HUD's restructured FMFIA Program to ensure full compliance with all requirements.

- Increasing use of HUD staff, instead of contractors, for documentation, evaluation and testing of HUD's internal control and financial management systems.

- Instilling accountability measures in FMFIA activities.

- Establishing steering committees for each of HUD's major financial management systems with cross-cutting representation from program, accounting, systems, and field staffs.

- Developing and submitting budget justifications which identify resources needed to implement corrective actions for each material weakness.

FHA Single Family Mortgage Insurance

Problems in the Single Family Program are concentrated in two areas: Loan Origination and Property Disposition.

Loan Origination

This area is still susceptible to fraud and mismanagement because of ineffective Departmental policies and systems, especially for investor loans, and because of inadequate resources to adequately oversee loan underwriting activities. Our audits and investigations indicate that individuals and companies across the Nation continue to improperly originate loans for personal gain. During this reporting period, our audits resulted in five lenders being referred to HUD's Mortgagee Review Board for administrative sanctions.

The Department has taken or proposed a number of actions to remedy the situation that will result in:

- Developing regulations, as authorized by the HUD Reform Act, to curtail high risk investor loans.

- Implementing new "civil monetary penalty" authorities.

- Shifting the mortgage insurance accounting function from the Office of Administration to the Assistant Secretary for Housing, thereby giving Housing more direct control over its accounting.

- Beginning improvements recommended by the Financial Management Task Force.

- Hiring an FHA comptroller to oversee financial operations.

- Initiating a work measurement and staffing needs study.

- Modifying the Computerized Homes Underwriting Management System to assist in selecting cases for review.

- Requiring all real estate appraisers to meet state certification and licensing requirements.

- Requiring mortgagees to adopt quality control plans.

Although some of these actions are completed, most are only getting started.

Property Disposition

In our most recent reviews of HUD's Property Disposition activities in Denver, Los Angeles, Houston, and New Orleans, we found that although improvements were made, many weaknesses still remain. The Property Disposition area is still susceptible to fraud and abuse, because of significant problems in HUD's financial records and ineffective Departmental monitoring of closing (settlement) agent activities.

In addition to the steps taken in the wake of the "Robin HUD" scandal and some of the previously mentioned steps which are applicable to Property Disposition as well as Loan Origination, the Department is also going to:

- Issue revised instructions and forms for handling sales proceeds and closings.

- Implement the Single Family Accounting and Management System (SAMS) for managing and accounting for property inventory.

As we stated in our last Semiannual Report, the problem can only be kept to a minimum with strong enforcement of program regulations by HUD staff.

Section 8 Discretionary Funding

The Department took steps to deal with the discretionary funding abuses of the past. Discretionary funding decisions are being eliminated in favor of full and open competitive decision-making processes. Pursuant to the newly enacted HUD Reform Act, the Headquarters reserve fund for Existing Housing Certificates is being reduced. In FY 1991, the Headquarters Reserve Fund will be used only for housing needs resulting from disasters, desegregation efforts, legal settlements, and emergencies. Section 101 of the Act also reformed HUD's method of allocating housing assistance. The Department is taking or planning to take the following actions:

- Issuing instructions concerning PHA decisions to implement project-based assistance programs.

- Increasing the frequency and improving the quality of HUD monitoring.

- Reassessing the method for determining project viability.

- Providing training in housing management, procurement, and contracting.

- Implementing the HUD Reform Act provisions on subsidy layering, project caps, and per-unit rehabilitation minimums.

We continue to report some of the effects of the previous administration's inappropriate discretionary funding decisions. During the reporting period, four of our audits of PHA's uncovered deficiencies which could cost HUD more than $15 million over the 15-year period of the subsidy contracts.

Coinsurance Program

Secretary Kemp proposed the termination of the Coinsurance Program, which was designed to encourage lenders to make construction or rehabilitation loans for multifamily housing projects. The program experienced high levels of defaults and monetary losses, because the lenders did not underwrite loans prudently. In addition, there are several on-going investigations of coinsurance lenders. The program design was flawed, and HUD's program administration was weak. The Department is now developing regulations to ensure the orderly and effective termination of the program. The Department is also studying how to handle the property disposition activity that likely will result from the program's termination.

Title I Programs

Activity in the Title I Property Improvement and Manufactured Housing Programs has lessened considerably. Nevertheless, the Department reported both programs as material weaknesses in December 1989 and has indicated it is taking or will take the following actions:

- Publish a final rule to strengthen loan underwriting requirements.

- Tighten controls over dealer participation in loan origination.

- Reexamine the entire manufactured housing program and publish regulations to initiate a major program re-design.

- Publish regulations to issue stiff civil penalties to dealers for false information or fraud in the origination of loans.

These steps should help detect and prevent program fraud and abuse in the future.

Programs Not Benefitting the Needy

In our last report, we cited two programs—Retirement Service Centers (ReSC's) and Title X Land Development—as HUD activities which do not adequately benefit low- or moderate-income families. In addition, both programs have high default rates. During the reporting period, we audited both programs.

Retirement Service Centers

Although Secretary Kemp suspended new projects in the ReSC Program in July 1989, there were still about 190 Retirement Service Centers nationwide with mortgages totaling about $1.6 billion as of October 31, 1989. Approximately 62 projects with mortgages totaling $599 million had either defaulted or were financially or operationally troubled. Our most recent audit recommended that the program be terminated or, if continued, that major changes be implemented.

The Assistant Secretary for Housing-Federal Housing Commissioner agreed with our overall conclusions and recommendations. Decisions on the program's structure and redesign will not be made until HUD's Office of Policy Development and Research (PD&R) completes their review of the program.

Title X Land Development Program

The Title X Program also experienced high claim rates. Of 65 mortgages totalling $633 million insured by HUD from 1977 through October 1989, HUD has paid insurance claims on 32 of them. Of the remaining 33 loans, 17 are still in the development stage. The HUD Reform Act terminated the program. Our recent audit recommended that HUD provide sufficient staff and develop control procedures to effectively service the remaining Title X projects and to promptly dispose of acquired Title X projects.

Multifamily Loan Servicing

Our audits and investigations continue to show that some owners and agents of multifamily housing projects misuse assets and income from project operations. This leads to deteriorated projects, the need for additional HUD financial assistance, and the increased potential for loss through default and foreclosure.

The Department has studied this problem and is in the process of implementing system improvements recommended by the Financial Management Task Force. Some of the actions include enhanced Field Office compliance reviews and automated analysis of project financial statements. In addition, the Department has initiated a work measurement and staffing needs study which could lead to better monitoring of owners and agents. The Department is also in the process of implementing new civil monetary penalty authorities.

Government National Mortgage Association

GNMA currently has a $12.5 billion portfolio of loans that were taken over from issuers who defaulted on their payments to investors. A high percentage of these loans are troubled. A recent OIG audit showed that GNMA was not staffed to handle such a large portfolio and that improved controls are needed over the award and monitoring of contracted loan servicing of the portfolios.

The GNMA portfolio grew for a number of reasons: economic conditions in the ''oil patch'' States, which produced a tremendous number of single family and Title I manufactured home loan defaults; faulty or fraudulent underwriting by coinsured lenders and Title I lenders; and the Department of Veterans Affairs' limited guarantees to lenders and their ''no-bid'' policy on foreclosures that increase lender losses and contribute to GNMA issuer defaults.

The termination of the Coinsurance Program and the curtailment of single family insured loans for investors should help reduce losses to GNMA. The Department is pursuing ways to reduce the risk caused by the inclusion of VA loans in GNMA pools and has notified the Office of Management and Budget of its serious reservations to the proposed VA Act Amendment of 1990. GNMA is in the process of improving its management controls for problem issuers and portfolio subservicers. However, the potential for significant losses remains high.

Chapter 2

SIGNIFICANT AUDITS

This chapter describes our significant audits during the last 6 months. Our work highlights problems, abuses, and deficiencies in the following programs:

Public Housing
Section 8
Title X Land Development
Single Family Housing
Multifamily Housing
Community Planning and Development
Government National Mortgage Association
Administration

Public Housing

The Public Housing Program is the Nation's oldest and primary vehicle for housing low-income households. Today there are nearly 1.4 million units of public housing in the United States, which provide shelter for about 4 million people. Public housing agencies (PHA's), which administer public housing at the local level, receive about $1.7 billion annually in operating subsidies from HUD. PHA's also administer HUD's Section 8 Rental Assistance Program at the local level.

During this reporting period, our audit work focused on the **PHA Decontrol Program**; the **Comprehensive Improvement Assistance Program**; the **Housing Authority of the City of Passaic, New Jersey**; and **Housing Development Corporations**.

PHA Decontrol Program

Based on a review of the PHA Decontrol Program in the Philadelphia Region, we recommended that the program be cancelled or redesigned. We determined that the program was not implemented effectively. In some cases, PHA's were incorrectly decontrolled. The program's objectives were not being achieved.

In October 1987, HUD implemented a program to decontrol PHA's. Under this program, capable PHA's are: (1) relieved from required HUD reviews; (2) provided greater flexibility in operating their programs; and (3) granted increased responsibility and authority in managing their activities. To be decontrolled, PHA's must earn a "recognized performer" status by meeting seven performance standards. As of June 30, 1989, there were 653 PHA's decontrolled, about 20 percent of the total. In the Philadelphia Region, 85, or about 50 percent of all PHA's, had been decontrolled.

Decontrol applications from 17 sampled PHA's reviewed disclosed that some PHA's were decontrolled despite known deficiencies. One PHA's application identified its inability to meet the program's occupancy standard. Another PHA was approved for decontrol even though it was financially troubled. Processing delays occurred and in some cases outdated applications were approved.

Of the 17 decontrolled PHA's, 15 did not and/or will not achieve at least one of the seven required performance standards. HUD management encouraged PHA's to apply for decontrol status without requiring that they provide effective assurances that performance standards would be achieved. Decontrol requirements limited Field Office oversight of PHA's to accepting certifications with little documentation and reviewing year-end financial statements without verifying actual performance. As a result, Field Offices provided decontrol status to some ineligible PHA's.

Questionable Benefit

The program objective of affording decontrolled PHA's greater flexibility in operating their public housing programs was not met. Four of the 17 PHA's reviewed did not even desire to be decontrolled. Also, nine PHA's indicated to us that they did not benefit from being decontrolled. The other program objective of affording Field Offices the opportunity to focus on those PHA's with significant operational problems was not achieved. None of the Field Offices included in our review reported that their monitoring reviews and priorities had been shifted to focus on troubled PHA's.

The Housing Authority of the City of Passaic, New Jersey, is an example of a PHA that was decontrolled and experienced problems. See separate section below.

RECOMMENDATIONS: We recommended that the General Deputy Assistant Secretary for Public and Indian Housing either cancel the Decontrol Program or redesign it. In February 1990 the General Deputy Assistant Secretary notified us that the program had been suspended, and that his office would revise the program, taking into account our audit recommendations. *(Report No. 90-TS-101-0006)*

Comprehensive Improvement Assistance Program

PHA's administering the Comprehensive Improvement Assistance Program (CIAP) need to improve their procedures to assure compliance with contract administration and cost eligibility requirements. Otherwise, HUD cannot be assured that millions of dollars in CIAP funds are used economically and efficiently.

The purpose of the 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.

A review of 34 PHA's across the country showed that 28 did not establish or implement necessary controls over their CIAP contract administration activities. We found that these PHA's were not: awarding contracts competitively, executing change orders properly, or reviewing contractor invoices adequately. As a result, HUD had limited assurance that the $10.3 million in contracted services involved were being procured efficiently and economically. For example, 21 of the PHA's awarded $4.2 million of contracts without obtaining required bids or proposals. As a result, HUD had no way of knowing if the goods and services procured by these PHA's were obtained at the lowest possible prices. Fourteen of the PHA's authorized contract change orders totaling $1.4 million without first obtaining HUD's approval or maintaining proper support to substantiate the need for the increased costs. Ten of the PHA's did not review contractor invoices adequately and in the process made duplicate and unnecessary payments of $842,000.

In addition, HUD Field Offices were not requiring PHA's to adhere to budget approval requirements and were not following up with them to determine if the costs charged to their programs were proper.

HUD Field Offices also needed to improve their oversight of CIAP administration. While Field Offices were performing on-site monitoring of CIAP, the scope of these reviews was not sufficient to identify the contract administration deficiencies disclosed by our audit. Eight of the 21 Field Offices we reviewed needed to improve their monitoring of CIAP activities.

PHA's charged ineligible and unsupported costs totaling $4.6 million to the CIAP. These costs consisted primarily of misallocated administrative costs, work items that were not included in CIAP budgets and ineligible work items. As a result, HUD had limited assurance that CIAP funds were used properly and that sufficient funds were available to accomplish approved CIAP work items.

In response to our draft audit report, the General Deputy Assistant Secretary for Public and Indian Housing outlined current and future actions by that office to correct deficiencies in the CIAP. For example, he required that Regional Administrators provide a work plan to Headquarters outlining measures to correct deficiencies in PHA administration of CIAP, and a certification that by September 30, 1990, all steps set forth in the work plan will be taken. Other actions include updating handbooks and notices relating to CIAP and providing training to Regional and Field Offices on recent regulatory and handbook changes affecting CIAP.

RECOMMENDATIONS: In our final report we recommended that the Office of the Assistant Secretary for Public and Indian Housing: (1) promulgate specific techniques for reviews of PHA contracting functions, especially when PHA's have not previously demonstrated the capability to comply with contracting requirements; (2) stress the importance of complying with established requirements for contract administration and providing for the development of plans or strategies to ensure compliance; (3) reinforce the requirement to submit budget changes for any new or increased CIAP work items to HUD Field Offices for evaluation and approval prior to incurring CIAP charges; and (4) require PHA's to report CIAP budget work item numbers and amounts when requesting funds. HUD should also incorporate CIAP budgets into the Department's Rapid Housing Payment System and require HUD reviewers to compare CIAP budgets to the payment requests. *(Report No. 90-TS-101-0009)*

Housing Authority of the City of Passaic, New Jersey

Our audit of the Housing Authority of the City of Passaic, New Jersey (PHA), disclosed that the PHA was not being administered economically and efficiently. PHA employees were paid excessive compensation; employees accrued leave improperly; and travel expenses and legal fees were not properly supported. We identified over $1.1 million in questionable expenses and another $546,000 in potential cost savings.

For the fiscal year ending December 31, 1988, compensation paid to the PHA's Executive Director and selected employees exceeded the amounts HUD approved for the positions. For example, the PHA budgeted $84,185 and $57,970 as total compensation for the Executive Director and Deputy Executive Director; however, they were actually paid $245,956 and $106,868, respectively. Actual compensation exceeded the HUD-approved budget because the PHA: (1) allowed employees to hold multiple job titles and gave employees salary increases; (2) paid bonuses to selected employees; (3) paid employees for compensatory time; (4) paid a retirement annuity for its Executive Director; and (5) authorized travel allowances that were equivalent to compensation. Accordingly, we considered $485,415 to be ineligible costs.

In violation of New Jersey State Civil Service laws, certain PHA employees were paid compensation for unused vacation and sick leave prior to retirement. We estimated that nearly $100,000 paid to employees was ineligible. If these practices continue, ineligible costs could exceed $546,000. Other employees were allowed to accumulate paid vacation days in excess of the amount allowed by State law. Ineligible costs could amount to $180,000 if these practices continue.

The PHA used operating funds to pay ineligible and unsupported travel expenses. We believe the PHA's travel policy is unreasonable and deficient in that numerous individuals attended an out-of-town conference and incurred excessive travel costs, and the PHA paid unsupported credit card charges and travel expense reimbursements.

Contrary to HUD handbook requirements, the PHA charged the CIAP for items that were not included in the HUD-approved budget, such as maintenance service contracts and motor vehicles, and reported to HUD that CIAP funds were obligated when they were not. As a result, over $90,000 in ineligible costs were charged to CIAP and over $1.4 million in CIAP funds were not subject to HUD's recapture policy.

The PHA also failed to comply with Federal requirements for the procurement of legal services. Services were obtained without competitive negotiation and without prior written HUD approval. In addition, payments for legal services were not supported by proper documentation to justify the reasonableness of the costs. We estimate that $270,840 paid for legal services was ineligible. An additional $150,000 is considered unsupported pending a HUD eligibility determination.

RECOMMENDATIONS: We made a number of recommendations to the Deputy Manager of the Newark Office to correct the deficiencies found during the audit including directing the PHA to:

- repay from non-Federal funds any monies found to be ineligible
- improve its operations and maintain financial integrity
- cancel any compensatory time accumulated for executive and supervisory employees
- cancel excess vacation days for all PHA employees
- follow the provisions of the Code of Federal Regulations regarding procurement of legal services
- determine the eligibility of unsupported travel expenses and revise the travel policy to include limits on attendance and expenditures

We also recommended that the Newark Office conduct a quarterly review of the PHA's charges to its CIAP to assure that they are proper and eligible, and instruct the PHA's Board of Commissioners to submit to HUD for review and approval resolutions that will correct the violations of New Jersey Civil Service laws regarding accumulated leave payments.

On January 22, 1990, the General Deputy Assistant Secretary for Public and Indian Housing issued letters suspending from participation in HUD programs: the PHA Executive Director, Deputy Executive Director, Chairman of the Board of Commissioners, Vice-Chairman of the Board of Commissioners, and Counsel. On the same day, letters of limited denial of participation were issued by HUD's Newark Office to the Chief of Operations, a maintenance supervisor, a consultant, and a fee accountant.

HUD Takes Over Agency

On January 29, following a meeting at which the Commissioners accepted no responsibility for misappropriation of funds and irregular practices, the General Deputy Assistant Secretary declared the Commissioners in substantial breach of their annual contributions contract and informed them that HUD would take possession of the Authority and its assets. On January 30, the Director of HUD's Newark Office Housing Management Division became the interim Executive Director of the Authority. Currently, HUD is still in control of the Authority while the matter is before the courts.

The House Subcommittee on Employment and Housing of the Committee on Government Operations held a hearing on the results of our Passaic audit. The Inspector General and OIG's New York Regional Inspector General for Audit testified during this hearing on February 6, 1990. *(Report No. 90-NY-204-1022)*

Housing Development Corporations

We reviewed housing development corporations (HDC's) in the Denver Region and considered prior audit findings in other regions, and found that HUD's internal controls over PHA establishment and operation of HDC's are virtually nonexistent. There is so little HUD oversight that Field Offices are unaware of the extent to which PHA's use HDC's or the impact of HDC's on PHA operations. In addition, there are no Federal regulations which specifically address HDC's or their relationships with PHA's.

HDC's are generally established by PHA's to perform housing-related activities on behalf of the PHA's. The incorporation and operation of HDC's are subject to State laws governing nonprofit corporations and PHA's. These laws vary from State to State.

HUD has not issued regulations or guidance concerning the establishment and operation of HDC's. In addition, HUD has not established controls over PHAs' contractual relationships with HDC's or provided Field Offices guidance for reviewing PHA relationships with HDC's. Consequently, PHA assets may be vulnerable to fraud, waste, and abuse, and HUD's interests may not be adequately protected.

We identified some major issues and concerns involving establishment and operation of HDC's: (1) project syndications to finance HDC activities which place PHA assets at risk; (2) contracts and agreements between PHA's and HDC's which are not always equitable and which, in some cases, may be illegal; (3) HDC's lack of independence from PHA's; (4) PHAs' establishment of HDC's to participate in HUD programs which are otherwise prohibited to PHA's by law or regulation; (5) PHAs' inaccurate reporting and efforts to withhold from HUD fiscal information on HDC activities; and (6) PHAs' use of HUD funding as collateral to secure HDC debts.

On April 13, 1990, we met with the General Counsel, Associate General Counsel, and Public and Indian Housing staff to discuss corrective actions needed. All agreed that HUD needed to address the matter of HDC's. The General Counsel advised that his staff would commence work on resolving any legal issues involving HUD's role in relationship to HDC's.

RECOMMENDATIONS: We recommended that the General Deputy Assistant Secretary for Public and Indian Housing obtain an opinion from HUD's Office of General Counsel on PHAs' use of project syndications as a method of financing HDC activities, as well as on HUD's authority to regulate establishment and operation of HDC's to perform housing-related activities. We also recommended that HUD issue regulations that would provide sufficient control over PHA's/HDC's and ensure that HUD programs and PHA financial stability are adequately protected. HUD should also issue guidance for Field Offices to use in monitoring PHA use of HDC's or related nonprofit corporations, and require PHA's to include HDC activities in their annual audits in accordance with Office of Management and Budget Circular A-128, Audits of State and Local Governments. *(Report No. 90-TS-108-0007)*

Section 8

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 the Section 8 **Housing Voucher Program; Accounting and Budgeting for Section 8 Funds; Moderate Rehabilitation Program;** and the **New Construction Program**.

Housing Voucher Program

HUD needs to make certain enhancements to the Section 8 Housing Voucher Program to: (1) assist PHA's in adjusting payment standards; (2) improve PHA verifications of household eligibility and the accuracy of their subsidy calculations; (3) assist PHA's in managing their allocated budget authority; and (4) alleviate the negative impact on PHA's of the program's portability feature.

The Housing Voucher Program provides assisted families with greater choices in the selection of rental units. Families may rent units above or below HUD's fair market rents. Housing must meet the decent, safe, and sanitary standards required by the program. Monthly housing assistance payments are based on the difference between a payment standard for the area and 30 percent of the family's monthly income.

There were two phases of our audit of the Housing Voucher Program. In the first phase, reported in our semiannual report for March 31, 1989, we reviewed compliance with HUD's Housing Quality Standards. We determined that over one-half of the units that we inspected were not in compliance with the standards. The objectives of the second phase, discussed below, were to review the extent of PHA compliance with HUD's processing requirements and to determine how allocated voucher authority was being used.

The overall level of assistance payments in the Housing Voucher Program is based on the payment standard established by the PHA. PHA's, however, are not making informed decisions when adjusting their payment standards. Of 18 PHA's reviewed, 10 were not using available local market data when adjusting their payment standards, while seven were limiting their use of available market data. As a result, fewer families were being assisted in some cases, while some household rent burdens were either too high or too low. We believe this condition is occurring because HUD has not provided adequate guidance on the factors that need to be considered when revising payment standards and determining affordable housing.

A review of application data relative to household income, family composition, and other related factors disclosed that 92 percent of the households in our sample were being subsidized on the basis of incomplete or improperly used application data. Most PHA's were relying solely on historical data in determining applicant incomes without considering anticipated changes in their incomes. Some PHA's were failing to reconcile conflicting application information and were not requesting needed documentation from applicants. Other PHA's made mathematical errors in their subsidy calculations which were not subsequently corrected and did not adequately document the disability status of households.

Rebudgeting Flexibility Needed

PHA's could assist additional households if they were allowed to rebudget funds allocated between Housing Assistance Payments (HAP's) and administrative fees when necessary. Because PHA's cannot exceed the amounts separately budgeted for HAP's and administrative fees, they are reluctant to issue additional vouchers and make assistance payments if their budgeted administrative fees are depleted. Conversely, PHA's may have budgeted administrative fees remaining, but no funds for assistance payments. Six of the 18 PHA's reviewed had about $4 million in voucher funds in one of these two budget categories, but none in the other. Four of the PHA's would not or could not effectively use $3.8 million in HAP funds because they did not want to risk being unable to collect their administrative fees if those funds were depleted. At six of the 18 PHA's reviewed, we estimated that 338 additional households could have been provided voucher assistance by the PHA's if they could have rebudgeted funds as suggested.

Portability

The Housing Voucher's portability feature benefits participants because it allows them to use a voucher in any area served by a PHA even though the PHA is different from the one that originally issued the voucher. This feature negatively affects some PHA operations, however, because it: (1) increases their administrative burden without a commensurate increase in fees; (2) compels them to treat their own applicants unfairly; and (3) creates financial management difficulties when PHA payment standards differ.

The Assistant Secretary for Housing-Federal Housing Commissioner expressed general agreement with our findings and recommendations and indicated that corrective actions would be taken. Her office is currently revising regulations and the program handbook pertaining to the Housing Voucher Program. They are also in the process of issuing two notices to PHA's. One will provide guidance on affordability adjustments. The other will provide instructions on how to maximize the use of appropriated funds.

RECOMMENDATIONS: We recommended that the Office of the Assistant Secretary for Housing-Federal Housing Commissioner: (1) revise HUD handbooks to better define "affordable housing" and to identify the factors and data that should be used by PHA's when considering the need for and amount of affordability adjustments; (2) require PHA's to describe in their administrative plans their process for determining affordability adjustments and require them to submit their analyses to HUD Field Offices for review; (3) require Field Offices to monitor how PHA's are setting their payment standards; (4) issue a directive to Regional and Field Offices instructing them to impose administrative sanctions on PHA's when monitoring reviews and audits disclose that they repeatedly fail to verify participant data or miscalculate participant assistance payments; (5) pursue changes in the legislative process which would eliminate the appropriations segregation of HAP's and administrative fees, and if successful, revise existing policies and instructions accordingly; and (6) ensure that the portability provisions of the 1987 Housing Act are addressed in formal rulemaking as soon as possible. *(Report No. 90-TS-103-0005)*

Accounting and Budgeting for Section 8 Funds

HUD does not have accurate and reliable data in support of its administration of Section 8 Programs. As a result, there is no assurance that Section 8 funds are being used effectively or are properly budgeted and accounted for.

Budget authority is the amount of funding approved by Congress for Section 8 Programs. Budget authority is divided into annual increments called contract authority. This is the amount available for use by a funded project for the current program year. If the project does not use all its contract authority in the program year, the surplus becomes part of the project's reserve account. If the project later experiences a deficit and reserve funds have been exhausted, the Field Office must request additional funding (cost amendments) from Headquarters. Headquarters must then request supplemental funds from Congress.

HUD's inaccurate Section 8 Program data is due to serious deficiencies in controls and procedures in the Section 8 accounting and budgeting systems and in the input and maintenance of contract and accounting information. As a result, HUD management does not have reliable information for making decisions, and the Department cannot provide Congress with accurate estimates for amendment funding and expiring contracts. Our conclusions were based on studies performed by the Financial Management Task Force, the General Accounting Office, and consulting firms hired by the Department, as well as our review of HUD's estimates for funding Section 8 cost amendments and contract renewals.

No Long-Range Plans

HUD does not have long-range plans for the Section 8 Program. As a result, it can neither plan or budget efficiently for its programs, systems and procedures for future years nor effectively deal with the thousands of Section 8 contracts which will be expiring in the next decade.

While HUD's system for cost amendments is generally sound, improved controls would help ensure that funding requests are necessary and accurate. We found that budget and financial statement information provided by public housing agencies and input into HUD's automated cost amendment system was not always accurate or supported. Improved procedures are also needed for the Section 8 New Construction, Substantial Rehabilitation, and Loan Management Set-Aside Programs. Present procedures are not uniform, reliable, or timely and may result in incorrect or delayed amendment funding.

In a memorandum dated April 16, 1990, the Assistant Secretary for Housing-Federal Housing Commissioner stated that her office generally agreed with our findings and recommendations. She advised that her office would be in a position to propose specific corrective actions as soon as a recently contracted evaluation of the subsidy programs is completed.

RECOMMENDATIONS: We recommended that the Assistant Secretary for Housing-Federal Housing Commissioner: (1) pursue the development of systems for Section 8 Programs that will provide accurate and reliable information; (2) inform Congress of the weaknesses in the Section 8 accounting and budgeting systems, along with HUD's plans to correct the deficiencies; and (3) develop cost amendment procedures which provide for uniform, reliable, and timely processing of funding requests. *(Report No. 90-TS-103-0010)*

Moderate Rehabilitation Program

We continued to audit PHA activities to determine whether the Section 8 Moderate Rehabilitation Program (MRP) is being effectively administered. Audits of four

PHA's found incorrectly computed rents, inclusion of ineligible units, and lack of compliance with HUD regulations and requirements. These matters could cost HUD more than $15.7 million over the 15-year contract periods.

The purpose of MRP 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 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 MRP procedures, even though those procedures did not provide the lowest rents.

One PHA did not comply with Federal requirements to assure that units were awarded in an open and competitive manner, and then paid Section 8 subsidies before executing the Housing Assistance Payment contract. Because PHA's did not follow their own administrative plans or HUD requirements, units were approved that may not have been eligible because they were occupied by families with income greater than the maximum permitted.

One PHA failed to follow HUD guidelines in calculating rents for units occupied by families which, based on their size, should have lived in smaller units. In another case, the coinsuring mortgagee did not properly appraise the property or determine comparable rents in establishing the maximum insurable mortgage. Consequently, the mortgage was overstated by up to $2.1 million.

A third PHA did not properly determine the feasibility of a proposed MRP project. As a result, the owner's costs exceeded the most recent feasibility estimate by over $800,000.

The Department has taken a number of actions during the last year to correct past abuses in MRP. For example, a special review team will conduct contract rent recalculations and make appropriate adjustments in the four audits discussed above. The team will consist of a contractor, OIG, and Field Office staff.

RECOMMENDATIONS: We made several recommendations in our audit reports: requiring the PHA's to adjust base and contract rents; informing PHA's that MRP procedures cannot be superseded unless alternate procedures produce lower rents; recovering any excess assistance paid and reimbursing HUD for these amounts; requiring mortgagees to recompute the insured mortgage; denying requests for exception rents which are attributable to understating project cost estimates; and terminating assistance on ineligible units. Reports related to this topic included:

Housing Authority of Columbia, South Carolina, *(Report No. 90-TS-203-1003)*

Dade County Department of Special Housing Programs, Miami, Florida *(Report No. 90-TS-203-1007)*

Housing Authority of the City of Arlington, Texas, *(Report No. 90-TS-203-1005)*

Maryland Community Development Administration, Annapolis, Maryland, *(Report No. 90-TS-203-1010)*

New Construction Program

The Village at Somerset, Pennsylvania, received $405,605 in excess Housing Assistance Payments (HAP's) because it received a special rent increase for which it did not qualify.

In the Section 8 New Construction Program, as in other Section 8 Programs, HUD makes up the difference between what low-income households can afford and the fair market rent for an adequate housing unit. Project sponsors may be private owners, profit-motivated and nonprofit or cooperative organizations, public housing agencies, and State housing finance agencies. The owner's contract rents may be adjusted through "special additional adjustments" for substantial general increases in an owner's property taxes, utility rates, or similar costs.

Headquarters Overrules Field Office

The Village at Somerset did not qualify for a HUD-approved, retroactive special rent increase for utilities and snow removal because project rents exceeded rents of comparable unassisted units, increased rental income was not applied to offset operating costs, and operating costs did not support the increase. Although objections to the rent increase request were raised by the HUD Pittsburgh Office, project owners wrote directly to HUD Headquarters and obtained approval of the increase in May 1987. As a result, HUD paid excess HAP's of $405,605 through November 30, 1989, and continues to pay excess HAP's of $7,093 per month.

Subsequent to receiving the rent increase, the project received secondary financing of $400,000 from the Pennsylvania Housing Finance Agency. The owners used the financing to cover expenditures related to the correction of construction defects. In effect, the special rent increase was not used to offset operating costs as originally requested.

RECOMMENDATIONS: We recommended that the Pittsburgh Office Manager require the state agency to have the project owners reimburse HUD $405,605 for the ineligible special rent increase. If reimbursement is not accomplished, HAP's should be reduced until the funds are recovered. The State should also notify the owners that repayment of the secondary financing of $400,000 is not to be considered an eligible project expense and can be paid only from surplus cash or profit. *(Report No. 90-PH-212-1005)*

Title X Land Development

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 65 Title X loans have been insured by HUD since 1977 involving over $633 million of insured mortgages. During the reporting period, we audited **Insurance Commitments** and **Monitoring, Servicing and Disposition** of Land Development Projects.

Insurance Commitments

HUD has not maintained effective control over the origination of Title X mortgages. At the Secretary's request, we examined 17 projects in five Regions and found that HUD's processing of loan applications was questionable in 10 cases, including six projects which should not have been approved. The questionable processing explains in part why the Title X Program is experiencing a 50 percent default rate.

The Title X Program is designed to assist private developers to acquire and develop land for residential and related uses, including facilities for public or common use. The insurable mortgage is limited to 80 percent of HUD's estimate of the land value before development and 90 percent of the estimated development costs. The Secretary of HUD must determine that a project represents a good mortgage risk for it to be eligible for Title X mortgage insurance.

The Title X Program has experienced high claim rates. From 1977 through October 1989, HUD insured 65 mortgages totaling $633,885,159. HUD paid claims on 32 of these loans for a claim rate of about 50 percent. Since 17 of the projects were still in the development phase in October 1989, the final claim rate for the projects will probably be higher.

Program Terminated

Because the program failed to provide real benefits to low- and moderate-income persons, and because the program had a high default rate with the resulting large losses incurred by HUD, Congress terminated the program in December 1989.

In our review of insurance commitments, we found that after HUD approved the project applications, mortgagors and mortgagees for 11 of the 17 projects violated program requirements.

The violations included the following:

- One mortgagor and mortgagee misrepresented sales contracts for project land on which HUD relied in approving the project. The mortgagor stated that contracts totaling $9.1 million will not be fulfilled which will likely cause a default on the mortgage.
- $875,000 in excessive interest will be charged to development costs for one project because of the improper release of mortgage proceeds.
- Excessive development costs of nearly $1 million were charged to a project; $210,000 in mortgage insurance premiums were not paid to HUD by the mortgagee; and over $3.8 million of delinquent interest and late fees accrued while assignment of the mortgage was delayed.

- For one project, secondary financing of $252,000 was not approved by HUD. Also, an $830,000 guarantee agreement was not used to prevent default.

- A mortgagor engaged in the construction and sale of condominiums not approved by HUD.

Although there were specific reasons for many of the problems noted in our review, most of the problems stemmed from the lack of a strong management commitment in HUD Headquarters to effectively manage the Title X Program. In many cases, HUD Headquarters Title X staff were aware of the processing problems and failed to take effective action to resolve them. In other cases where it was not evident that HUD Headquarters was aware of the problem, the Title X staff would have been aware of the problem if effective management controls were in effect.

Influence by Consultants

In several cases, HUD made questionable program decisions that appeared to favor the interests of developers over those of HUD. In one case, a HUD Field Office employee admitted to increasing the appraised value of a project, which resulted in an excessive HUD-insured mortgage, because of pressure received from supervisors and a consultant. In another case, a HUD Field Office employee and a mortgagee official stated that HUD Headquarters staff were influenced by a consultant to approve a project which was not sufficiently marketable. HUD Field Office and Headquarters staff otherwise denied that their work was influenced by consultants hired by mortgagors and mortgagees. However, in at least six cases, there were indications of consultant influence regarding HUD program decisions. This included five of the projects we believe should not have been approved.

Because the Title X Program was recently terminated, we made no recommendations in our draft report regarding HUD management controls over the origination of Title X mortgages. However, we recommended that the Assistant Secretary for Housing-Federal Housing Commissioner: (1) take appropriate actions regarding the projects in our review; and (2) for all projects which have not yet submitted development cost certifications, require Field Offices to review the certifications when they are received and disallow all payments to consultants. Based on the Assistant Secretary's response to our draft report, we made only one further recommendation in our final report. HUD should issue a notice to mortgagees that when purchasing HUD-insured mortgages, they will be responsible for exercising due care in reviewing the origination of the mortgages relating to the accuracy of the representations made by the originating lender. The notice should identify remedies available to HUD for noncompliance with these provisions. *(Report No. 90-TS-129-0013)*

Monitoring, Servicing and Disposition of Projects

HUD's ineffective performance in monitoring and servicing Title X projects contributed to a near 50 percent default rate in the program and caused millions of dollars in losses to HUD. Additional funds may also be lost on the remaining Title X inventory.

Our current review of 15 projects in seven Regions showed that the Title X Program was not effectively managed. Since 1977, HUD has lost $55 million on sales of foreclosed properties, and we estimate HUD will lose an additional $122 million on the remaining Title X inventory. In addition, HUD lost large amounts, about $12 million for our test projects, because of delays and questionable decisions regarding workout and forbearance agreements, mortgage assignments, foreclosure actions, and sales of acquired properties. As discussed above in our audit of Insurance Commitments, much of the Title X losses resulted from HUD's approval of projects which were not an acceptable insurance risk. However, a significant portion of losses was due to the fact that HUD did not have the basic elements of a quality control plan to effectively monitor and service the Title X projects. In addition, HUD did not provide adequate staff resources to manage the program.

Specific deficiencies included HUD's failure to: (1) effectively monitor Title X projects after loan origination to identify those in financial trouble; (2) effectively service projects that went into default—HUD was unable to bring the mortgages current for any of the 10 defaulted projects in our review; (3) promptly foreclose and dispose of properties to minimize losses once it was determined that a default could not be cured; (4) sell foreclosed projects timely—in four test cases, it took from 2½ to 5 years to sell the properties; and (5) establish adequate systems, controls and plans for servicing the projects.

RECOMMENDATIONS: We recommended that the Assistant Secretary for Housing-Federal Housing Commissioner provide sufficient staff resources and develop and implement various control procedures to effectively monitor and service Title X mortgages and promptly dispose of acquired Title X projects. For specific projects included in our review, we recommended that HUD seek recovery of mortgage and land sales proceeds improperly disbursed for two projects, and take administrative action regarding HUD employee actions if warranted. The Assistant Secretary agreed with our findings and recommendations and is currently setting plans in place to correct the deficiencies. *(Report No. 90-TS-129-0014)*

Single Family Housing

The Federal Housing Administration (FHA) Single Family Mortgage Insurance Program was created to encourage lenders to make loans to individuals so they can purchase their own homes. FHA insurance, paid for by the borrower, provides loss coverage to the lender in the event the borrower defaults on the loan. An FHA-insured loan requires a lower down payment than a conventional loan. Therefore, the borrower generally has less equity invested in the property.

The program's objectives are homeownership and affordable housing. In that regard, the program has been a success. However, the program has problems in two areas: loan origination and property disposition.

Single Family Loan Origination

During this reporting period, our audits pointed out that HUD-approved mortgagees are still improperly originating HUD-insured single family loans.

Mortgagees are not:

- Ensuring that loan amounts are within HUD's maximum insurance limits;
- Ensuring that borrowers make the required down payments;
- Verifying that borrowers have the necessary assets and/or income;
- Conducting face-to-face interviews to determine that borrowers are not fictitious;
- Determining correct property values;
- Rejecting investor loans with leases containing purchase options; and
- Reviewing the closing documents to determine the accuracy and validity of the information.

The five following companies committed violations serious enough to warrant being referred to HUD's Mortgagee Review Board (MRB). The Board is authorized to take administrative sanctions when HUD regulations or requirements are violated.

United Austin Mortgage Company, Austin, Texas

We reviewed 38 loans originated by United Austin and found they did not exercise due care or fully adhere to prudent lending practices in originating 30 of these loans. As a result, HUD had paid $1.8 million in insurance claims on 24 of these loans as of March 23, 1990.

RECOMMENDATIONS: We recommended that the Mortgagee Review Board require United Austin to: indemnify HUD for losses on the 30 loans; obtain separate appraisals on all foreclosures of insured loans and indemnify HUD for any losses where United Austin's appraiser had overvalued these properties by more than 5 percent; and provide evidence that an effective quality control system has been implemented. *(Report No. 90-TS-221-1013)*

First Union Mortgage Corporation, Mesa, Arizona

The Mesa branch office of First Union Mortgage Corporation violated HUD requirements and prudent lending practices in originating 34 FHA-insured loans totaling $2.8 million. These loans were selected because of the high number of claims paid (29) and the number that were delinquent or in foreclosure (5). We found a pattern of insufficient down payments on loans involving First Union's loan officer and a group of related builders, sellers, and real estate agents. We were able to interview 33 of the borrowers, all of whom admitted to the circumvention of HUD's minimum investment requirements. Another 228 loans insured by FHA for over $19 million may also contain similar deficiencies, because the same individuals were involved.

RECOMMENDATIONS: We recommended that HUD's Mortgagee Review Board require First Union to indemnify HUD for the losses associated with the 34 loans and to hire an independent loan underwriter to review the 228 additional loans. Based on this review, First Union should then be required to certify that the loans were properly originated or should indemnify HUD for any losses that may be incurred. *(Report No. 90-TS-221-1004)*

CityFed Mortgage, Nashville, Tennessee

Our audit of CityFed Mortgage Company's Nashville branch office uncovered loan origination violations in all 24 of the loans we reviewed. Of these, 23 were in default or were foreclosed. HUD lost $557,000 on the sale of 17 of the foreclosed properties. In addition, we believe these deficiencies exist for 61 additional loans which CityFed approved for two investor mortgagors. These loans have mortgages of $3.7 million; 49 percent of them were in default or foreclosure at the time of our review.

RECOMMENDATIONS: We recommended that the MRB seek restitution for the losses sustained and indemnification for the loans that CityFed's Nashville office originated with deficiencies from April 1986 through February 1989. *(Report No. 90-TS-221-1006)*

Mortgage and Trust, Austin, Texas

We reviewed 40 single family loans originated by Mortgage and Trust, Inc. Thirty-eight loans involved the same builder/seller. The firm did not exercise due care or adhere to prudent lending practices in 30 of the 40 loans. Of the 30 loans (representing more than $2.5 million), 12 had been foreclosed or were in foreclosure and 6 were delinquent as of October 1989. In addition, ten HUD-insured mortgages assumed in a builder trade-in scheme resulted in insurance claims losses to HUD of $793,000. The lack of due care by the mortgage firm allowed the builder, his sales staff, and other interested parties to effectively control the loan transactions, manipulate the origination documents, and qualify ineligible borrowers for the loans.

RECOMMENDATIONS: We recommended that the MRB require the mortgage company to: indemnify HUD for past and future losses on the 40 loans and implement proper loan underwriting procedures, especially involving trade-ins. *(Report No. 90-TS-221-1008)*

American Residential Mortgage Corp., Phoenix, Arizona

We reviewed 31 loans originated by the Phoenix and Gilbert branch offices of American Residential Mortgage Corporation and found that 24 of these loans, insured by HUD for $1.7 million, should not have been originated. As of January 1990, 14 loans were in foreclosure, 2 were in default, and 2 were delinquent.

American Residential processed 11 of these loans for a particular builder/seller and another 11 loans for a second builder/seller. American Residential also processed an additional 126 FHA-insured loans totaling $8.5 million for these two builders, who offered sales rebates and other concessions (including false gift letters) to the borrowers as inducements to purchase the properties. However, because American Residential did not take these factors into account, the borrowers did not have to make a minimum required down payment and, in some cases, the loans exceeded the maximum insurable amounts.

American Residential officials said they were unaware of the builder rebates and sales concessions. However, builder representatives said that American Residential's employees were aware of that fact, and several borrowers said they had discussed it with American Residential.

RECOMMENDATIONS: We recommended that American Residential indemnify HUD for any losses on the 24 improperly originated loans and that an independent third party review the 126 additional loans originated for these two builders. American Residential should be required to indemnify HUD for any losses on improperly originated loans. *(Report No. 90-TS-221-1011)*

* * * * *

U.S. Shelter Properties, South Carolina

At the request of the manager of HUD's Columbia, South Carolina Field Office as well as HUD's General Counsel, we examined the records of the 25 limited and 6 general partnerships who owned and operated the 1,748 units of rental housing known as U.S. Shelter Properties.

As reported in our September 30, 1987 semiannual report, the 1,035 HUD-insured single family loans on the properties involved were improperly originated by Mid-South Mortgage Company. The mortgage company used a sophisticated scheme which violated HUD refinancing, minimum investment and ownership requirements. Because of high interest rates on the mortgages, the properties could not be operated profitably. The loans were being foreclosed and HUD was paying the related claims.

The purpose of our review was to determine whether the 31 partnerships who owned the properties were properly remitting monies due HUD as well as spending money for proper purposes.

We found that the partnerships had more than $4.7 million available for return to HUD. Another company, SCN Mortgage Corporation, held $433,000 that was applicable to some of the limited and general partnerships. Seven general partnerships made ineligible and unsupported expenditures totalling $155,000. We also found that the limited partnerships had $267,000 in capital contributions which they could retain.

RECOMMENDATIONS: We recommended that HUD's Columbia, South Carolina office require that: the limited partnerships pay HUD $4.18 million; the general partnerships pay HUD $325,000; SCN pay HUD the $433,000; and the partnerships reimburse HUD over $150,000 for ineligible and unsupported costs. *(Report No. 90-AT-229-1007)*

Property Disposition

If a borrower defaults on an FHA-insured loan, the lender usually forecloses and files an insurance claim with HUD, which pays the claim and becomes the property owner. HUD's Property Disposition (PD) Branches around the country are then responsible for selling these properties. HUD contracts with private individuals and companies, called settlement or closing agents, to handle the sales closing. In the wake of the "Robin HUD" scandal, we reviewed selected PD Branches to determine how well they were performing.

Denver, Colorado

We followed up on our June 1989 report on the Denver PD Branch. We found that although there had been significant improvement, many weaknesses remained. The same basic problems continued to affect the accountability and control over money received from the sale of properties. For example, there were: 23 sales files missing; 24 other properties for which sales proceeds totalling $1.5 million had not been remitted; 63 properties for which there was insufficient information available to determine whether the money had been received; and 384 cases where the sales money had been received but not entered on the appropriate accounting report. *(Report No. 90-DE-123-0001)*

Los Angeles, California We found that the Los Angeles PD Branch had improved its monitoring of closing agents and its management of property sales since our last review and that it was generally performing in a satisfactory manner. However, there was still need for further improvement. The problems we found were caused by lack of familiarity with HUD requirements, lack of oversight, and lack of written procedures and controls. For example, the PD Branch did not: consistently inform closing agents of extensions or cancellations; inform HUD's Office of Finance and Accounting of forfeited earnest money deposits due HUD; make use of a control log to monitor closing agent timeliness in remitting sales proceeds; and file several hundred bank confirmations evidencing the closing agent wire transfers of funds to HUD. We identified 70 unfiled wire transfers totalling $6.2 million. *(Report No. 90-SF-123-0001)*

Houston, Texas The Houston PD Branch had also improved its operations since our last review, but also needed to make further improvements. Although the Houston Office was performing in a satisfactory manner, we felt they should strengthen their monitoring of closing costs, delayed closings, and on-site visits. *(Report No. 90-FW-123-0002)*

New Orleans, Louisiana Our review of 43 cases found that all funds from closings had been remitted to HUD as required. However, there were many areas that the New Orleans PD Branch needed to improve. For example, HUD or homebuyers paid closing costs which were the closing agent's responsibility, were undocumented, or were unreasonable and excessive. We estimated these overcharges to be as high as $358,000.

The closing agent also submitted sales proceeds that averaged 8 days late and sales packages that averaged 10 days late. However, the New Orleans PD Branch did not assess damages against the closing agent, which we estimate were $103,000. Surety bond coverage for the closing agent was inadequate, resulting in an additional financial exposure to HUD ranging from $600,000 to $1.3 million. Finally, the PD Branch did not maintain an accurate inventory of its properties and did not have accurate data in its automated tracking system. *(Report No. 90-FW-123-0001)*

Multifamily Housing

HUD administers several mortgage insurance programs that finance the construction or rehabilitation of multifamily projects. In addition to projects with HUD-held or HUD-insured mortgages, the Department also directly owns a number of multifamily projects acquired through its insurance and loan programs. Under the Multifamily Housing Programs, HUD sometimes subsidizes the rents for eligible low-income households through Section 8, Rent Supplement, and Rental Assistance Payments Programs. During this reporting period, we audited **Retirement Service Centers**, the **Housing Development Grant Program**, and **Owners/Management Agents**.

Retirement Service Centers (ReSC)

The ReSC Program was established administratively by HUD in December 1983. Under the program, HUD insures mortgages for ReSC's under the conditions set forth in Sections 221(d)(4) and 223(f) of the National Housing Act. The ReSC Program makes retirement housing available to persons 70 years of age or older who are able to live independently and pay market rates for the housing and services provided. ReSC's normally provide meals and other services, such as transportation, linen, housekeeping, and social services, in addition to providing space for arts and crafts, meetings, lounges, and recreation.

As of October 31, 1989, there were about 190 ReSC's nationwide with mortgages totaling about $1.6 billion. Of the 190 ReSC's, 108, or about 57 percent, were fully HUD-insured; the remainder were coinsured pursuant to contracts between HUD and approved private lenders. We found that ReSC's were failing at a high rate. Approximately 62 projects (32.6 percent) with mortgages totaling about $599 million (38 percent) had either defaulted or were financially or operationally troubled.

Our audit, which encompassed Headquarters and the Chicago, Denver, San Francisco, and Atlanta Regions, disclosed that poor loan underwriting was a major contributing factor to the overall poor performance of the program. For example, project rental income, cash flow, non-shelter net income, and project absorption rates were all overestimated during loan underwriting, while project operating expenses were underestimated. This gave a misleading picture of the financial feasibility of proposed ReSC's. In addition, field economist market findings were often disregarded at the Field Office level, while Field Office decisions to reject proposed ReSC's were often overturned by Headquarters when appealed by project sponsors or lenders.

Our audit also disclosed a pattern of deficient ReSC underwriting by coinsuring lenders. Deficiencies included substantial overmortgaging of properties as a result of improper, unsupported, and unjustified shelter and non-shelter cost estimates, value determinations, rents, expenses, project absorption rates, project comparability data, identity-of-interest transactions, and overall underwriting deficiencies.

ReSC loan underwriting deficiencies are shown in the following chart.

ReSC LOAN UNDERWRITING DEFICIENCIES
MULTI-REGION AUDIT

Item	Deficiency
Rental Income	Overstated on average by 73%
Operating Costs	Understated on average by 67%
Unit Absorption Rate	Overstated on average by 62%
Cash Flow	Overstated on average by 319%
Non-Shelter Net Income	Average Shortfall of 428%
Mortgagor Experience	Mortgagors lacked adequate experience for 56% of projects reviewed
HUD Field Economist Findings	Disregarded for 33% of Projects Reviewed
Appeals of Rejected ReSC's	Field Decisions Overturned 62% of time

Other contributing causes for the poor performance of the ReSC Program included inadequate program policies, procedures, controls, implementation, and design.

We questioned HUD's decision to implement the ReSC Program in December 1983 without having first fully assessed the risks and benefits of the Department's involvement in underwriting loans for such facilities. Adequate data banks were lacking and Field Offices were not trained in ReSC loan underwriting. The impact of HUD's decision was compounded when the Department decided in 1985 to permit lenders to underwrite ReSC loans under HUD's coinsurance program. HUD had neither developed a sufficient track record on the ReSC Program, nor fully evaluated program results achieved up to that time.

RECOMMENDATIONS: Our report contained recommendations for corrective action under two different scenarios: one is HUD's continuation of the ReSC Program; the other is HUD's termination of the program.

In a memorandum dated March 30, 1990, the Assistant Secretary for Housing-Federal Housing Commissioner advised us that her office agreed with the overall thrust of our conclusions and recommendations. However, she stated that a definitive decision would be made after completion of a policy study to determine if ReSC can be restructured to accommodate predominately lower income households. In this regard, our report questioned the affordability of ReSC's to low- and moderate-income persons and whether such facilities even meet the intent of Section 221 of the National Housing Act. *(Report No. 90-TS-111/112-0008)*

Housing Development Grants (HODAG)

A multi-regional review of the HODAG Program showed that HUD Field Offices were not monitoring grantee performance and grantees were not monitoring owner performance. As a result, there was significant noncompliance with HODAG program requirements, including delayed settlements, excessive or unsupported disbursements, and failure to meet HODAG contract requirements.

The HODAG Program authorizes HUD to make grants to cities and urban counties and to States acting on behalf of local governments. The grants are for use as loans, grants, interest reduction payments or other assistance to owners to support new construction or substantial rehabilitation of rental housing. Projects assisted with HODAG funds must generally be located in areas determined by HUD to be experiencing a severe shortage of rental housing, or in areas where HUD has determined that assistance for other than moderate rehabilitation is necessary to meet special needs or to advance neighborhood preservation purposes.

We found that because of inadequate program monitoring, only 8 of 249 HODAG contracts were settled by the end of Fiscal Year 1989. A review of four completed HODAG's disclosed excess grant payments of over $3 million in unsupported and/or unreasonable costs. Also, instead of making required equity contributions of $1.8 million, owners borrowed these funds, creating unauthorized liens on the properties. Inadequate Field Office monitoring also contributed to undue delays of 3 or more years in grant settlement.

Although funding of the HODAG Program began in 1984, Field Office monitoring of grantees was not emphasized by Headquarters for more than four years. We reviewed the monitoring and settlement procedures that were issued in 1989 and believe implementation of these requirements should provide adequate control over the settlement process. However, a system of controls is needed to ensure that Field Offices and grantees are carrying out their responsibilities for the timely and accurate settlement of HODAG's.

We are also concerned that HODAG settlements are currently assigned to the Field Office Housing Development Division. That same staff is responsible for other high priority workload items including actions associated with the termination of HUD's Coinsurance Program. HODAG project reviews can be time-consuming exercises, but effective settlement monitoring could result in significant monetary savings. Without additional staffing or other resources, certain Field Office Housing Development Divisions may be unable to carry out timely and comprehensive settlement reviews. We believe concerted efforts should be made to develop a workload and staffing plan that will assure the prompt and effective review of the approximately 240 project settlements.

We recommended that the Assistant Secretary for Housing- Federal Housing Commissioner establish monitoring controls in Headquarters and Regional Offices to ensure that HODAG settlement instructions are properly implemented by Field Offices, and develop and implement an effective resource strategy so that Field Offices can conduct timely and effective settlements of all HODAG's. *(Report No. 90-TS-112-0015)*

Owners/Management Agents

Five audits disclosed that multifamily owners and management agents improperly used over $7.8 million in HUD project funds for ineligible and unsupported costs in violation of their Regulatory Agreements. As a condition of providing mortgage insurance on multifamily projects, owners sign a Regulatory Agreement with HUD. If approved by HUD, the owners may delegate authority for operating the project to a management agent for whom the terms of the Regulatory Agreement remain binding. Provisions in the Regulatory Agreement specify that expenditures must be reasonable and necessary to the project. They also limit the circumstances and manner under which cash may be taken out of a project by the owners.

Rosedale Ridge Apartments, Kansas City, Kansas

The general partner of Rosedale Ridge Apartments did not properly maintain the project and misused project funds. Units were roach infested, ceilings were falling, and doors and windows were so deteriorated that they provided neither security nor protection from the weather. We estimated it would require about $1.4 million to rehabilitate the project.

The general partner violated the Regulatory Agreement by withdrawing $317,500 in rent receipts and tenant security deposits. He deposited the unauthorized withdrawals in a personal account, made payments on a personal loan, paid expenses of another project and used the money for other unidentified purposes. He also could not show that an additional $384,000 was for reasonable and necessary expenses, and was unable to provide support for payments to various persons, including identity-of-interest parties and himself.

RECOMMENDATIONS: We recommended that the Regional Administrator-Regional Housing Commissioner require the general partner to return $317,000 to the project, and either provide documentation to support other expenditures or reimburse the project an additional $384,000. In addition, we recommended that HUD initiate civil action against the project owner to recover any funds owed the project that are not paid. A limited denial of participation in HUD programs was issued to the general partner. *(Report No. 90-KC-212-1004)*

Clipper Associates, Quincy, Massachusetts

The owner of Clipper Associates obtained a $1.5 million loan without HUD approval. The owner stated that the purpose of the loan was to assist the general partners in acquiring a 30 percent limited partner interest. This loan could jeopardize the financial stability of the project. The owner also made non-interest loans of $195,000 from the operating account to identity-of-interest companies, again without obtaining HUD approval. The project management agent stated that the loans were used to pay obligations of the identity-of-interest companies and would be repaid by the end of 1989.

RECOMMENDATIONS: We recommended that the Regional Administrator-Regional Housing Commissioner: (1) have the Regional Counsel review the $1.5 million loan to assure HUD's interests are protected; (2) instruct the owner to repay the project $113,663 for interest and principal payments on the unauthorized loan; and (3) instruct the owner to reimburse the project the $195,000 in unauthorized loans and cease the practice of making such loans. If the owner fails to comply with these instructions, HUD should impose administrative sanctions necessary to protect HUD's interests. *(Report No. 90-BO-212-1003)*

Diversified Property Services, Oakland, California

Diversified Property Services, a management agent for HUD projects, did not adequately manage flexible subsidy funds. It failed to maintain required documentation, did not use all approved drawdowns, and made unauthorized withdrawals from a control account. The agent could not provide documentation to support expenditures of flexible subsidy funds for two projects. As a result, HUD provided $640,086 in funds for which there is insufficient evidence that amounts were accurate, spent for approved repairs, or used to purchase items at the most favorable prices. The agent also did not comply with HUD requirements pertaining to the use of dwelling units, timely deposit of rents, employment of project officers, and procurement of services and materials.

RECOMMENDATIONS: We recommended that the Regional Administrator-Regional Housing Commissioner require the management agent to fully support all flexible subsidy expenditures for the projects in question and repay any expenditures that cannot be supported. We also recommended that HUD review the agent's performance and determine if the firm should continue to participate in HUD programs. *(Report No. 90-SF-214-0001)*

Loren Miller Homes, San Francisco, California

The owner of Loren Miller Homes and the owner's Board of Directors misused or could not support expenditures of nearly $400,000. This included improper rent benefits to tenants, excess income that was not submitted to HUD, excess management agent fees, and unauthorized, excessive, and unsupported travel and social activities. The Board of Directors also spent $258,667 for maintenance, security, landscaping and repairs without obtaining competitive bids.

RECOMMENDATIONS: We recommended that the Regional Administrator-Regional Housing Commissioner require the Board of Directors to: (1) return any improper rent benefits to HUD or the project, as applicable; (2) establish a repayment agreement for all excess income due HUD; (3) recover any excess management fees and take appropriate administrative sanctions against the agent; (4) establish a prudent travel policy; and (5) immediately terminate all contracts that are not based on verifiable competitive bids. *(Report No. 90-SF-212-1003)*

New Center Hospital, Detroit, Michigan

The owner of New Center Hospital in Detroit, Michigan, incurred more than $2.5 million in expenses without HUD approval, contrary to the Regulatory Agreement. This included nearly $1.8 million for the acquisition and operation of satellite clinics, $575,000 for remodeling the hospital, and $166,431 in compensation to the Board Chairman and other Board members. The owner charged another $465,721 for unsupported or ineligible costs to the project. In addition, the owner did not maintain complete and accurate accounting records or disbursement controls.

RECOMMENDATIONS: We recommended that the Detroit Office Manager require the owner to reimburse the project account for all ineligible expenses, provide documentation for unsupported expenses, and establish and maintain a system of internal accounting controls consistent with requirements of the Regulatory Agreement. Based on the documentation provided for the unsupported expenses, we recommended that the Detroit Office Manager determine the eligibility of the expenses and seek recovery of any ineligible costs. *(Report No. 90-CH-219-1006)*

Community Planning and Development

In this section, we report on the Community Development Block Grant (CDBG) Program and the Urban Development Action Grant (UDAG) Program. The CDBG Program provides grants to States and local governments to aid in the development and revitalization of neighborhood communities by providing decent housing, economic opportunities primarily for low- and moderate-income persons, and community facilities and services. The UDAG Program assists cities and urban counties experiencing severe economic distress by stimulating economic development activity. This section summarizes the results of our audits of **Program Income, CDBG Rehabilitation,** and **Other CDBG/UDAG** activities.

Program Income

We reviewed HUD's monitoring of program income and miscellaneous revenue produced by CDBG and UDAG programs. Program income is income generated by HUD-funded activities, such as from sale of properties, interest on deposits, and loan repayments. Miscellaneous revenue comes from loan repayments from UDAG projects after closeout of the grant. Either type of revenue must be reported to HUD and there are restrictions on use of the funds.

We reviewed 29 grantees throughout the country and two HUD Field Offices. We found that grantees seriously understated program income in their reports to HUD, used program income for ineligible and undocumented purposes, and failed to use miscellaneous revenue to meet Title I objectives as required. We identified $20 million of program income that 17 grantees had not reported to HUD and $19 million in ineligible or unsupported uses of program income at 13 grantees.

Overall, HUD monitoring was ineffective and poorly documented. Deficiencies disclosed by monitoring were not always pursued to ensure corrective action was taken. Program regulations and instructions do not adequately address the accountability and use of miscellaneous revenue, allowing substantial amounts to go unmonitored and community development needs to go unmet.

RECOMMENDATIONS: We recommended that the Assistant Secretary for Community Planning and Development take steps to improve the monitoring strategy, procedures, documentation, and follow-up; provide guidance to grantees concerning their responsibilities regarding program income; and revise the program regulations to require grantees to put miscellaneous revenue to use in a timely manner. *(Report No. 90-TS-145-0011)*

Two examples of program income findings follow.

Atlanta, Georgia The City did not exercise proper controls over the reporting, use, and accountability of program income and related revenues. The City failed to report $5.6 million of program income, misused $5.2 million of program income, and did not transfer $835,000 in excess CDBG revolving loan funds to its regular CDBG account. The City had inadequate internal controls over income and revenues and did not adequately monitor a major subrecipient. In addition, the City unnecessarily drew down CDBG funds, thus increasing interest costs to the U.S. Treasury.

RECOMMENDATIONS: We recommended that HUD's Regional Administrator in Atlanta require that the City: (1) reimburse the misused income; (2) establish adequate internal controls over income and revenue; (3) avoid excessive cash balances; and (4) establish an effective system for monitoring subrecipients. *(Report No. 90-AT-241-1008)*

Tacoma, Washington

The City of Tacoma did not use $2.4 million of UDAG revenue in a timely manner and did not ensure that the subrecipient provided adequate internal controls for cash receipts. Instead of using the $2.4 million of program income to achieve one of the Title I objectives, they invested the money, including $1.8 million that was in a trust fund since December 1986.

RECOMMENDATIONS: We recommended that HUD's Regional Office of Community Planning and Development ensure that the City: (1) use the UDAG revenue for economic development activities which meet the immediate needs of Tacoma's citizens; and (2) establish internal controls for cash receipts. *(Report No. 90-SE-249-1002)*

CDBG Rehabilitation Activities

CDBG funds may be used to make loans or grants for rehabilitation or other needed improvements. To be eligible, the rehabilitation activity must meet one of the three CDBG national objectives: (1) benefit low- or moderate-income persons; (2) prevent or eliminate slums and blight; or (3) meet an urgent community development need.

We reviewed 12 entitlement grantees in 10 states and found many of the same deficiencies that we identified in a 1980 audit. These deficient areas included inspections, work write-ups, cost estimates, and overall quality control.

We found that the grantees did not routinely make inspections before rehabilitation to identify health and safety violations or after rehabilitation to ensure violations were corrected. Nine of the 12 did not correct all health and safety violations even though their objectives were to correct code violations or to bring the properties up to HUD housing quality standards. The grantees did not prepare work write-ups and cost estimates to establish what items should be covered in the contract and how much they should cost. The grantees paid contractors for work that was incomplete, inadequate, or overpriced.

As a result, substandard conditions were not corrected. CDBG rehabilitation that does not result in the elimination of health and safety violations is not meeting the intent of the program.

RECOMMENDATIONS: We recommended the issuance of instructions to grantees emphasizing the essential elements of an effective rehabilitation program, and that grantee and HUD monitoring focus on supervision and quality control of rehabilitation programs. We also recommended revision of the CDBG regulations to require that all health and safety violations be identified and corrected when Federal funds are used in rehabilitating properties. *(Report No. 90-TS-144-0012)*

The Assistant Secretary for Community Planning and Development agreed, in general, with our findings and intends to incorporate the results of our audit into CPD's ongoing efforts to improve CDBG grantee performance.

CDBG/UDAG Grantees

The following summarizes other major audits of CDBG/UDAG grantees.

San Juan, Puerto Rico

The City did not always comply with applicable laws, regulations, or program requirements with respect to eligible costs, eligible activities, subgrantee monitoring, financial management system maintenance, and procurement procedures. The two largest items were: $7.4 million of ineligible and unsupported costs the City charged for operating its city dump; and $3.25 million of ineligible and unsupported costs for not developing its solid waste disposal plant in a timely manner (it was in the planning stage for over seven years).

RECOMMENDATIONS: We recommended that the Manager of HUD's Caribbean Office: (1) require the City to reimburse $8.2 million of ineligible costs; (2) determine the eligibility of $4.8 million of unsupported costs; and (3) require the City to show that it is meeting CDBG objectives and that it is ensuring compliance with regard to financial management systems, subgrantee monitoring, procurement procedures, and program income use. *(Report No. 90-NY-241-1023)*

Pontiac, Michigan

The City was not adhering to HUD regulations in its CDBG program. The City did not ensure that economic development activities were meeting one of the national objectives. The Downtown Development Authority provided a developer with a $433,000 loan, but the land options purchased by the developer with CDBG funds were not exercised, and the development plan was not carried out. The Economic Development Corporation used $1.9 million of CDBG funds to make economic development loans. Because it did not follow prudent lending procedures, many unreasonably risky loans were approved. Also, because it did not monitor the loan recipients to determine the number of jobs for low- and moderate-income persons that were created as a result of the loans, it has no assurance that any of the CDBG objectives were met.

RECOMMENDATIONS: We recommended that HUD's Detroit Office Manager instruct the City to: (1) reimburse the $433,000 of questioned costs and (2) document if a CDBG objective was met by the $1.9 million worth of loans. *(Report No. 90-CH-241-1004)*

San Francisco, California

We reviewed UDAG and CDBG grants which were used by the City of San Francisco to acquire and rehabilitate four residential hotels containing 468 rental units for lower income persons in the North-of-Market area of San Francisco. The City's developer completed the rehabilitation in April 1985 and opened three of the hotels. However, the developer lost money operating these three and refused to open the fourth one (the Hamlin). It has been vacant since 1985. Although the City tried to negotiate a solution with the developer, the City did not take legal action to enforce performance by the developer, resulting in $817,000 in UDAG funds being used for a project whose purpose was not achieved.

RECOMMENDATIONS: We recommended that HUD's Regional Administrator in San Francisco: (1) direct the City to enforce the terms of the UDAG agreement or return the $817,000 to HUD; (2) take administrative sanctions against the developer; and (3) evaluate the City's control procedures to ensure that future UDAG funds are properly used and the objectives are achieved. *(Report No. 90-SF-242-0026)*

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 lenders. Lenders issue these securities, called GinnieMaes, by ''pooling'' individual mortgages which are insured or guaranteed by the Federal Housing Administration (FHA), the Department of Veterans Affairs (VA), or 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 amounts to the individual security holders. It is these payments that GNMA guarantees, and when issuers default GNMA steps in to pay the investors.

Subservicers

When an issuer defaults, GNMA can either sell the pools to other issuers or can contract with an issuer (a subservicer) to manage the pools. As of October 1989 GNMA had 23 contracts for servicing 12,415 pools which had 259,000 loans and a principal balance of over $12.5 billion. We evaluated GNMA's procedures in the award and monitoring of subservicing contracts and in the way payment is made to securities holders. We found several problems with potentially significant consequences.

GNMA's files were poorly documented as to why some subservicing awards were made. In addition, their procedures for selecting subservicers were not consistently followed. Consequently, GNMA cannot be sure it picked the best subservicer or received the best deal.

GNMA has not adequately monitored its subservicers. GNMA has performed only one monitoring visit in connection with its 23 subservicing contracts. Consequently, GNMA has no assurance that subservicers are complying with the terms of their contracts and acting in GNMA's best interests. During our audit, we reviewed a GNMA subservicer with over $1 billion in multifamily loans. We found weaknesses in cash controls and computer systems. We also noted improperly charged expenses, late claims, untimely appraisals, and inadequate file documentation.

GNMA has not provided specific criteria or sufficient direction to subservicers concerning the reimbursement of certain expenses, such as inspection and analysis costs, removal of files, set-up fees, and travel expenses. As a result, GNMA may be reimbursing subservicers for expenses that subservicers should be paying out of the fees they receive from GNMA.

GNMA has not maintained a complete list of the securities payments it has made. During February and March of 1989, this resulted in duplicate payments of over $200,000.

RECOMMENDATIONS: We recommended that GNMA issue instructions to fully document each file and develop a document checklist, create a plan to audit all subservicers, clarify the language in the subservicing contract regarding extraordinary expenses and issue appropriate instructions, and obtain reimbursements of any duplicate payments. *(Report No. 90-AO-171-0003)*

Administration

We had three significant audits concerning general administration of the Department: problems in developing a new computer system for single family insurance programs, mainframe computer access controls, and the time and attendance (T&A) system at Headquarters.

Single Family Insurance Process Enhancement Project (SFIPEP)

SFIPEP was established to develop a new integrated system replacing four major automated systems (Single Family Insurance, Claims, One-Time Mortgage Insurance Premiums, and Distributive Shares and Refunds) and to add new capabilities. Our analysis of complaints about SFIPEP largely confirmed the complaints, namely that:

- Target dates were repeatedly missed by the contractor, although HUD actions contributed to this.
- Expected results were not achieved, even though $6 million was expended.
- HUD allowed a conflict of interest to exist for four months. The government technical representative and a contractor employee entered into an agreement to buy a house in February 1989, but the government representative was not reassigned until June 1989.

RECOMMENDATIONS: We recommended that the Assistant Secretary for Administration take steps to assure compliance with contract monitoring policies and to establish requirements for reporting progress and problems on major system development projects to the Information Resources Management Planning Board.

Computer Access

We continue to find security problems in the Department's automated data processing systems. Our November 1989 report disclosed that the mainframe files at HUD's contracted facility were vulnerable to unauthorized access and update. The situation existed because HUD security account administrators did not implement security software features appropriately and had not developed other needed security software.

RECOMMENDATIONS: As a result of the audit, the Department provided training to security account administrators which led to improved security. *(Report No. 90-AA-166-0002)*

Time and Attendance at Headquarters

We found deficiencies in the time and attendance (T&A) function at HUD Headquarters, including the following internal control problems:

- Inadequate separation of duties: Some timekeepers kept their own time and some timekeepers also transmitted approved time card information to the computer center.

- Inadequate supervisory oversight: Supervisors signed T&A reports with errors in supporting documentation; supervisors failed to assure that leave hours were supported properly; supervisors did not always review sign in/sign out logs.

Our report disclosed that 17 employees were paid for hours that were not documented and 9 employees covered by FLSA had documented work in excess of hours paid.

We reviewed time and attendance documents for 45 employees in 10 offices. The 10 offices were selected for detailed audit based on the results of our survey of procedures of 41 randomly selected timekeepers at Headquarters.

RECOMMENDATIONS: We recommended to the Assistant Secretary for Administration that supervisors be given refresher training and be held accountable for their time and attendance responsibilities. *(Report No. 90-AO-169-0004)*

Chapter 3

SIGNIFICANT INVESTIGATIONS

This Chapter describes the more significant prosecutive actions taken during this reporting period. The Chapter is divided into Single Family Housing, Rental Assistance, Multifamily Housing, Public Housing, Title I, and Community Planning and Development.

Single Family Housing

Investigations continued to concentrate on mortgage fraud schemes in the Single Family Mortgage Insurance Programs. Our investigations of lenders, real estate agents, investors, mortgagors and others involved in such schemes resulted in criminal charges against 72 individuals/firms, 59 convictions, $93,925 in fines and approximately $2.6 million in monetary recoveries.

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

Closing Agents

"Robin HUD"

A former HUD contract closing agent in Clinton, Maryland, pled guilty to one count of theft of government property and one count of making a false income tax return. Between 1985 and 1988, she diverted funds from escrow accounts to her own use, embezzling over $5 million. The government has recovered nine real estate properties, seven cars and one motor home for a total value of $449,000. The agent had a contract with HUD to close the sales of HUD-owned properties and remit the sale proceeds to the Department. Because she said she used the embezzled money to benefit low-income people, the media nicknamed her "Robin HUD." She was able to embezzle HUD funds because of the Department's inadequate internal controls in this area. She has been suspended from participating in HUD programs. This was a joint investigation by the OIG and the FBI. *(United States vs. Marilyn Harrell, District of Maryland)*

Arlington, Texas Closing Agent

An Arlington, Texas escrow closing agent under contract with HUD was sentenced in Fort Worth, Texas, to 6.5 years in prison and 5 years of supervised probation and ordered to perform 500 hours of community service. She pled guilty to three counts of theft and one count of illegally structuring a financial transaction. She embezzled $2,527,369 from the sale of 55 HUD-owned residential properties. She spent the stolen funds on racing cars, exclusive residences and presents for friends. The conviction resulted from a joint investigation by the OIG, FBI and IRS. A civil suit seeking recovery of the stolen funds and related damages is pending. The agent has been suspended from participating in HUD programs. *(United States vs. Reba Louise Lovell, Northern District of Texas)*

Montgomery, Alabama

A former HUD contract closing agent in Montgomery, Alabama, pled guilty to one count of embezzlement and one count of tax evasion following an investigation by the FBI and an audit by the OIG. The audit established that the closing agent did not remit net sales proceeds of $2,011,915 to HUD. The investigation determined that the closing agent attempted to conceal this activity by making fictitious wire transfers to HUD. The closing agent subsequently admitted to taking $1,800,000, and his cooperation with Federal authorities in drug cases resulted in the negotiated plea. The agent has been suspended from participating in HUD programs. *(United States vs. Silas J. Walker, III, Middle District of Alabama)*

Indianapolis, Indiana

A former Indianapolis, Indiana closing agent under contract with HUD was indicted by a Federal Grand Jury on a charge of converting public funds to his own use. The agent was cited for failing to deposit over $54,000 in property disposition sales proceeds. A joint OIG-FBI investigation determined that the agent used closing proceeds for personal business purposes and paying debts. The agent has been suspended from participating in HUD programs. *(United States vs. Garry Newman, Southern District of Indiana)*

Oklahoma Task Force

In previous reports, we cited the work of a Task Force primarily composed of OIG and FBI special agents and attorneys from the Fraud Section, Department of Justice, and U.S. Attorney's offices in Oklahoma City and Tulsa to investigate and prosecute fraud in HUD's Single Family Mortgage Insurance Programs. The Task Force project involves numerous subjects who purchased single family properties in a depressed economic environment, obtained highly inflated appraisals, and submitted false statements to HUD, the VA, and Federally insured banks and savings and loan associations to obtain mortgage loans. The loans, as well as the rental proceeds in many cases, were diverted to the personal use of the speculators, and the properties were allowed to go into foreclosure.

Since 1987, there have been 32 persons indicted and 26 persons convicted in Oklahoma City and 15 persons indicted and 14 persons convicted in Tulsa. Prosecutions have resulted in total results as follows: 21 years imprisonment; 55 years probation; 1,320 hours of community service; and $2,874,856 in restitution.

Examples of cases with prosecutive actions from this Task Force during the reporting period are shown below:

Bank Fraud and False Statements

An Oklahoma City real estate agent/investor was sentenced to 5 years in prison and ordered to make restitution totalling $1,798,105 to the Federal Deposit Insurance Corporation and HUD. He pled guilty to one count of conspiracy to commit bank fraud, one count of bank fraud and one count of giving false information to HUD. He was involved in a scheme involving 13 properties in which he submitted altered titles of HUD-insured properties to banks to obtain loans to renovate distressed property. He also falsified closing documents to fraudulently obtain loans. *(United States vs. Bruce T. Thompson, Western District of Oklahoma)*

Investor Sentenced for Making False Statements

An Oklahoma City real estate investor pled guilty to one count of making false statements. He was sentenced to serve 6 months in a halfway house and placed on probation for 1 year during which he is to spend 4 hours a week doing community service. He was also ordered to make restitution in the amount of $86,584. He operated a scheme in which he falsified numerous documents verifying employment for property buyers seeking HUD-insured single family loans. *(United States vs. Johnny G. Roby, Jr., Western District of Oklahoma)*

Real Estate Speculators Sentenced

Two Norman, Oklahoma real estate speculators pled guilty to one count each of conspiracy and making false statements. They submitted false applications to obtain HUD-insured mortgages. Eighteen properties were involved in the strawbuyer scheme. Each speculator was sentenced to serve four months of a three-year prison sentence followed by three years probation. *(United States vs. Kirby L. Abney and Rudolph J. Hymer, Western District of Oklahoma)*

Tulsa Real Estate Agent Pleads Guilty

A former Tulsa real estate agent pled guilty to two counts of submitting false statements. She was placed on 5 years probation and ordered to pay restitution of $70,492, plus an additional amount to be determined later. She submitted false statements to HUD to obtain HUD-insured loans on five separate single family properties. *(United States vs. Susan Cartwright, Northern District of Oklahoma)*

Goldnet Task Force

A continuing task force investigation of mortgage fraud in the District of Columbia resulted in the indictments and sentencing of three individuals; a racketeering indictment of two other individuals; the pleading to an information by another; and a civil judgment against a seventh person. Jail sentences totalling 3⅓ years were recorded, as well as criminal fines, a restitution, and a civil judgment which, together, amounted to $934,500.

To date, 33 individuals have been sentenced in this investigation. Civil and criminal recoveries amount to over $4.9 million. This effort, which is continuing, consists of the HUD and VA OIG's and the FBI.

Fraudulent Loan Applications

A real estate broker in Washington, D.C., was sentenced to serve four months in a community correctional center and was ordered to make restitution of $340,000 for his part in originating 79 fraudulent mortgage applications. The restitution represented the profit made on the 79 properties. *(United States vs. Jack Spicer, District of Columbia)*

Civil Settlement by Speculator

A speculator executed a civil settlement with the Department of Justice requiring him to pay the United States $490,000. In buying and selling properties in the District of Columbia, the speculator submitted false applications for HUD mortgage insurance. Criminal charges are still pending. *(United States vs. Peter C. Kalavritinos, District of Columbia)*

Loan Origination

Real Estate Developer Sentenced

A Greenville, South Carolina real estate developer was sentenced to serve 3 years in prison after he pled guilty to one count of causing false statements on applications for FHA mortgage insurance. The developer paid three strawbuyers to obtain FHA-insured mortgages to purchase 12 of his properties. Control of the properties was returned to the developer after closing. The mortgages eventually went into foreclosure causing a loss to HUD of $190,336. The developer has been suspended from participating in HUD programs. *(United States vs. Roger C. McDaniel, District of South Carolina)*

Mortgage Company Officials Convicted

A former Denver, Colorado mortgage company loan officer was convicted on charges of conspiracy, making false statements and failing to report $55,968 of taxable income. The conviction followed an indictment which charged that the former loan officer and two associates participated in real estate deals in which false verifications of deposits and income were submitted to obtain FHA-insured loans on 21 properties. Seven of the loans were foreclosed resulting in a $417,000 loss to HUD. The two associates pled guilty to conspiracy charges prior to the former loan officer's trial. The mortgage company president and one strawbuyer pled guilty in 1989 to making false statements relative to the real estate deals. These individuals have been suspended from participating in HUD programs. *(United States vs. Keith McBain, et al., District of Colorado)*

Broker Falsifies Loan Application

A San Antonio, Texas real estate broker was sentenced to 4 years in prison and ordered to make restitution of $105,339. He falsified loan applications on six properties, four of which have gone into foreclosure. The broker has been suspended from participating in HUD programs. This was a joint investigation by the OIG and the FBI. *(United States vs. Marion Grant Stout, Western District of Texas)*

Restitution Ordered

A Topeka, Kansas real estate broker and two associates were sentenced to a combined total of 2 years imprisonment and 310 days in halfway houses, and placed on 13 years probation. They were also ordered to make restitution of $185,432 to HUD. The sentences resulted from guilty pleas by the three for their participation in originating six fraudulent single family insured loans over the past several years. The broker has been suspended from participating in HUD programs. *(United States vs. Edward W. Brogan, et al., District of Kansas)*

Broker and Attorney Plead Guilty to Strawbuyer Scheme

A Desoto, Texas real estate broker/developer was indicted on 26 counts of conspiracy and making false statements to the government in connection with a strawbuyer scheme which resulted in the fraudulent origination of HUD- insured loans. A closing attorney, who is also a county judge, pled guilty to a misdemeanor count of conspiracy to cause a false statement to be made to HUD in connection with the same strawbuyer scheme. This was a joint investigation by the OIG and the FBI. *(United States vs. Charles Harwell and Glenn Snyder, Northern District of Texas)*

Conspiracy Conviction

One real estate agent in Arlington, Virginia, and two strawbuyers were found guilty of conspiracy and making false statements in a scheme to defraud HUD to obtain owner/occupant mortgage loans for a 3 percent down payment. Also, one real estate agent pled guilty to making false statements to HUD in the scheme. HUD was fraudulently induced to extend approximately $300,000 in mortgage insurance for owner/occupant loans. At this time, none of the properties has gone into default. *(United States vs. Harriet Becker, Adolph J. Barsanti, Harold M. Kline and Allen Griffey, Eastern District of Virginia)*

Illegal Commissions in Louisiana

Four real estate speculators in Marerro, Louisiana, were sentenced for making false statements and receiving illegal commissions on bank loans in a scheme to defraud HUD by defaulting on more than 30 HUD-insured, refinanced loans for a subdivision. The loans were defaulted, and HUD lost $1.2 million. One of the defendants was placed on 5 years probation and ordered to perform 300 hundred hours of community service. Two of the defendants were sentenced to 3 months confinement in a halfway house, 2 years probation and ordered to perform 200 hours of community service. The last defendant was sentenced to 6 months confinement in a halfway house, 5 years probation and ordered to pay $200,000 in restitution. The four have been suspended from participating in HUD programs. This was a joint investigation by the OIG and the FBI. *(United States vs. Tracy Humble, Paul Baltas, Lloyd Broussard and Deryle A. Bourgeois, Eastern District of Louisiana)*

Salt Lake City Strawbuying Scheme

A Salt Lake City, Utah investor was indicted on 16 counts of making false statements, mail fraud and conspiracy in originating FHA-insured loans. The investor, through the use of strawbuyers, originated 15 FHA loans, all of which subsequently went into default. HUD's loss is estimated at $300,000. *(United States vs. Lavon Broderick, District of Utah)*

Task Force Efforts Result in Indictment of Brokers

Two Houston, Texas real estate brokers were indicted on one count of conspiracy and one count of making false statements in a strawbuyer loan origination scheme involving 39 properties. The estimated loss to the government is $975,000. This was a joint investigation by the OIG, the FBI and the VA-OIG. *(United States vs. Robert M. Baumstein and Louis H. Arky, Southern District of Texas)*

Broker Guilty of Racketeering and Conspiracy

A Drexel Hill, Pennsylvania real estate broker was found guilty of one count of racketeering, one count of conspiracy, 18 counts of interstate transportation of money taken by fraud, two counts of money laundering, two counts of obstruction of justice, 30 counts of submitting false statements, and three counts of Federal tax violations. He was involved in a scheme to illegally help mortgagors qualify for HUD-insured mortgages. Losses to the government exceed $500,000. The broker has been suspended from participating in HUD programs. This was a joint investigation by the OIG, FBI and IRS. *(United States vs. John Moscony, Eastern District of Pennsylvania)*

Attorney Pleads Guilty in Strawbuyer Scheme

A Shreveport, Louisiana attorney was placed on 5 years probation, fined $25,000 and ordered to perform 200 hours of community service. He pled guilty to one count of making a false statement. He was involved in a strawbuyer loan origination fraud scheme involving 25 properties. He processed undated and blank assumption deeds, issued false settlement statements and closed on properties containing false contracts. The loss to the government is approximately $824,000. The attorney has been suspended from participating in HUD programs. This was a joint investigation by the OIG and the FBI. *(United States vs. William Robert McKenzie, Western District of Louisiana)*

Equity Skimming

Tampa Speculator Pleads Guilty

A Tampa, Florida real estate speculator pled guilty to one count of single family equity skimming. The guilty plea followed a five-count indictment in Florida charging the defendant with equity skimming and mail fraud. The defendant purchased seven single family homes in the Tampa area through assumption and failed to make the mortgage payments, resulting in foreclosure of the properties. Losses are in excess of $100,000. *(United States vs. David Scott Sabatino, Middle District of Florida)*

Investors Guilty of Mail Fraud, Conspiracy

Two Philadelphia, Pennsylvania brothers who were real estate investors were found guilty of mail fraud, conspiracy and equity skimming in a scheme involving 50 properties. The loss to the government is over $1 million. They purchased homes nearing foreclosure and placed tenants in the properties. They kept the rental profits and did not make mortgage payments. This was a joint investigation by the OIG, FBI and VA-OIG. *(United States vs. Francis Arena and William Arena, District of New Jersey)*

Rents by Mail

A Brooklyn Park, Minnesota real estate investor was indicted for equity skimming. The investor was charged with using the mails to fraudulently collect funds from tenants of properties with mortgages insured by HUD. A joint OIG/FBI investigation found that the investor assumed ownership of approximately 15 properties with HUD-insured loans, rented the homes to other individuals, and then kept the rent collections for his personal use. Losses to the government in foreclosed single family loans were estimated to be at least $250,000. *(United States vs. Daniel B. Casey, District of Minnesota)*

Louisiana Speculator Indicted

A Kenner, Louisiana real estate speculator was indicted on 18 counts of equity skimming, mail fraud and making false statements. He was involved in an equity skimming scheme involving 23 properties. The government lost approximately $410,000. This was a joint investigation by the OIG and the FBI. *(United States vs. Eduardo Anton, Eastern District of Louisiana)*

Speculator Guilty in San Antonio

A San Antonio, Texas real estate speculator pled guilty to one count of equity skimming resulting from his scheme to keep rental income and not make mortgage payments on five properties. He has agreed to make restitution of $500,000. This was a joint investigation by the OIG, the FBI and the VA-OIG. *(United States vs. Robert Marshall, Western District of Texas)*

Investor Indicted for Equity Skimming

Two Las Vegas, Nevada investors were indicted on conspiracy and equity skimming charges. They purchased 21 four-plex dwellings through the shared equity program, rented out the properties to others, and collected approximately $250,000 in rental fees without making the mortgage payments on the HUD-insured loans. The investors have been suspended from participating in HUD programs. *(United States vs. Richard W. Aley and Edward Zimbelman, District of Nevada)*

Seattle Family of Five Indicted

Five members of a Seattle, Washington family were indicted on conspiracy, mail fraud and equity skimming charges. The 18-count indictment charged them with skimming rents in excess of $100,000 from 34 properties with HUD-insured/VA-guaranteed mortgages. This case was investigated by the Seattle Equity Skimming Task Force which includes agents from the HUD and VA OIG's, the FBI and the Postal Inspection Service. *(United States vs. Larry Cecil Van Schoiack, Joananna Yuk Lin Van Schoiack, Allene Stewart Van Schoiack, Cecil Cleve Van Schoiack, and Frederick Neal Stribling, Western District of Washington)*

First Alaska Equity Skimming Case

An Anchorage, Alaska man was indicted on the first equity skimming charges in the State. The indictment charged him with equity skimming and mail fraud in skimming approximately $100,000 in rent money from 15 properties with HUD-insured mortgages. *(United States vs. Adam Bijan, District of Alaska)*

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: 49
- Individuals Convicted: 43
- Restitution/Repayments: $464,298
- Total Fines: $79,100

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

Fort Worth Computer Match

Twelve present and former tenants of the Fort Worth, Texas Housing Authority were indicted on a total of 59 counts of fraud in connection with allegedly receiving over $109,000 in improper housing assistance payments. A computer match allowed OIG to compare wages with income reported by the subjects to the Texas Employment Commission, Office of Personnel Management, Department of Defense, and the U.S. Postal Service. Investigation by the OIG resulted in the indictments. *(United States vs. Lillian Annette Washington, et al., Northern District of Texas)*

Auto Body Shop Owner Sentenced

A former Boston, Massachusetts Section 8 tenant was sentenced on false statement charges to 8 months in prison, 4 months to be served in jail and 4 months in home detention, and was ordered to pay $32,410 in restitution and a $10,000 fine. An investigation conducted jointly by the HUD and HHS OIG's revealed that the tenant failed to disclose his ownership of an auto body business which resulted in $24,734 in Section 8 overpayments and $23,000 in Social Security benefit overpayments. *(United States vs. Samuel Lee Parkman, District of Massachusetts)*

Illinois State Employee Pleads Guilty

An employee of the Illinois Department of Public Aid pled guilty to theft charges for her role in receiving public housing benefits. She falsified income information by failing to disclose her employment with the State of Illinois. She was placed on 5 years probation and ordered to make restitution of $9,446 and perform 300 hours of community service. *(United States vs. Darla A. Lawrence, Central District of Illinois)*

Public Utility Employee Sentenced

A representative of a Chicago, Illinois utility company was sentenced to 6 months of confinement, placed on 3 years probation, and ordered to perform 100 hours of community service and pay restitution in an amount yet to be determined. The representative was charged with 13 counts of submitting false statements and mail fraud concerning her personal earnings at two HUD-assisted projects in Chicago. The tenant improperly benefited from $43,000 in assistance. *(United States vs. Avis Landon, Northern District of Illinois)*

Tenant Cheats Both HUD and HHS

A former Section 8 tenant in Boston, Massachusetts, pled guilty to 10 counts of falsifying income certifications over a 3-year period in which he earned over $106,295. He did not report income from a telephone company. He was also charged with a one-count Social Security violation. A joint investigation by the HUD and HHS OIG's disclosed that the tenant received $27,000 in Section 8 overpayments. *(United States vs. Mohammad Barrie, District of Massachusetts)*

Concealed Inheritance Income Results in Overpayment

A former Seattle, Washington tenant was placed on 3 years probation and ordered to pay restitution of $12,401 to HUD and $9,979 to the Social Security Administration. The sentencing followed his guilty plea to making false statements and a related Social Security violation. The former tenant concealed income from his inheritance of $365,000 in order to benefit from rental assistance. Joint investigations were conducted by the HUD and HHS OIG's. *(United States vs. Frank J. Luketa, Western District of Washington)*

Federal Employee Indicted

A former Fairbanks, Alaska tenant was indicted for submitting false statements on annual recertification documents on which he concealed income received from Federal employment with the U.S. Forest Service. The former tenant benefited from assistance totaling $19,504. *(United States vs. Samuel L. Banks, Jr., District of Alaska)*

Tenant Is Own Landlord

A former Section 8 tenant in Los Angeles, California, was sentenced to 5 months in prison, 5 months in a community facility, and was ordered to make restitution of $5,000 for Section 8 assistance overpaid on her behalf. The tenant failed to disclose the ownership of her residence on which she collected assistance in excess of $27,000. Her actions caused checks to be issued to a fictitious landlord which were used by the tenant to make mortgage payments. She has been suspended from participating in HUD programs. *(United States vs. Patricia Ann Winston, Central District of California)*

Income from Job and Spouse Not Reported

A Section 8 tenant in San Francisco, California, was charged with converting Federal funds to her own use. The tenant allegedly failed to report her true income with a telephone company, that she was married, and the income of her spouse from a hospital and candy store. She allegedly benefited from Section 8 overpayments of $26,380. *(United States vs. Ivy Nell Sinegal, aka Ivy Nell Clark, Northern District of California)*

Federal Employee Pays Restitution

A civilian employee of the Department of the Army in Fort Sheridan, Illinois, was placed on 5 years probation and ordered to pay restitution of $15,320. The individual falsified his personal earnings between 1985 and 1987. *(United States vs. Larry Sims, Northern District of Illinois)*

County Guard Indicted

A Milwaukee, Wisconsin County security guard was indicted for defrauding the Departments of HUD and HHS. A two-count indictment cited the individual with making false statements to collect Section 8 rental assistance payments and disability monies between 1985 and 1988. The guard collected more than $5,700 in rental assistance to which he was not entitled and $17,900 in disability payments on false pretenses. *(United States vs. Douglas Hintzman, Eastern District of Wisconsin)*

Sentencings in Peoria

A Peoria, Illinois school teacher, a Peoria Housing Authority aide, and four others were sentenced for submitting false statements to obtain rental assistance. The individuals were sentenced to a combined total of 2 months confinement, 5 months probation, 5 months work release, and 250 hours of community service, and were ordered to make restitution of $6,124. By failing to report their actual earnings, the six received total rental assistance overpayments of $63,624. *(United States vs. Janice Rials, et al., Central District of Illinois)*

Multifamily Housing

Project Manager Sentenced for Embezzlement

The former manager of a HUD-assisted, privately owned project in Washington, D.C., was sentenced to 1 year in prison, placed on probation for 5 years, and ordered to make restitution in the amount $36,201 for theft of funds. She embezzled rents paid by the tenants. *(District of Columbia vs. Charyn Johnson, Superior Court of the District of Columbia)*

Project Owner Imprisoned

The owner/operator of the Lakeshore Ridge housing project in Oklahoma City, Oklahoma, pled guilty to one count of equity skimming and one count of failure to file Federal income taxes. The owner/operator, who is presently serving a 2-year prison sentence for bank fraud in Florida, was sentenced to an additional 5 years in prison on completion of his present sentence. He also pled guilty to bank fraud in California. He defrauded HUD of funds which were intended to be used in project rehabilitation, and used rent receipts for unauthorized expenses while the property was in default. The owner/operator has been debarred from participating in HUD programs. The investigation was conducted by the FBI. *(United States vs. Charles Joseph Bazarian, Western District of Oklahoma)*

Michigan Project Manager Sentenced

A former Warren, Michigan project manager was sentenced to 4 months of work release and placed on 3 years probation for embezzlement and interstate transportation of stolen property. He was also ordered to make restitution of nearly $660,000. The former manager previously pled guilty to a two-count charge of embezzling funds from various HUD-insured projects in Eastern Michigan in 1987 and 1988. An OIG investigation determined that the manager was responsible for collecting and distributing funds at six projects and converted more than $600,000 to his personal use. General operating reserve monies at the projects were deposited into the manager's personal brokerage account. *(United States vs. James Kowich, Eastern District of Michigan)*

Public Housing

PHA Directors Guilty of Bribery

The former Executive Directors of the Carteret, Perth Amboy and Woodbridge, New Jersey Housing Authorities pled guilty to multiple charges of receiving bribes in connection with their administration of programs receiving Federal funds and income tax evasion. Two contractors also entered guilty pleas to charges of bribery and income tax evasion stemming from bribes made to the officials. The former Executive Director of the Perth Amboy Housing Authority admitted receiving approximately $100,000 in exchange for his favor in the award of $1.2 million in contracts to one contractor. The former Executive Director of the Carteret Housing Authority accepted approximately $55,000 in illegal payments to incur his favor in the award of contracts worth approximately $541,000 to the vendor. The former Executive Director of the Woodbridge Housing Authority accepted approximately $23,000 in illegal payments from a vendor in order to be influenced in awarding approximately $232,000 in contracts to the vendor. Both contractors admitted making such payments in connection with the award of building maintenance contracts with the three Authorities. The five individuals have been suspended from participating in HUD programs. The investigation was primarily conducted by the FBI. *(United States vs. John Sudia, Anthony Slotwinski, Gene Tomasso, Alfred Bressaw, and Michael Estavanik, District of New Jersey)*

PHA Extortion Case in Louisiana

The Deputy Executive Director of the New Orleans, Louisiana Housing Authority was indicted for extorting money from an electrical contractor and a plumbing contractor in payment for contracts with the Housing Authority. During the course of the investigation, the Executive Director was observed selling cocaine. Five contractors were also indicted for conspiracy to pay kickbacks to the housing official. One of the contractors was also indicted for distributing cocaine. This was a joint investigation by the OIG and the FBI. *(United States vs. Bernel R. Sanders, Ulis Gaines, Byron Crosby, Gilbert Bailey, Edward Pennington, and Melvin Smith, Eastern District of Louisiana)*

Attempted Bribery of HUD Employee

An Atlanta, Georgia lead-based paint testing contractor was found guilty of attempting to bribe a HUD employee. The contractor tried to pay $1,500 to the HUD employee, who was responsible for writing the lead-based paint testing regulations. The contractor sought assistance in obtaining contracts and advance notice of government regulations. The HUD employee cooperated in the investigation, which was performed by the OIG and the FBI. *(United States vs. Kenneth W. Campbell, Northern District of Georgia)*

Maryland Project Manager Sentenced

The former manager of an Anne Arundel County, Maryland Housing Authority project was sentenced to 1 year in prison, placed on 5 years probation, and ordered to make restitution of $10,000, on charges of theft and forgery. She was also ordered to undergo drug counseling. She embezzled more than $28,000 between 1987 and 1988. She has been suspended from participating in HUD programs. The investigation was conducted by the Anne Arundel County Police Department with OIG assistance. *(State of Maryland vs. Yvette Chapman, Circuit Court for Anne Arundel County)*

West Virginia Bribery

The former Executive Director of the Kanawha County Housing Authority, Charleston, West Virginia, was sentenced to 18 months in prison and fined $5,000 after being found guilty of bribery. He entered into a scheme with a Section 8 landlord to place tenants in his units in return for the landlord's allowing him to manage the units for a fee. He has been suspended from participating in HUD programs. The investigation was conducted by the Charleston Police Department with OIG assistance. *(United States vs. Frank Vinson, Southern District of West Virginia)*

IHA Embezzlement

A former clerical employee of the Spokane, Washington Indian Housing Authority was placed on 5 years probation and ordered to make restitution of $38,292. The sentencing followed the employee's guilty plea to embezzling HUD funds. The investigation was conducted by the OIG, the Bureau of Indian Affairs, Department of the Interior, and the FBI. *(United States vs. Anne Marie Wynne, Eastern District of Washington)*

Alaska Bribery

The fourth and last defendant in Anchorage, Alaska, convicted in the bribery of a former Administrative Officer for the Tlingit-Haida Regional Housing Authority was sentenced to 18 months in jail and ordered to make restitution of $50,000. Sentences of the four defendants totaled 33 months confinement, $110,000 in restitution and 600 hours of community service. A $20,000 bribe was given to the former Administrative Officer in return for a contractor receiving work. *(United States vs. Frank Lee Naccarato, District of Alaska)*

IHA Director Charged with Theft

The former Executive Director of the Ft. McDowell Mojave-Apache Indian Housing Authority, Fountain Hills, Arizona, was charged in a criminal complaint with two counts of theft of government funds. The former Executive Director allegedly misappropriated housing funds totaling $15,910 to install two water lines in the home of his son. He also used an additional $5,458 in HUD money to complete a Housing Improvement Program house on the reservation. *(United States vs. Gilbert Jones, Sr., District of Arizona)*

Office Manager Sentenced

The former office manager of the Traill County Housing Authority in North Dakota was placed on 3 years probation and ordered to perform 100 hours of community service and pay restitution of $12,500. The sentencing followed her guilty plea to embezzling funds from the Housing Authority's savings account. She has been suspended from participating in HUD programs. *(United States vs. Jill M. Hogenson, District of North Dakota)*

Rent Receipts Stolen

The former Executive Director of the Dawson Springs, Kentucky Housing Authority pled guilty to the theft of $5,146 in government funds. She stole tenants' rental payments and concealed the shortage by overlapping monthly bank deposits. Her scheme was detected when she attempted to cover the growing shortage by writing a check from another Federal agency's account. *(United States vs. Linda Kaye Miller, Western District of Kentucky)*

Title I

Home Improvement Contractor to Make Restitution

A San Antonio, Texas home improvement contractor was sentenced to 4 months in a halfway house and placed on 5 years probation, and ordered to make restitution of $17,000 for making false statements to the government. The contractor falsified a completion certificate for property improvement loan statements and then submitted the statements to HUD. He certified that the home improvement work was completed when in fact it was not. The investigation was conducted by the OIG and the FBI. *(United States vs. Andres L. Gomez, Western District of Texas)*

False Loan Applications by Construction Contractors The President of a Danville, Illinois construction and home remodeling business and two sales persons were sentenced for their roles in the fraudulent origination of Title I home improvement loans. They were sentenced to a total of 1 year in prison, 3 months home confinement, and 11 years probation. They were also ordered to pay fines totaling $13,500. The President and six sales persons previously pled guilty to conspiracy and submitting false loan applications in a debt consolidation scheme involving 27 home repair loans originated through a Danville Savings and Loan Association. The estimated loss to the government is approximately $50,000. The investigation was conducted by the OIG and the FBI. *(United States vs. Richard Erickson, et al., Central District of Illinois)*

Community Planning and Development

Embezzlement by Relocation Contractor A former Los Angeles, California contractor, who worked as a Relocation Specialist with those displaced through a Neighborhood Assistance Program administered by a county agency in Los Angeles, was sentenced to 6 months in prison and placed on 5 years probation, and was ordered to make restitution of $83,395 for embezzling public money. An investigation, conducted jointly by the OIG and the FBI, found that the former contractor diverted $65,000 in checks payable to various displacees and deposited the checks in her personal bank account. *(United States vs. Juanita Maria Tachvighi, Central District of California)*

Conspiracy by Rehabilitation Contractor A Milwaukee, Wisconsin rehabilitation contractor was sentenced to 4 years in prison and ordered to make restitution of $45,600 for his role in a conspiracy to defraud the Community Development Block Grant (CDBG) Program. The contractor, who was director of a firm which rehabilitated inner city properties, was found guilty after a lengthy trial of income tax violations and falsifying documents submitted to HUD relative to the repair of single family homes. The contractor had been indicted by a Federal Grand Jury for extortion and knowingly misrepresenting repair invoices and receipts for the purpose of converting the funds to his personal use. The contractor's conviction was the result of a joint investigation by the OIG, the FBI, and the IRS. *(United States vs. David Reynolds, Eastern District of Wisconsin)*

E. St. Louis Officials An Executive Assistant to the Mayor of East St. Louis, who also served as the "Enterprise Zone Coordinator," and two contracting firm officials were indicted by a Federal Grand Jury. The Executive Assistant and the firm's principal owner were indicted on one count of conspiracy and one count of interference with commerce by threats or violence in submitting false information and/or documents in support of a rental rehabilitation loan application. The contracting firm's director of operations was indicted on 22 counts of making false statements, has pled guilty, and was placed on 2 years probation and ordered to perform 104 hours of community service. The investigation was conducted by the FBI with OIG assistance. *(United States vs. Carolyn Davis, Yvonne Williams and Kevin Ellis, Southern District of Illinois)*

City Rehabilitation Specialist A City of Aurora, Illinois rehabilitation specialist was indicted by a Federal Grand Jury for embezzlement by creating false and forged documents to obtain funds from the homeowners assistance program. The rehabilitation specialist fraudulently obtained at least $167,000 in program funds by certifying that certain work had been done when in fact the work was not performed. The investigation was conducted by the FBI with OIG assistance. *(United States vs. Darryl Tipton, Northern District of Illinois)*

Rehabilitation Contractor

A rehabilitation contractor in Louisville, Kentucky, was placed on 3 years probation and fined $5,000 for submitting false invoices to the Metro Investment Service Corporation to obtain a loan for rehabilitation work funded by CDBG money. She received $50,000 to which she was not entitled by submitting inflated invoices. The investigation was conducted by the FBI. *(United States vs. Sandy Davis, Western District of Kentucky)*

Conversion of CDBG Funds

The former Executive Director, Economic Development Cabinet, Louisville, Kentucky, was placed on 5 years probation and fined $15,000 for converting Federal funds to his own use. A contractor was placed on 5 years probation and ordered to pay $50,000 in restitution, also for converting Federal funds to her personal use. They fraudulently processed a $50,000 loan from CDBG funds. This investigation was conducted by the FBI. *(United States vs. Charles L. Roberts and Barbara R. Price, Western District of Kentucky)*

Chapter 4

REVIEW OF 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 reviewed several legislative proposals, regulations and directives during this reporting period. Highlighted below are a few of the more significant ones.

Law Enforcement Authority

Legislative proposals S. 2080 and H.R. 4149 deal with law enforcement authority for criminal investigators of Offices of Inspector General. These Bills, cited as the Office of Inspector General Law Enforcement Act of 1990, would authorize investigators to obtain and execute search and arrest warrants; serve subpoenas and summonses; and carry and use firearms.

We strongly support this legislation. It is extremely important that Inspectors General be given the necessary tools to carry out their mandate to investigate and prevent fraud, waste, and abuse in the most efficient way possible. The lack of law enforcement authority may also impact on the outcome of an investigation and affect the workload of other agencies which are called on to provide assistance.

An additional item which should be considered is the ability of Inspectors General to use subpoena authority to obtain testimony during audits and investigations. This was included in Secretary Kemp's reform package, but was deleted from the approved legislation.

Federal Law Enforcement Pay Act of 1990

Concerning S. 2250, Federal Law Enforcement Pay Act of 1990, we supported the proposed hiring and retention incentives of geographic pay, relocation pay, and higher entry level pay. However, we did not support the raising of the mandatory retirement age to 57, which is contrary to maintaining a ''young and vigorous'' work force; payment of a retention allowance; payment of a cash award or special allowance for linguists; and the provision which requires overtime to be paid at the rate of 1½ times the hourly rate of each Special Agent. We would like to study the effect of the new Administratively Uncontrollable Overtime law on our personal services budget before we consider raising overtime compensation even higher.

Ethics

We reviewed several legislative proposals, regulations and directives dealing with various aspects of ethics as a direct result of the publicity the Department received during the past year. We reviewed the ''Byrd Amendments'' (FR 2719), ''Anti-Fraud Act of 1990'' and ''Civil Money Penalties'' (FR 2734), to name a few. Each of these proposals will strengthen HUD's control over the conduct of all parties involved in housing programs and we fully support the intent of each.

However, as the proposals were drafted, we expressed some concerns about implementation, monitoring, and effectiveness. Below is a brief synopsis of our comments on the OMB and HUD guidelines implementing the Byrd Amendment.

The Byrd Amendment, "Limitation on Payments Made to Influence Certain Federal Contracting and Financial Transactions," makes it illegal for Federal program applicants to use Federally appropriated funds to influence Federal decisionmakers. It requires disclosure of the use of non-Federal funds for the same purpose.

OMB published governmentwide interim final guidance on December 20, 1989, and an interim final rule on February 26, 1990. We reviewed both the OMB interim final guidance and a HUD Notice implementing the OMB guidance.

In regard to the OMB guidance, we stated that IG organizations should share information at the earliest possible time concerning ways the provisions can be circumvented. For example, one potential circumvention might be placing a consultant on the applicant's staff for 130 days. In such cases, the consultant's lump sum fee could be spread over the 130 days. All OIG's should work closely with their agencies with respect to methods of controlling, accounting for, and storing disclosure forms. They should participate in their agency's rulemaking process.

The HUD Notice provided guidance on requirements governing payments to persons to influence Federal decisionmakers in awarding certain types of financial assistance, i.e., contracts, grants, loans and cooperative agreements, and in taking post award actions, i.e., extensions, renewals, and modifications of contracts. We commented that OMB's interim final guidance should be addressed in the Notice. Knowing that violations will be investigated and reported to Congress might result in closer compliance with OMB's requirements. Guidance should also be provided as to what initial actions are to be taken by recipients of the Notice to implement the guidelines.

Mutual Mortgage Insurance and Rehabilitation Loan Program

We reviewed a proposed rule, Part 203, "Mutual Mortgage Insurance and Rehabilitation Loan Program," which would eliminate the seven-unit requirement of 24 Code of Federal Regulations 203.42 in certain circumstances. In enacting the National Housing Act, Congress provided HUD with the authority to insure that rehabilitation loans made by financial institutions of existing one-to-four family structures would be used primarily for residential purposes. Recent audits have indicated that the 203k program is subject to substantial abuse because of apparent weaknesses in the administration of the program by HUD. The weaknesses are:

- Lack of assessments to ensure that mortgages have the necessary internal controls to assure rehabilitation monies are properly accounted for and used.
- Lack of requirements that adequate bonding is in effect to protect HUD and the mortgagor in case rehabilitation monies are misappropriated.
- Lack of routine assessment of the program to assure that it is being properly administered by Field Offices and mortgagees.

Schemes by builders/developers continue to expose HUD to substantial losses in the Single Family Mortgage Insurance Programs. Waiving the rule of seven on 203k loans would increase this exposure. Instead of eliminating the rule of seven, we propose that HUD use its Multifamily Housing Program to fill the needs of builders/developers. The Inspector General will issue an audit report to the Mortgagee Review Board within the next few months which will highlight problems in the 203k program.

Economic Development Loan Assistance Program

The Economic Development Loan Assistance Program Act of 1989 (H.R. 3716) is intended to revitalize economically depressed areas. The bill would permit the Secretary of HUD to make grants to Community Development Corporations to buy down interest rates, not to exceed 60 percent of the market rate of interest. This program was introduced to be a substitute for, or a complement to, the Urban Development Action Grant (UDAG) Program.

We had the same misgivings about this bill as we do about certain other economic development activities, namely: (1) the lack of enforceable targeting to low- and moderate-income people in activities carried out with funds from the CDBG program, and (2) the lack of realistic "but for" requirements in the UDAG program. With regard to (1), we noted that targeting to low- and moderate-income groups is a top priority of the current HUD administration. With regard to (2), our audit reports have shown that there is usually insufficient documentation that a project would have floundered "but for" Federal assistance. UDAG requirements on this point have been ineffective; however, even these requirements are missing from this bill. Any new funding should tighten, not loosen, requirements. We were unable to determine how this bill would be less vulnerable to abuse than the UDAG program.

We also believed that spreading $200 million over three years and covering all eligible economically distressed cities and counties would have a relatively small impact on the thousands of communities involved.

The bill lacks control mechanisms other than charging HUD with a broad monitoring responsibility and requiring an annual report evaluating the effectiveness of grants made. Such control mechanisms could include audits of grantees and periodic progress reports.

We further commented:

- HUD has no current account from which the appropriation for this proposed program would come. In case of a new program, HUD would request Treasury to set up a new account.

- We believe that State and local Offices of Economic Development would be able to fund applicants, either alone or with other community-based entities. Federal funding could also be leveraged by providing for some matching local funds.

Chapter 5

PREVENTION ACTIVITIES

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 six areas:

- Tenant Integrity Initiatives
- Secretary's Committee on Program Integrity
- President's Council on Integrity and Efficiency
- Awareness Publications
- HUD Hotline
- Monitoring Audit Quality

Tenant Integrity Initiatives

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

Tenant Integrity Program

In cooperation with the Public Housing Authorities Directors Association, our office is continuing a series of workshops on the Tenant Integrity Program (TIP), focusing on the Public Housing and Section 8 Certificate Programs. The TIP 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, interviewing, and verification techniques. The goal of the program is to ensure that scarce housing resources are provided only to eligible applicants and tenants. Since the training began in 1989, 20 sessions have been presented nationwide. Three additional sessions are scheduled through June 1990. This will complete the training of PHA staff.

The next focus of our training effort is assisted housing. We are currently working with various professional associations and private contractors to provide training to HUD-assisted and HUD-subsidized housing management personnel. Our office will instruct their trainers and these groups will schedule their own training sessions. Over 47 TIP workshops have been scheduled nationwide.

Authority To Require Social Security Numbers

Section 165 of the Housing and Community Development Act of 1987 authorized HUD to require applicants and participants in HUD programs to disclose their Social Security Numbers. Disclosure is a condition of initial or continuing eligibility for participation.

A final regulation implementing the law became effective November 6, 1989, for all programs except Section 235 and March 23, 1990, for Section 235. Our office drafted HUD administrative instructions in June 1989; however, the Offices of Public and Indian Housing and Housing have not issued this guidance. Without official administrative guidance, the Department runs the risk of lawsuits alleging improper implementation.

Computer Matching

We use computer matching to check wages and unemployment information that tenants in HUD-subsidized units have reported with information provided by employers.

Our office has been conducting demonstration computer matches. It is our belief that this function should eventually be transferred to program offices for full-scale implementation.

Following are some computer matching results accomplished in this reporting period:

- Denver, Colorado. Our computer match identified 167 families who failed to report or underreported an estimated $2.3 million in income. There were 130 families in low-income units and 37 Section 8 families who omitted income of $2,060,000 and $273,000, respectively. As a result, these tenants underpaid their share of rent by approximately $690,000.

- New Haven, Connecticut. The applications of 84 tenants omitted a total of $2.3 million in income. This included 51 low-income and 33 Section 8 tenants. The tenants avoided estimated rent payments of $694,000.

- Hartford, Connecticut. We found 53 low-income tenants and 12 Section 8 tenants with a total of $1.6 million in underreported income. As a result, the tenants underpaid their share of rent by $496,000.

- Chicago, Illinois. In this ongoing match we have matched with the Illinois Department of Labor and have begun follow-up on discrepancies found.

- Florida statewide match. The statewide match with 13 Florida PHA's is a new approach to get more PHA's to participate and reduce the staff-intensive effort by our office for the follow-up work. The results have been provided to the PHA's for review.

Delays in Ongoing Matching

An ongoing match in St. Louis County, Missouri, is being delayed by problems in re-executing matching agreements to be in compliance with the Computer Matching and Privacy Protection Act of 1988 (the Act). Also, a legal decision is being sought on whether State wage agencies must comply with requirements of the Act.

A second statewide match has begun in Pennsylvania. This match has been delayed due to problems in re-executing matching agreements to be in compliance with the Act and McKinney Amendment provisions. Specific legal obstacles involving the McKinney Amendment provisions are discussed below.

Section 904 of the McKinney Amendments of 1988 contains the authority for HUD and PHA's to obtain State wage data. It also requires tenants to sign consent forms permitting a computer match. This law became effective in September 1989. A proposed rule was published in the Federal Register on November 3, 1989. The public comments received are being considered for publication of the final rule. No new matches can be started until the final rule is published and HUD program offices issue consent forms.

Secretary's Committee on Program Integrity

On September 25, 1989, Secretary Kemp established the Secretary's Committee on Program Integrity (Committee) as his advisor and coordinator of efforts to minimize fraud and abuse in HUD programs. The Committee, which is chaired by the Inspector General, is composed of representatives of HUD's Principal Staff.

The Committee undertakes projects to evaluate courses of action that will benefit HUD programs or their implementation and recommends enhancements to help the Secretary decide how to best administer those programs or operations. Toward these objectives, the Committee undertook two projects during this reporting period.

Administrative Sanctions Process

In part because of the various violations of HUD programs which surfaced during Fiscal Year 1989, the Committee undertook this project to determine whether full use was being made of sanctioning authorities. In its report to the Secretary in April 1990 the Committee concluded that HUD generally has the authority to sanction abusers of its programs, but that staff instructions are outdated or incomplete. These instructions do not include "When To" and "How To" criteria and do not include all sanctioning authorities.

In addition, staff training is needed on the sanctioning process, tracking systems are needed to include information on past violators, and outreach efforts are needed to coordinate with non-Federal authorities, such as State licensing boards, for possible sharing of information.

Evaluation Coordination System

This project is an outgrowth of a prior study which suggested that there was a need to summarize the significant weaknesses reported by various evaluation activities. Accordingly, the Committee was tasked to recommend how best to implement a system to centralize essential aspects of evaluations so that the Department can determine what has been done and the status of suggestions for improvement.

Recommendations will also be made as to where this system should be placed in HUD. At the end of the reporting period, the working group for this project was being formed to conduct the evaluation.

President's Council on Integrity and Efficiency

The Inspector General is a member of the President's Council on Integrity and Efficiency (PCIE), and recently assumed leadership of the Executive Development Subcommittee. This subcommittee oversees the development and coordination of both executive and management training forums for the Inspector General community. Over the past six months, the subcommittee reviewed the agenda for prospective PCIE executive development training programs for the remainder of FY 1990 and began work for FY 1991. A survey of topics is being developed for the 1991 forums. The Committee also adopted a revised charter. The Inspector General is also an active participant in the following committees:

- Audit Committee. This committee addresses issues related to professional auditing and accounting standards, the single audit concept, peer review and the quality of non-Federal audits. Recently, the Inspector General assisted in the completion of a guide to be used for external quality control reviews of Inspectors General. Our office also participated in the ongoing Inspector General Planning Roundtable which was initiated to discuss overall planning strategies, practices and procedures.

- Communications Committee. The objective of this committee is to communicate the numerous activities of the PCIE to both internal and external audiences.

- Legislation Committee. This committee assists the Inspectors General in fulfilling their responsibility to review and propose legislation and develop coordinated positions on issues of general interest and concern. The Inspector General has supported PCIE initiatives such as testimonial subpoena power and law enforcement authority for all statutory Inspectors General.

Awareness Publications

Awareness publications are intended to increase program participant and HUD employee knowledge of program vulnerabilities and enhance their ability to detect and prevent waste and mismanagement. During this period, we issued a Program Integrity Bulletin (PIB) entitled "Abuses in the Consolidated Supply Program."

The PIB alerts public housing agency commissioners and executive directors to certain abuses that have occurred in the program and suggests ways they can detect or prevent them from recurring. Examples of typical abuses are described, along with actual case histories of how misuse of the program can result in waste and excess costs.

HUD Hotline

During the past six months, 260 new Hotline complaints were opened, bringing the total number of complaints opened to more than 4,000 since the Hotline began operation in February 1979. Nearly half of the new complaints were made by anonymous or confidential sources. Program administrators accounted for the largest (50 percent) category of subjects allegedly abusing HUD programs. Twenty-one percent of the complaint subjects were HUD employees.

One third of the 190 closed cases resulted in corrective actions to prevent recurrence of abuse. Housing maintenance repairs represented the largest number of actions taken and $266,701 in monetary actions were generated. Reprimands were given to HUD employees and ineligible persons were removed from HUD assistance programs. Specific examples of closed cases follow.

Community Development Block Grant (CDBG) Program

A CDBG grantee reimbursed the program $254,966 for overcharges for vacant lot maintenance and established internal accounting procedures to control interagency billings for such expenses. These actions followed substantiation of allegations that one city department overcharged the CDBG program for weed cutting and debris removal on city-owned vacant lots acquired with CDBG funds. The overcharges resulted from the use of inflated indirect cost rates and the payment of billings on lots located outside of the CDBG development area.

HUD Employees and Management (11 cases)

Three employees had outstanding travel advances totalling $433 deducted from their payroll checks. These actions followed allegations that the employees were not repaying travel advances and were performing unapproved travel. Signature authority was also withdrawn from the supervisor who received a written reprimand for ignoring a direct order not to conduct specific travel.

An employee received a verbal reprimand and specific instructions to follow regarding all periods of absence from the office. This action followed substantiation of allegations that the employee took no leave for extended absences and did not adequately perform assigned work.

Tenant Subsidy Programs (45 cases)

A housing authority made repairs to a subsidized unit and received no assistance payments while corrections were being made. These actions followed allegations that various health and safety violations had gone uncorrected for 1 to 2 years.

A tenant received $1,685 reimbursement from an owner and received a retroactive rent credit of $1,067. It was found that the owner collected duplicate utility payments from both the public housing agency and the tenant. The retroactive credit followed recertification of the tenant after a reduction of family income.

A tenant was charged $1,553 in retroactive rent and vacated the assisted housing unit. The tenant had not reported income received from retirement.

A Section 8 tenant vacated an assisted unit and reimbursed the program $652 for ineligible assistance received. This action followed an allegation by the tenant's ex-spouse that she only reported income for child support but not monthly earnings of $1,200 to $1,400 received from local government employment.

Two Section 8 tenants had their subsidy terminated because of unauthorized occupants and unreported changes in family circumstances. One tenant had three unauthorized adults living in the unit and the other tenant falsified the occupancy of a minor who lived elsewhere. The latter tenant was found living alone in a two-bedroom unit with a den.

Monitoring Audit Quality

This section summarizes our efforts to monitor and improve the quality of audit work performed by non-Federal auditors. The Inspector General Act of 1978 requires that the Inspector General 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 pursuant to program requirements. These include audits of State and local governments under the Single Audit Act, as well as entities participating in Federally insured housing programs and the Mortgage-Backed Securities Program under the National Housing Act. Only about 4,600 reports are controlled and issued by the 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 conducts desk reviews of the non-Federal reports. For selected reports, there is a more extensive on-site quality control review (QCR) of supporting audit work. 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 regulatory and professional bodies. Referrals have been made to the American Institute of Certified Public Accountants (AICPA) and appropriate State Licensing Boards. In each case, we requested that the AICPA or State Board review the case and take appropriate sanctions. In the more deficient cases, HUD also takes sanctions, such as debarment or suspension. In lieu of debarment, auditors sometimes agree to voluntary exclusion from auditing Federal programs.

The table on the following page 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 (Cognizant Assignments and General Oversight Entities)			Other Audits (HUD Program Audits)			
	Independent Public Accountant	State & Local Auditor	Total	Independent Public Accountant	State & Local Auditor	Total	Grand Total
Total Reports Issued[1]	2,130	95	2,225	24	0	24	2,249
1. Reports issued without major change							
a. Based on desk review	1,973	93	2,066	20	0	20	2,086
b. Based on QCR	12	0	12	0	0	0	12
Total without major change	1,985	93	2,078	20	0	20	2,098
2. Reports issued with major changes							
a. Based on desk review	117	0	117	4	0	4	121
b. Based on QCR	28	2	30	0	0	0	30
Total with major changes	145	2	147	4	0	4	151
3. Reports with significant inadequacies							
a. Based on desk review	0	0	0	0	0	0	0
b. Based on QCR	4	0	4	12	0	12	16
Total with significant inadequacies	4	0	4	12	0	12	16
4. Total Quality Control Reviews[2]	40	2	42	65	0	65	107
5. Auditors referred to State Boards/AICPA[3]	3	0	3	6	0	6	9
6. Number of other sanctions	2	0	2	7	0	7	9

[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 Independent Auditor who was referred to his State Board for a possible independence violation.

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

We frequently encountered situations where an independent auditor (IA) failed to:

- document in the working papers the audit plan
- document the study and evaluation of the auditee's internal controls
- include working paper support of compliance testing
- obtain written representations from management and the auditee's counsel

Examples of Extremely Deficient Audits

An IA performed audits of three different HUD-insured projects. We conducted a QCR of each audit and found that the IA did not adhere to certain GAO and AICPA auditing standards. We noted that the IA did not perform tests to determine the existence of the balances of the cash accounts, but accepted the summary account balances as presented by the managing agent. The IA expressed an unqualified opinion on the financial statements. Subsequent to the audit, it was disclosed that the cash accounts were nonexistent. The following year the managing agent admitted to embezzling over $650,000 from the three projects, most of it during the period audited by the IA. We have referred the IA to the applicable State Board and the AICPA and have initiated action to debar this IA.

Another IA performed successive compliance audits of an issuer of GNMA-guaranteed mortgage backed securities. We conducted a QCR of the reports and working papers and identified departures from certain GAO and AICPA auditing standards. Our review disclosed deficiencies in the reporting of findings of noncompliance and deficiencies in the performance of audit procedures and evidence contained in the working papers. As of March 31, 1990, HUD had advanced more than $82 million to the servicer on defaulted loans. Again, we have referred this practitioner to the AICPA and two State Boards of Accountancy and are seeking his debarment.

In a third case, an IA performed two audits of a HUD-insured project and one audit required under the Single Audit Act of 1984. We performed a QCR on the reports and working papers for all three audit engagements. We noted that the working papers and audit reports did not adhere to certain GAO or AICPA auditing standards. Because of the serious deficiencies with the IA's work, we referred him to his State Board of Accountancy and the AICPA for disciplinary action. Also, he was debarred by the Department from participating in any further audits of Federal funds for 3 years.

During the reporting period, four IA's were debarred, one agreed to a voluntary exclusion and four IA's were suspended pending debarment. A debarment action is a governmentwide exclusion from participating in transactions involving Federal funds for a specified period of time, generally not to exceed 3 years. In the more serious cases where debarment is sought, the IA is suspended while a debarment determination is made.

As of March 31, 1990, 22 CPA's are currently suspended, debarred or have voluntarily excluded themselves from doing business with HUD or governmentwide as a result of our efforts in monitoring Independent Auditors.

Referrals to State Boards/AICPA

During the reporting period, a State Board and the AICPA took sanctions against two IA's referred in prior reporting periods by our office.

In one case, a State Board issued a cease and desist order to an IA referred in March 1989. In the second case, the AICPA took action against an IA referred in January 1987. Following their investigation on behalf of the State CPA Society, the IA was expelled from the State Society. He is currently debarred by HUD.

Chapter 6

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 administrative actions taken against HUD employees during this semiannual reporting period.

Former Employee Reimburses HUD $4,530 As the result of a civil court settlement agreement, a former program analysis officer was required to reimburse HUD $4,530. The employee allegedly fraudulently received severance pay in conjunction with a reduction in force action.

Housing Director Issued Official Reprimand A housing director was issued an official reprimand for violating HUD's Standards of Conduct. The Director recommended funding for a project in which his/her spouse had a financial interest.

Employee Resigns After Investigation A supervisory equal opportunity specialist resigned from government service after being investigated for allegedly falsifying several employment applications, altering a performance appraisal, and other misconduct.

Contract Specialist Suspended A contract specialist was suspended for 10 days without pay for backdating the receipt of a contractor's bid and writing a memorandum which falsely explained the use of a date stamp.

Clerk Resigns after Falsifying Vouchers A clerk resigned after being caught falsifying imprest fund vouchers. The clerk admitted not only falsifying the vouchers, but also routinely misusing a government vehicle with another employee. The other employee has been suspended pending termination.

Employee Suspended for Travel Fraud A housing management specialist was suspended for 14 days without pay for filing a false travel voucher. The specialist submitted a false lodging receipt claiming lodging for two nights when in fact the employee stayed only one night.

Employee Misuses Government Vehicle An equal opportunity specialist was suspended for 30 days without pay after the employee admitted using a government vehicle for personal use. He admitted using the vehicle to go to a bank and store on several occasions.

Auditor Suspended for Sexual Harassment An audit supervisor was suspended for 14 days without pay after investigation confirmed complaints of sexual harassment.

Special Assistant Resigns after Allegations A special assistant resigned from HUD employment following an investigation of allegations of non-performance of work and misuse of a government telephone for personal calls.

Special Assistant Repays HUD A special assistant repaid $131 for making personal phone calls on the government telephone system.

Clerk Reprimanded for Misusing Mail A realty clerk received an official reprimand for mailing monthly mortgage payments on four occasions using government express mail services. The employee was attempting to avoid late payments.

Employee Suspended for Conduct Violation A construction analyst was suspended for 10 days without pay. It was determined that the employee violated the Standards of Conduct by conducting personal business on government time.

Prosecutive Actions Against HUD Employees

There were also two prosecutive actions against HUD employees during this reporting period.

Accountant Sentenced for Embezzlement A former HUD operating accountant was sentenced to 27 months in prison and 3 years probation and was ordered to make restitution of $1,006,130. The accountant electronically transferred over $1 million in Section 8 funds to an account which he controlled. *(United States vs. Douglas Turner, District of Colorado)*

Former Deputy Assistant Secretary Sentenced for Conspiracy A former HUD Deputy Assistant Secretary for Community Planning and Development was sentenced to serve 1 year and 1 day in prison. He previously pled guilty to conspiring to obtain kickbacks from the financing of Biloxi's waterfront development funded from a HUD grant he awarded. Four other counts of accepting gratuities between 1984 and 1989 were dismissed. The prison sentence will run concurrently with a prior prison sentence he received for similar activities in connection with a HUD grant in the Virgin Islands. *(United States vs. Dubois L. Gilliam, Southern District of Mississippi)*

Chapter 7

STATISTICAL SUMMARY

	October 1, 1989 through March 31, 1990
Audit Activities	
• Cash Recoveries	$13,162,912
• Cost Efficiencies Realized	$14,756,842
• Commitments to Recover Funds	$61,347,820
• Cost Efficiencies Sustained	$16,605,108
• Suspensions of Persons/Firms Doing Business with HUD	19
• Debarments of Persons/Firms Doing Business with HUD	10
• Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board	5
• Subpoenas Served	11
• Material Weaknesses Reported	6
• Reports Issued	
Internal Audit Reports	22
External Audit Reports	92
Audit-Related Memoranda Issued	36
Non-Federal and Other Agency Reports Accepted	2,688
Investigation Activities	
• Cash Recoveries/Savings	$5,465,167
• Commitments to Recover Funds	$1,019,940
• Cost Efficiencies	$224,464
• Total Fines Levied	$315,709
• Indictments	185
• Convictions	144
• Total Years of Prison Sentences	111
• Suspensions of Persons/Firms Doing Business with HUD	34
• Debarments of Persons/Firms Doing Business with HUD	34
• Personnel Actions Initiated Against HUD Employees	25
• Subpoenas Served	23
Program Integrity Activities	
• Awareness Publications Issued	1
• Hotline Complaints Opened	260
• Proposed Legislation and Regulations Reviewed	90

Hotline Activities

The following table shows the profile of complainants and subjects for the 260 hotline complaints opened during the past 6 months.

Profile of Complaints
October 1, 1989, through March 31, 1990

Percentage of Complainants	Description	Percentage of Subjects
48	Anonymous/Confidential	N/A
1	HUD Employees/Management	21
4	Program Administrators	49
32	Program Participants	26
15	General Public	4
100	Total Percentage	100

One third of the 190 closed cases resulted in corrective actions being taken. The following is a summary of the major actions taken during the reporting period:

- Participants benefitted by program enforcement = 25 instances
- Cash recoveries = $266,701
- Removal from HUD programs = 10 instances
- Procedural improvements = 10 instances
- Staff reprimands = 6 instances

Audit Recommendations

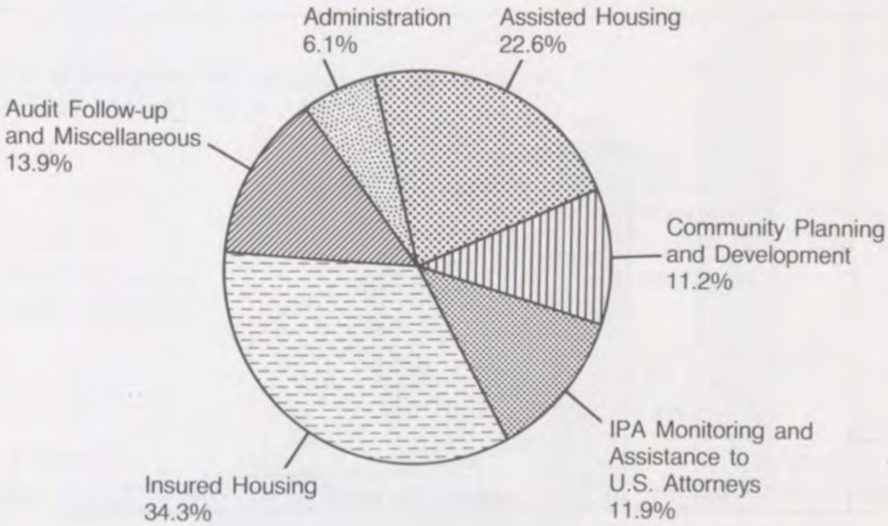
Following are statistics on the inventory of audit recommendations and the activity during the reporting period:

- No management decision at 10/1/89 = 1,055
- Issued during the period = 1,554
- Management decision made during the period = 1,723
- No management decision at 3/31/90 = 886
- Recommendations with no management decision over 6 months old at 3/31/90:
  Number = 19
  Dollar value = $2,751,808

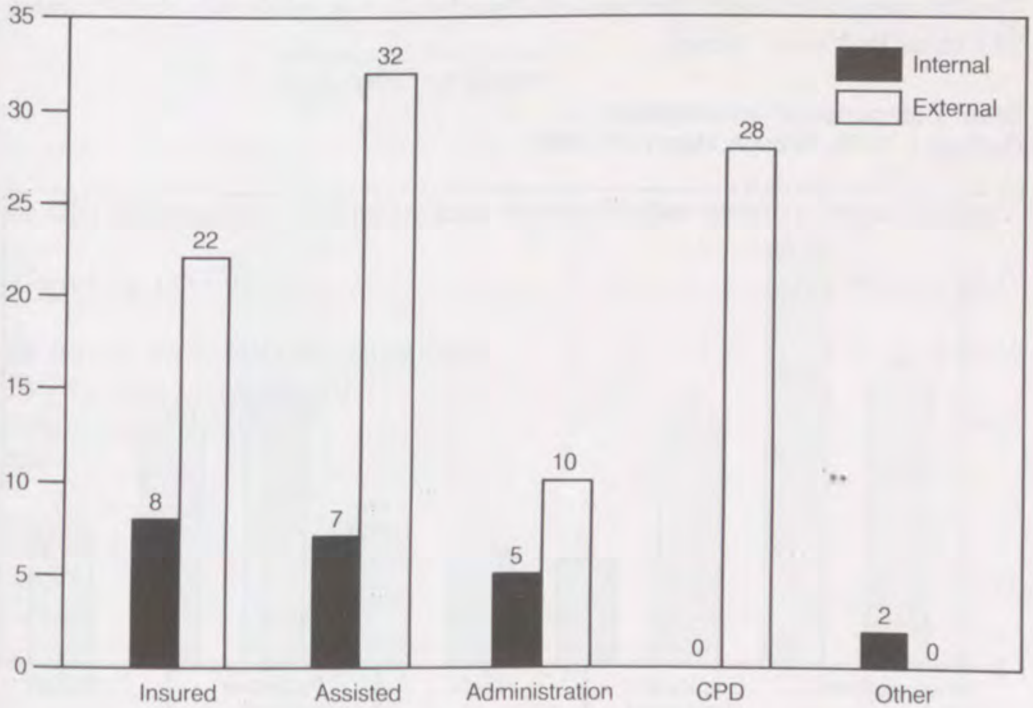
Audit Resources and Results

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

Audit Staff Time By Program Area and Type of Audit
October 1, 1989, through March 31, 1990



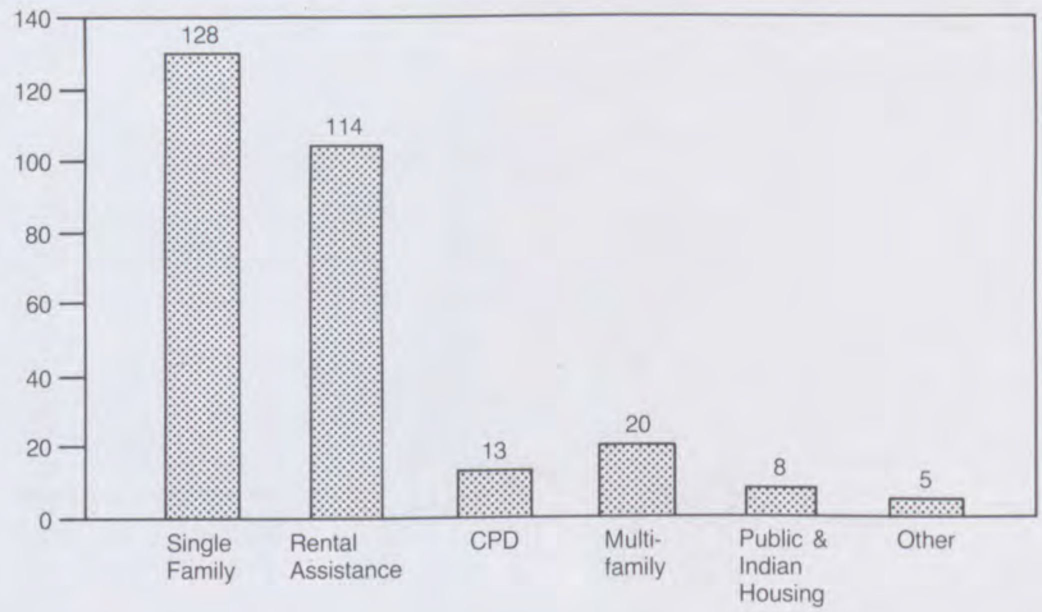
Audit Reports Issued By Program Area and Type of Audit
October 1, 1989, through March 31, 1990



Investigation Cases Opened

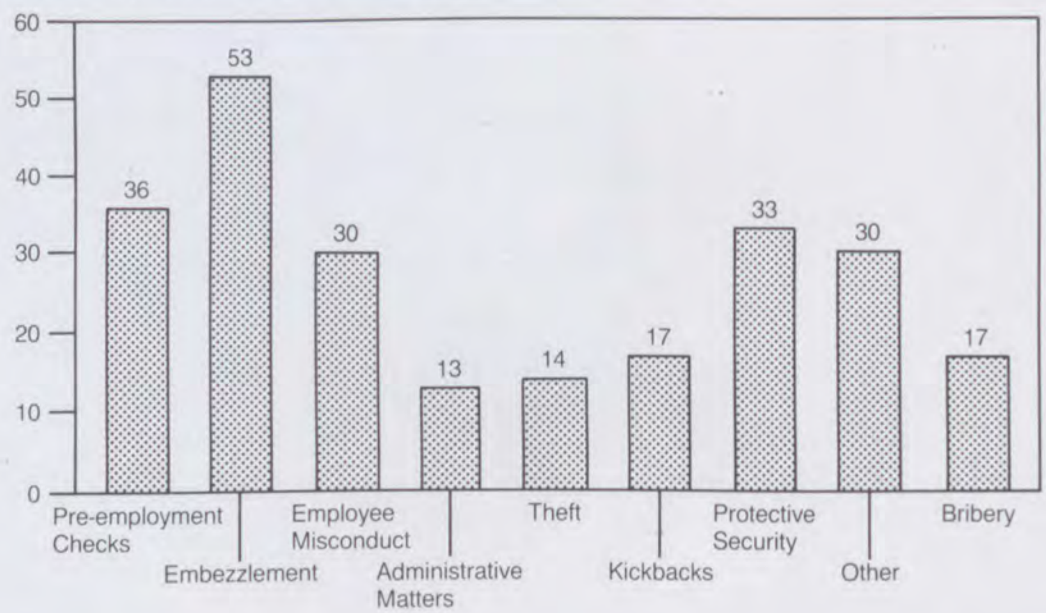
The following tables break down the 531 investigation cases opened during the last 6 months. Of these cases, 288 involved false statement violations as shown below.

False Statement Investigation Cases Opened
October 1, 1989, through March 31, 1990



The following table depicts the types of alleged violations involved in the remaining 243 cases that were opened.

Other Categories of Investigation
October 1, 1989, through March 31, 1990



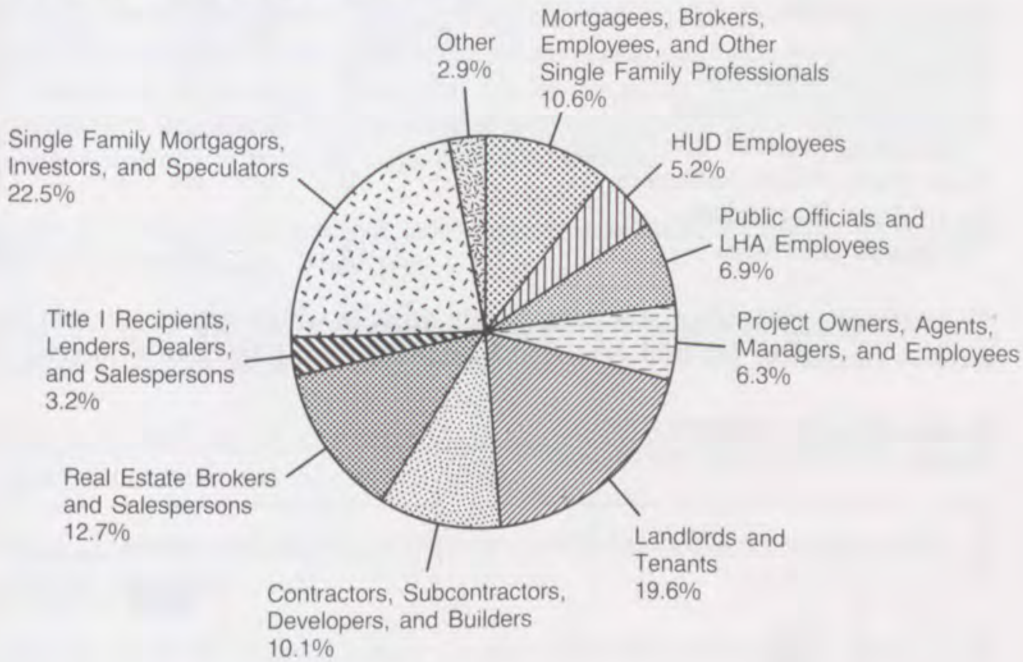
Pending Cases

As of March 31, 1990, we had 1,751 investigation cases in process or awaiting investigation. Of these, 822 were FBI/other cases, 708 were cases of the OIG, and 221 were OIG-completed cases pending with the U.S. Attorney.

Closed Cases

The OIG closed 411 investigation cases during the reporting period, involving 347 individuals and firms. The following graph represents a breakdown of the subjects.

Distribution of Subjects of Investigation by Category
October 1, 1989, through March 31, 1990



Investigation Cases Referred for Prosecution

The OIG referred 138 investigation cases for prosecutive consideration as follows:

Referred by OIG to:	No. of Cases
FBI (Prima Facie-OIG Investigation)	54
FBI (No OIG Investigation)	1
Department of Justice	72
Other	111
Total	238

Prosecutions and Recoveries

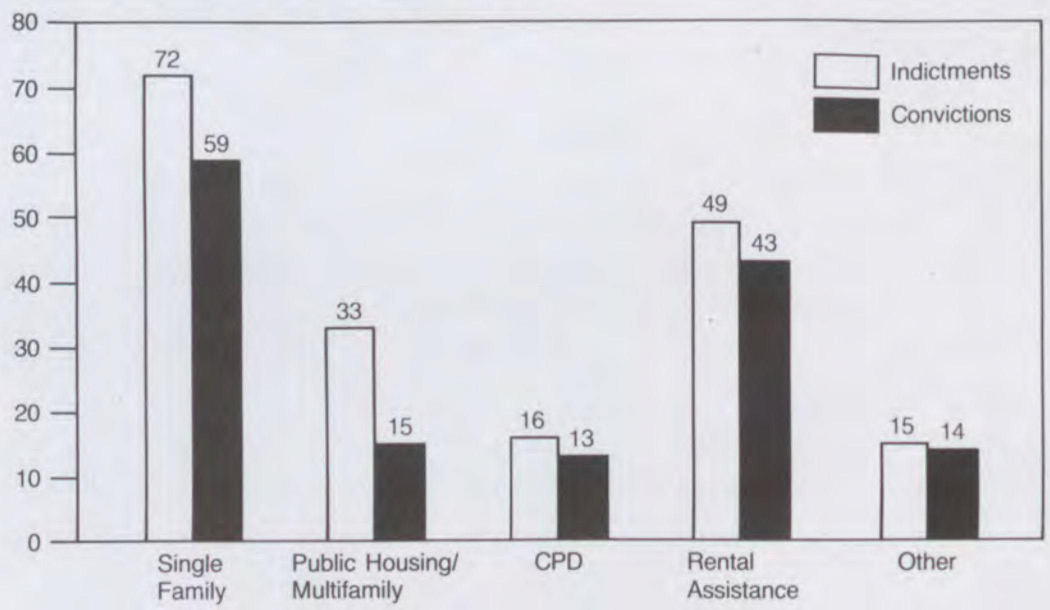
The OIG conducts investigations alone and jointly with other investigative agencies. In addition, the OIG refers cases to other Federal, State, and local agencies, and monitors investigations and prosecutions by these agencies without providing significant investigative assistance. The following table summarizes the results achieved through investigations involving HUD programs in the six-month reporting period through March 31, 1990.

	OIG/Joint Cases	Others Alone	Total
Cash Recoveries	$4,763,098	$702,069	$5,465,167
Total Fines	$278,885	$36,824	$315,709
Persons/Firms Indicted	128	57	185
Persons/Firms Convicted (Including pre-trial diversions)	113	31	144
Total Years Prison Sentences	90	21	111
Total Years Suspended/ Probated Sentences	318	102	420

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

Prosecutions by Program Area

October 1, 1989, through March 31, 1990



Chapter 8

AUDIT FOLLOW-UP

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

Secretary Kemp has placed a high priority on reaching timely decisions on audit recommendations and ensuring that those recommendations that management agrees to implement are acted on promptly. Under Secretary Al Dellibovi has been designated as the official with the overall responsibility for reporting to Congress on management's actions on audit recommendations.

On the following pages are four tables which summarize the major outstanding audit recommendations. They are:

Table A: Audit Reports Issued Prior to Start of Period with No Management decision at March 31, 1990.

Table B: Significant Audit Reports Described in Previous Semiannual Reports without Final Action at March 31, 1990.

Table C: Inspector General Issued Reports with Questioned and Unsupported Costs at March 31, 1990.

Table D: Inspector General Issued Reports with Recommendations that Funds Be Put to Better Use at March 31, 1990.

In addition, there is one significant audit we performed that the Department has taken action on and which we wish to report.

Resident Management and Homeownership Programs

In our last Semiannual Report to Congress, we reported on our audit of HUD's Public Housing Resident Management and Homeownership Programs. HUD management was very receptive to our report and agreed to take corrective actions on all 31 recommendations. A formal action plan was developed and is in the process of being implemented.

Some of the actions taken by the Office of Public and Indian Housing include:

- Developing a long-range program evaluation agenda.
- Intensifying training efforts.
- Enhancing technical assistance efforts.

- Formalizing the roles of the Field Office Resident Initiatives Coordinators.

- Providing for a resident initiatives mandate in the Department's Fiscal Year 1990 Management Plan.

- Developing and proposing new funding methods to expedite public housing homeownership assistance.

In addition, the Department's Homeownership and Opportunity for People Everywhere (HOPE) legislative proposal provides for eliminating the statutory sunset provision for purchases of public housing properties by eligible resident management corporations (RMC's). The statutory provision permitting RMC's to purchase public housing properties is due to expire on September 30, 1990. HOPE also seeks to modify the current statutory one-for-one replacement provision whereby a public housing agency is required to replace each unit purchased by an RMC.

AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH NO MANAGEMENT DECISION AT 3/31/90

Table A

Report Number	Report Title	Issue Date	Reason for Lack of Management Decision	Target Date for Management Decision
86SE1003	Seattle Housing Authority - Tenant Utility Allowances Seattle WA	02/21/86	A decision was deferred pending the outcome of a similiar case. The report is being referred to the Under Secretary for a decision.	6/1/90
88NY1011	Community Development Block Grant Program Albany NY	03/31/88	Discussions between OIG and CPD Headquarters staff have resulted in an impasse. Referral to the Under Secretary for a decision is being prepared.	6/1/90
89CH1024	Community Development Block Grant Program and Urban Development Action Grant Program Muskegon MI	08/11/89	Discussions between Regional OIG staff and the action office have resulted in an impasse. The matter is under review in Headquarters.	6/1/90
89TS1013	MidFirst Mortgage Company - Nonsupervised Mortgagee San Antonio TX	08/18/89	The Mortgagee Review Board is negotiating a settlement with MidFirst and its affiliates.	5/25/90
89TS0006	Handling of Proceeds from the Sale of Single Family Properties	08/25/89	Discussions between OIG and program staff have not led to a corrective action plan.	8/17/90
89TS0007	Anchorage Office's Administration of Development Activities in Alaska Mutual Help Program	08/29/89	OIG and program staff have not agreed on what is needed to implement two recommendations. They will be referred to the Under Secretary for a decision if no agreement is reached by May 15.	6/15/90
89PH1017	Dickey Hill Forest Apartments - Housing Development Grant Baltimore MD	09/29/89	Management's proposed actions are under review by OIG.	4/30/90

Table B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WITHOUT FINAL ACTION AT 3/31/90

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
82CH1062	Yellowbird Limited - Multifamily Mortgage Insurance Program Section 221d(4) Xenia OH	05/19/82	09/29/82	09/30/90
83CH1028	Mid-Towne Apartments - Multifamily Mortgage Insurance Program Section 236 Cincinnati OH	02/23/83	06/28/83	08/31/90
83CH1051	Detroit Housing Department - Public Housing Agency Activities Detroit MI	08/26/83	11/15/84	12/31/93
84BO1009	Barbour-Waverly Cooperative Apartments (formerly Chappelle Gardens) Hartford CT	02/28/84	06/25/84	09/30/90
84AT1021	Housing Authority of the City of Winston-Salem Section 8 Moderate Rehabilitation Program Winston-Salem NC	04/18/84	07/20/84	01/31/97
84PH1020	Property Management Administration - Low-Income Housing Program Washington DC	08/17/84	11/20/86	09/30/90
84TS0015	Use of Escrow Accounts by Community Development Block Grant Recipients	09/07/84	08/11/86	09/30/90
84BO0004	Monitoring of Projects Closed under Section 213 Early Closeout Procedures Boston and Manchester Offices	09/21/84	12/10/84	07/31/90
85NY1002	Metro Interfaith Management Corporation - Management Agent Binghamton NY	10/23/84	02/06/85	04/01/92
85CH1006	Yellowbird, Limited - Multifamily Mortgage Insurance Program Xenia OH	01/18/85	05/17/85	09/30/90
85PH1004	Community Development Block Grant Program Charleston WV	01/25/85	07/25/85	11/01/91

Table B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WITHOUT FINAL ACTION AT 3/31/90

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
85CH1008	Cedar Square West Apartments – Multifamily Mortgage Insurance Program – Sections 220 And 236 Minneapolis MN	02/28/85	07/09/85	05/31/90
85SF1008	Community Development Commission – Section 8 Moderate Rehabilitation Program Los Angeles County CA	03/11/85	06/26/85	06/30/90
85BO1011	Community Development Block Grant – Discretionary Marlborough MA	05/16/85	09/10/85	12/31/90
85AT1018	Elizabethton Housing And Development Agency, Inc. – Section 8 Moderate Rehabilitation Program Elizabethton TN	06/05/85	09/13/85	07/02/90
85CH1017	Promex Midwest Management Corporation – Multifamily Mortgage Insurance Program Des Plaines IL	09/19/85	12/04/85	12/31/90
86SF1005	Western Group – Management Agent Fresno CA	12/17/85	03/25/86	10/15/92
86NY1019	Salem Housing Authority – Urban Development Action Grant Salem NJ	01/21/86	05/05/86	07/31/90
86KC1005	Hidden Valley Estates – Multifamily Mortgagor Operations Wentzville MO	02/19/86	10/01/87	12/31/90
86SE1003	Seattle Housing Authority – Tenant Utility Allowances Seattle WA	02/21/86	1	
86PH1003	Urban Redevelopment Authority of Pittsburgh – Community Development Block Grant Program Pittsburgh PA	02/26/86	09/17/86	05/31/90
86FW1003	Urban Development Action Grant Program Stilwell OK	02/27/86	06/26/86	09/30/90
86TS0010	Title I Property Improvement Loan Insurance Program (Dealer Loans)	02/28/86	09/18/89	04/30/90

[1]No Management Decision. Decision expected by 06/01/90.

Table B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WITHOUT FINAL ACTION AT 3/31/90

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
86BO1005	New Haven Housing Authority – Low-Income Housing Program New Haven CT	03/27/86	07/25/86	10/20/91
86TS0011	Development Project Il-06-P002-103 Chicago Housing Authority	03/27/86	07/25/86	06/30/90
86TS0012	Title X Mortgage Insurance for Land Development Program	03/31/86	06/29/88	06/30/90
86KC1008	St. Louis Community Development Agency - Jobs Bill St. Louis MO	04/24/86	02/04/88	09/30/90
86NY1029	Cupey Hospital And Nursing Home – Property Disposition San Juan Municipio PR	05/06/86	09/03/86	04/30/91
86SF1019	Los Angeles City Housing Authority - Section 8 Existing Housing Program Los Angeles CA	07/11/86	03/02/88	03/31/92
86AO0006	Community Planning and Development Technical Assistance Program	08/15/86	02/10/89	12/31/90
87NY1014	Dayton Operating Company - Management Agent New York NY	11/20/86	08/04/87	04/15/91
87SF1002	Concord Senior Housing Foundation - Section 202 Direct Loan Program for Elderly and Handicapped Pasadena CA	11/21/86	01/14/87	06/30/90
87FW1002	Calvary Arms Apartments – Multifamily Mortgage Insurance Program Dallas TX	12/12/86	04/07/87	02/07/91
87PH1002	Maryland Community Development Administration - Section 8 New Construction and Substantial Rehabilitation Program Annapolis MD	12/22/86	03/17/89	07/31/90
87SF0001	Section 8 Special Claims San Francisco Office	03/13/87	11/16/87	03/31/96
87CH1007	Detroit Housing Department – Low-Rent Housing Program Detroit MI	03/24/87	01/24/89	12/31/93

Table B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WITHOUT FINAL ACTION AT 3/31/90

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
87BO1012	Franklin Park Developments I and II – Multifamily Mortgagor Operations Boston MA	03/31/87	04/12/88	08/20/90
87CH0002	Section 8 Housing Assistance Payments Program – Special Claims Loan Management Branch	03/31/87	08/31/87	05/01/90
83NY1051	Cupey Baja Nursing Home – Mortgagor Operations San Juan Municipio PR	06/01/87	08/10/89	08/01/90
87SF1009	G and K Management Company – Multifamily Management Agent Culver City CA	06/25/87	10/16/87	05/31/90
87FW1004	Willow Tree Apartments – Multifamily Mortgagor Operations Grand Prairie TX	09/18/87	10/27/87	06/30/90
87SE1007	Cook Inlet Housing Authority – Low-Rent Housing and Mutual Help Programs Anchorage City AK	09/29/87	09/30/89	09/30/90
88AO0801	More of HUD's Appropration Could be Financed from User Fees	12/01/87	04/04/89	4
88NY1006	County of Nassau – Community Development Block Grant Program Mineola NY	12/18/87	05/22/89	09/30/90
88FW1004	North Little Rock Community Development Agency Rental Rehabilitation Program North Little Rock AR	02/08/88	05/24/88	07/15/90
88NY1009	Municipality of Caguas – Community Development Block Grant Program Caguas Municipio PR	02/09/88	07/11/88	10/01/92
88AO0002	HUD's Distributive Shares/One-Time Mortgage Insurance Premium Refund Payment Process	03/03/88	09/14/88	11/30/90
88TS0005	Repairs and Rent Increases on Multifamily Projects in HUD Possession	03/15/88	09/26/88	09/30/90

[4]Management did not meet target date. Management decision is less than 1 year old.

Table B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WITHOUT FINAL ACTION AT 3/31/90

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
88PH1006	Philadelphia Housing Authority – Procurement Activities Philadelphia PA	03/25/88	09/20/89	09/30/90
88TS0007	Section 8 New Construction and Substantial Rehabilitation Program and other Related Activities of State Housing Finance Agencies	03/29/88	04/10/89	4
88NY1011	Community Development Block Grant Program Albany NY	03/31/88	1	
88AO1005	Holland Consulting, Inc. Livonia MI	06/17/88	03/11/89	09/15/90
88TS0009	HUD's Accounting for and Control over the Acquisition and Sale of Single Family Properties	06/24/88	06/24/88	03/26/91
88FW1017	East Baton Rouge Parish Housing Authority – Low-Rent Housing and Section 8 Existing Programs Baton Rouge LA	06/29/88	03/21/89	09/14/90
88TS0012	Review of the Title I Manufactured Home Loan Program	08/29/88	05/23/89	4
88TS0013	Review of Economic Development and Public Facility Grants in State Community Development Block Grant Program	08/29/88	01/23/89	01/01/91
88BO1030	Lynn Housing Authority – Section 8 Moderate Rehabilitation Program Lynn MA	09/09/88	09/30/89	05/18/90
88FW1019	San Benito Housing Authority – Low-Rent Housing and Section 8 Existing Programs San Benito TX	09/09/88	11/21/88	05/31/90
88SF1013	Urban Development Action Grant Compton CA	09/19/88	03/09/89	03/08/91
88NY1803	Atlantic City Housing Authority – Limited Review of Low-Income Housing Program Atlantic City NJ	09/28/88	09/06/89	05/31/90

[1]No Management Decision. Decision expected by 06/01/90.

[4]Management did not meet target date. Management decision is less than 1 year old.

Table B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WITHOUT FINAL ACTION AT 3/31/90

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
88SF1016	San Diego Housing Commission – Section 8 Moderate Rehabilitation Program San Diego CA	09/30/88	09/30/89	09/30/90
89PH1003	Executive House – Multifamily Housing Program Philadelphia PA	10/28/88	08/03/89	08/02/90
89NY0001	Flexible Subsidy Program	11/15/88	09/27/89	10/31/90
89TS0002	Section 223(f) Coinsurance Program	12/09/88	05/04/89	4
89BO1005	Housing Innovations, Inc. – Mortgagor Operations Boston MA	12/20/88	03/10/89	06/30/90
89AT1009	Community Development Block Grant Program Biloxi MS	01/11/89	03/31/89	09/01/90
89AT1010	Cumberland Cove Apartments – Multifamily Mortgagor Operations Raleigh NC	01/13/89	06/16/89	05/31/90
89SF1004	Las Vegas Housing Authority – Low-Income Housing Program Las Vegas NV	01/20/89	07/18/89	07/18/90
89FW1003	King's Cove Apartments – Section 207 HUD-Insured Mortgage Moore OK	02/16/89	07/05/89	12/31/90
89CH1008	Clintonville Housing Authority – Low-Rent Housing Program and Comprehensive Improvement Assistance Program Clintonville WI	02/24/89	06/23/89	06/22/90
89SE1002	Continental Ventures Realty – Area Management Broker Wasilla AK	03/03/89	08/07/89	06/30/90
89TS1005	Benton Mortgage Company – HUD-Approved Coinsurance Lender Knoxville TN	03/20/89	09/30/89	4

[4]Management did not meet target date. Management decision is less than 1 year old.

Table B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WITHOUT FINAL ACTION AT 3/31/90

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
89FW0001	Regional Accounting Division and Selected Program Areas Fort Worth Regional Office	03/31/89	07/28/89	05/31/90
89PH1011	Community Development Block Grant Program - Subrecipient Monitoring Washington DC	03/31/89	09/20/89	08/31/90
89TS0004	Evaluation of Community Housing Resource Boards Program	03/31/89	01/31/90	07/31/90
89AO0007	Limited Review of Procurement of Mortgage Backed Securities Program	04/11/89	03/30/90	04/30/90
89KC1010	Community Planning and Development Program - Underwriting and Rehabilitation of Two Projects Davenport IA	04/19/89	08/11/89	07/01/90
89TS0005	Section 8 Moderate Rehabilitation Program	04/26/89	09/29/89	[4]
89AT1023	Cypress Mill Plantation - Multifamily Mortgagor Development Brunswick GA	05/19/89	03/09/90	06/30/90
89BO1023	Bristol Housing Authority - Comprehensive Improvement Assistance Program Bristol CT	06/13/89	10/13/89	[4]
89SF1009	Reno Housing Authority - Section 8 Moderate Rehabilitation Program Reno NV	06/20/89	10/25/89	10/25/90
89AT1026	Urban Development Action Grant Program Riviera Beach FL	07/03/89	07/03/89	12/14/90
89TS1007	Housing Authority of Tulsa - Section 8 Moderate Rehabilitation Program Tulsa, Oklahoma	07/11/89	09/30/89	[4]
89PH1013	Community Development Block Grant Program - Subrecipient Activities Philadelphia PA	07/17/89	01/12/90	01/07/91
89CH1021	Community Development Block Grant Program - Residential Rehabilitation Activities Chicago IL	07/21/89	02/05/90	02/04/91

[4]Management did not meet target date. Management decision is less than 1 year old.

Table B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WITHOUT FINAL ACTION AT 3/31/90

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
89TS1009	Gastonia Housing Authority – Section 8 Moderate Rehabilitation Program Gastonia NC	07/24/89	09/30/89	4
89FW1009	Crowley Housing Authority – Comprehensive Improvement Assistance Program Crowley LA	08/29/89	01/24/90	08/01/90
89TS0007	Anchorage Office's Administration of Development Activities in Alaska Mutual Help Program	08/29/89	2	
89TS1014	Housing Authority of the City and County of Denver – Section 8 Moderate Rehabilitation Program Denver CO	09/05/89	09/30/89	4
89TS0009	HUD System for Establishing FMRS and Approving Exception Rents in the Section 8 Program	09/26/89	03/30/90	09/30/90
89NY1029	Bergen County – Community Development Block Grant Program Bergen County NJ	09/29/89	01/23/90	09/30/90
89PH1017	Dickey Hill Forest Apartments – Housing Development Grant Baltimore MD	09/29/89	3	
90TS1001	San Antonio Housing Authority San Antonio TX	10/03/89	03/14/90	09/16/90
90TS1002	Colorado Housing and Finance Authority – Section 8 Moderate Rehabilitation Program Denver CO	10/12/89	5	
90AO0002	Review of HUD's Consolidated Supply Program	10/18/89	5	
90TS0002	Payment of One-Time Mortgage Insurance Premiums	10/19/89	5	
90TS0004	Management of HUD's Assigned Single Family Inventory	10/30/89	5	

[2]No Management Decision. Decision expected by 06/15/90.

[3]No Management Decision. Decision expected by 04/30/90.

[4]Management did not meet target date. Management decision is less than 1 year old.

[5]Under 6 months old, no management decision due.

Table C

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED AND UNSUPPORTED COSTS AT 3/31/90

(Dollar values 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	77	$ 54,611	$22,802
B. Which were issued during the reporting period	122	$ 70,389	$38,829
Subtotals (A+B)	199	$125,000	$61,631
C. For which a management decision was made during the reporting period	127[1]	$ 74,088	$36,622
(1) Dollar value of disallowed costs:			
Due HUD	47[2]	$ 10,739	$ 1,535
Due Program Participants	63	$ 50,734	$25,177
(2) Dollar value of costs not disallowed	41[3]	$ 12,615	$ 9,910
D. For which no management decision had been made by the end of the reporting period	72	$ 50,912	$25,009

[1]Includes 3 audit reports for which litigation, legislation, or investigation is pending.

[2]Two audit reports also contain recommendations with funds due program participants.

[3]22 audit reports also contain recommendations with funds disallowed.

Table D

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE AT 3/31/90

	Number of Audit Reports	Dollar Value (In Thousands)
A. For which no management decision had been made by the commencement of the reporting period	22	$16,042
B. Which were issued during the reporting period	23	$68,455
Subtotals (A+B)	45	$84,497
C. For which a management decision was made during the reporting period	28[1]	$17,293
(1) Dollar value of recommendations that were agreed to by management:		
Due HUD	21[2]	$ 4,171
Due Program Participants	7	$12,154
(2) Dollar value of recommendations that were not agreed to by management	6[3]	$ 968
D. For which no management decision had been made by the end of the reporting period	17	$67,204

[1]Includes one audit report for which litigation, legislation, or investigation is pending.
[2]One audit report also contains recommendations with funds due program participant.
[3]Five audit reports contain recommendations with funds agreed to by management.

Appendix 1

AUDIT REPORTS ISSUED

The Inspector General Act of 1978 requires the listing 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 reporting the dollar value of questioned costs and the dollar value of recommendations that funds be put to better use.

The tables on the following pages list our reports and dollar values.

Appendix 1
INTERNAL AUDIT REPORTS ISSUED

Report Number	Issue Date	Report Title	Questioned Costs Total	Questioned Costs Unsupported	Funds to be Put to Better Use
HOUSING					
90-AT-119-0001	11/03/89	Mortgage Insurance for Retirement Service Centers Atlanta Regional Office Greensboro and Jacksonville Offices			
90-BO-101-0001	01/08/90	Comprehensive Improvement Assistance Program – Approval for Tenant Training Providence Office	$10,000		
90-BO-109-0002	03/19/90	Effectiveness of the Consolidated Supply Program Boston Regional Office Hartford, Manchester and Providence Offices	$1,050,110	$1,014,983	$50,361
90-CH-111-0001	12/29/89	Housing Quality Standards Violations at Danbury Park Manor Loan Management Branch Detroit Office			
90-DE-123-0001	03/14/90	Follow-up Review of Closing Agent Activity – Property Disposition Branch Denver Regional Office			
90-FW-123-0001	12/18/89	Monitoring and Control Over Closing Agent Activity – Property Disposition Branch New Orleans Office	$506,280	$489,744	
90-FW-123-0002	01/05/90	Monitoring of Closing Agent Activity – Property Disposition Branch Houston Office	$26,454	$20,316	
90-SF-123-0001	11/09/89	Monitoring of Closing Agents – Property Disposition Branch Los Angeles Office			
90-SF-109-0002	03/19/90	Effectiveness of HUD's Consolidated Supply Program San Francisco Regional Office Los Angeles Office			
90-TS-103-0001	10/03/89	Section 8 Existing Housing Program – Funding Allocation			

Appendix 1
INTERNAL AUDIT REPORTS ISSUED

Report Number	Issue Date	Report Title	Questioned Costs Total	Questioned Costs Unsupported	Funds to be Put to Better Use
90-TS-121-0002	10/19/89	Payment of One-Time Mortgage Insurance Premiums Atlanta, Chicago, Denver, Fort Worth and San Francisco Regional Offices			
90-TS-101-0003	10/24/89	Public Housing Resident Management and Homeownership Programs			
90-TS-121-0004	10/30/89	Management of HUD's Assigned Single Family Inventory Chicago and San Francisco Regional Offices Detroit and Tulsa Offices			
90-TS-103-0005	11/21/89	Housing Vouchers Phase II – PHA Compliance with Processing Requirements and Use of Voucher Authority			
90-TS-101-0006	02/23/90	Public Housing Agency Decontrol Program Philadelphia Regional Office			
ADMINISTRATION					
90-AA-166-0001	11/06/89	Controls Over Electronic Funds Transfer - Three Payment Systems			
90-AA-166-0002	11/06/89	Access Controls for the Martin Marietta Data Systems Computer Facility			
90-AO-169-0002	10/18/89	Consolidated Supply Program			
90-AO-169-0004	03/21/90	Audit of Time and Attendance Function HUD Headquarters			
90-CH-162-0002	02/07/90	Accountability Over Imprest Funds Chicago Regional Office			$626
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION					
90-AO-171-0001	10/04/89	Procedures for Issuer Monitoring			
90-AO-171-0003	11/22/89	Government National Mortgage Association's Office of Asset Management			

Appendix 1
EXTERNAL AUDIT REPORTS ISSUED

Report Number	Issue Date	Report Title	Questioned Costs Total	Questioned Costs Unsupported	Funds to be Put to Better Use
HOUSING					
90-AT-202-1005	01/26/90	Housing Authority of Biloxi Biloxi MS	$610		$53,200
90-AT-212-1006	01/30/90	Goodwill Village, Ltd. – Multifamily Mortgagor Operations Memphis TN	$63,682		
90-AT-229-1007	02/07/90	U.S. Shelter Properties – Single Family Housing – Audit of Income South Carolina	$4,355,973	$32,720	$758,717
90-BO-202-1001	10/20/89	Lynn Housing Authority – Comprehensive Improvement Assistance Program Lynn MA	$168,418	$69,983	$4,203
90-BO-204-1002	11/07/89	Holyoke Housing Authority Comprehensive Improvement Assistance Program Holyoke MA	$384,412	$380,388	
90-BO-212-1003	11/30/89	Clipper Associates – Mortgagor Operations Quincy MA	$1,808,663	$1,500,000	
90-BO-202-1004	12/08/89	Meriden Housing Authority – Comprehensive Improvement Assistance Program Meriden CT	$218,037	$194,235	
90-BO-212-1006	12/28/89	ETC Developers, Inc. – Multifamily Mortgagor Operations Boston MA	$269,902	$269,902	
90-CH-221-1001	10/11/89	Margaretten and Company – Single Family Mortgage Insurance Program Merrillville IN			
90-CH-202-1002	10/20/89	Madison County Housing Authority Low-Income Housing Program Collinsville IL	$58,166	$40,199	

Appendix 1
EXTERNAL AUDIT REPORTS ISSUED

Report Number	Issue Date	Report Title	Questioned Costs Total	Questioned Costs Unsupported	Funds to be Put to Better Use
90-CH-221-1003	11/01/89	The Sanders Home Corporation – Single Family Property Disposition Program Akron OH			
90-CH-209-1005	12/20/89	Ecorse Housing Commission – Safeguarding of Monetary Assets Ecorse MI			
90-CH-219-1006	01/22/90	New Center Hospital – Multifamily Mortgagor Operations Detroit MI	$3,004,638	$2,992,267	
90-CH-211-1007	02/09/90	Anglin Extended Care Center – Multifamily Mortgagor Cost Audit Detroit MI			$80,100
90-CH-202-1008	03/16/90	Ann Arbor Housing Commission – Low-Income Housing Program – Turnkey Homebuyers Homeownership Program Ann Arbor MI			
90-CH-203-1009	03/28/90	DAC Associates – Section 8 Housing Assistance Program for the Disposition of HUD-Owned Properties Cincinnati OH			
90-DE-203-1007	02/23/90	Colorado Springs Housing Authority – Section 8 Voucher Program Colorado Springs CO	$6,968		
90-DE-209-1008	02/23/90	Fort Collins Housing Authority – Control of Cash and Other Monetary Assets Fort Collins CO			
90-FW-202-1001	02/02/90	Blytheville Housing Authority – Low-Income Housing Program Blytheville AR			
90-FW-202-1002	02/15/90	Westwego Housing Authority – Low-Income Housing Program Westwego LA	$5,013	$5,013	

Appendix 1
EXTERNAL AUDIT REPORTS ISSUED

Report Number	Issue Date	Report Title	Questioned Costs Total	Questioned Costs Unsupported	Funds to be Put to Better Use
90-FW-211-1003	02/15/90	Blair Construction, Inc. – Contractor Cost Certification for Senior Citizens Housing of Moore Moore OK	$80,790	$20,810	
90-KC-209-1001	10/20/89	Cochran Resident Management Corporation – Survey of Resident Management Activities St. Louis MO			
90-KC-202-1003	12/15/89	Gideon Housing Authority – Low-Rent Housing Program – Accounting Controls for Safeguarding Assets Gideon MO	$13,000		
90-KC-212-1004	02/16/90	Rosedale Ridge Apartments – Multifamily Mortgagor Operations Kansas City KS	$768,000	$422,600	
90-KC-202-1005	03/09/90	Junction City Housing Authority Accounting Controls for Safeguarding Cash and Other Assets Junction City KS	$25,457		
90-NY-209-1010	10/23/89	285 Development Corporation – Multifamily Mortgage Insurance Program New York NY			
90-NY-209-1021	01/10/90	Bleecker Terrace Apartments – Housing Develoment Grant Program Albany NY	$461,566	$64,569	
90-NY-204-1022	01/19/90	Passaic Housing Authority – Comprehensive Improvement Assistance Program Passaic NJ	$1,134,262	$180,136	$546,000
90-PH-202-1001	11/17/89	Bluefield Housing Authority Bluefield WV	$106,279	$10,462	$15,288
90-PH-202-1002	11/29/89	Schuylkill County Housing Authority Pottsville PA	$5,231		

Appendix 1
EXTERNAL AUDIT REPORTS ISSUED

Report Number	Issue Date	Report Title	Questioned Costs Total	Questioned Costs Unsupported	Funds to be Put to Better Use
90-PH-212-1003	12/14/89	Tall Trees Garden Apartments – Multifamily Mortgagor Operations Dunmore PA	$4,308		
90-PH-209-1004	12/20/89	Department of Public and Assisted Housing – Comprehensive Improvement Assistance Program Washington DC	$982,811	$736,212	$8,860,497
90-PH-212-1005	02/23/90	Pennsylvania Housing Finance Agency – Section 8 New Construction Program – Village at Somerset Somerset PA	$405,605		
90-PH-214-1006	02/28/90	Health Care Medical Facilities Corporation – Management Agent Activities Blacksburg VA			
90-PH-203-1007	03/12/90	Montgomery County Housing Authority – Section 8 Housing Voucher Program Norristown PA			
90-PH-204-1008	03/14/90	Johnstown Housing Authority Johnstown PA	$129,436		
90-PH-212-1009	03/30/90	Bristol House – Multifamily Mortgagor Operations Bristol VA	$504,290	$131,727	
90-SE-204-1001	12/05/89	Housing Authority of Portland Safeguarding of Assets Portland OR			
90-SE-212-1003	02/16/90	Wood River Park Apartments – Multifamily Mortgagor Operations Eagle River AK	$305,967	$231,546	
90-SF-214-1001	11/15/89	Diversified Property Services – Multifamily Management Agent Oakland CA	$74,702	$46,828	
90-SF-212-1003	01/30/90	Loren Miller Homes – Multifamily Mortgagor Operations San Francisco CA	$68,075	$20,106	

Appendix 1
EXTERNAL AUDIT REPORTS ISSUED

Report Number	Issue Date	Report Title	Questioned Costs Total	Questioned Costs Unsupported	Funds to be Put to Better Use
90-SF-202-1004	02/20/90	Round Valley Indian Housing Authority - Internal Controls Over Monetary Assets Covelo CA			
90-SF-202-1005	03/06/90	County of Merced Housing Authority - Safeguarding of Assets Merced CA	$15,804		$15,804
90-TS-201-1001	10/03/89	San Antonio Housing Authority San Antonio TX	$4,801,214	$4,716,953	
90-TS-203-1002	10/12/89	Colorado Housing and Finance Authority - Section 8 Moderate Rehabilitation Program Denver CO	$283,499	$43,799	$208,404
90-TS-203-1003	11/16/89	Columbia Housing Authority - Section 8 Moderate Rehabilitation Program Columbia SC	$195,311		$333,540
90-TS-221-1004	12/21/89	First Union Mortgage Corporation Nonsupervised Mortgagee Mesa AZ			
90-TS-203-1005	01/05/90	Arlington Housing Authority - Section 8 Moderate Rehabilitation Program Arlington TX	$247,765	$247,765	$215,448
90-TS-221-1006	01/16/90	CityFed Mortgage Company - Nonsupervised Mortgagee Nashville-Davidson TN	$860,360		
90-TS-203-1007	01/19/90	Dade County Department of Special Housing Programs Dade County FL	$65,479		$127,704
90-TS-221-1008	02/06/90	Mortgage and Trust, Inc. Austin TX			
90-TS-221-1009	03/07/90	Fleet Mortgage Corp. - Nonsupervised Mortgagee Indianapolis IN			

Appendix 1
EXTERNAL AUDIT REPORTS ISSUED

Report Number	Issue Date	Report Title	Questioned Costs Total	Questioned Costs Unsupported	Funds to be Put to Better Use
90-TS-203-1010	03/09/90	Maryland Community Development Administration – Section 8 Moderate Rehabilitation Program Annapolis MD			
90-TS-221-1011	03/14/90	American Residential Mortgage Corporation – Nonsupervised Mortgagee Phoenix AZ			
		2030 reports prepared by Independent Auditors and other Federal Agencies	$7,187,380	$7,038,474	
COMMUNITY PLANNING AND DEVELOPMENT					
90-AT-248-1001	11/28/89	Accounting System Evaluation Ducktown TN			
90-AT-248-1002	11/28/89	Accounting System Evaluation Adamsville TN			
90-AT-248-1003	11/28/89	Accounting System Evaluation Brownsville TN			
90-AT-241-1008	03/09/90	Community Development Block Grant Program – Use of Program Income Atlanta GA	$5,298,632		
90-BO-241-1005	12/27/89	Community Development Block Grant Program – Program Income and Miscellaneous Revenue Providence RI			
90-BO-259-1007	01/16/90	Paul Parks and Associates, Inc. Final Cost Audit Boston MA	$89,144	$89,144	
90-CH-241-1004	12/08/89	Community Development Block Grant Program Pontiac MI	$2,356,925	$1,923,400	
90-KC-249-1002	11/16/89	St. Louis Community Development Agency – Program Income and Miscellaneous Revenue St. Louis MO	$36,909	$13,582	

Appendix 1
EXTERNAL AUDIT REPORTS ISSUED

Report Number	Issue Date	Report Title	Questioned Costs Total	Questioned Costs Unsupported	Funds to be Put to Better Use
90-NY-248-1001	10/12/89	Accounting System Evaluation Athens NY			
90-NY-248-1002	10/12/89	Accounting System Evaluation Coxsackie NY			
90-NY-248-1003	10/12/89	Accounting System Evaluation Greenwich NY			
90-NY-248-1004	10/12/89	Accounting System Evaluation Kiryas Joel NY			
90-NY-248-1005	10/18/89	Accounting System Evaluation Lake Placid NY			
90-NY-248-1006	10/18/89	Accounting System Evaluation Ticonderoga NY			
90-NY-248-1007	10/18/89	Accounting System Evaluation Cambridge NY			
90-NY-248-1008	10/18/89	Accounting System Evaluation Malone NY			
90-NY-248-1009	10/18/89	Accounting System Evaluation Marlborough NY			
90-NY-248-1011	10/26/89	Accounting System Evaluation Fleischmanns NY			
90-NY-248-1012	10/26/89	Accounting System Evaluation Norwich NY			
90-NY-248-1013	10/26/89	Accounting System Evaluation Salisbury NY			
90-NY-248-1014	10/26/89	Accounting System Evaluation Norway NY			
90-NY-248-1015	10/31/89	Accounting System Evaluation Hobart NY			
90-NY-248-1016	10/31/89	Accounting System Evaluation Oppenheim NY			
90-NY-248-1017	10/31/89	Accounting System Evaluation Indian Lake NY			

Appendix 1
EXTERNAL AUDIT REPORTS ISSUED

Report Number	Issue Date	Report Title	Questioned Costs Total	Questioned Costs Unsupported	Funds to be Put to Better Use
90-NY-248-1018	10/31/89	Accounting System Evaluation Brookfield NY			
90-NY-241-1023	02/23/90	Community Development Block Grant Program San Juan Municipio PR	$13,140,941	$4,875,981	$157,075
90-SE-249-1002	01/16/90	Community Development Block Grant Program - Progam Income Tacoma WA	$3,735		$3,662
90-SF-242-1002	11/24/89	Mayor's Office of Community Development - Urban Development Action Grant San Francisco CA			
		629 reports prepared by Independent Auditors and other Federal Agencies	$3,175,668	$3,127,854	
ADMINISTRATION					
90-AT-262-1004	12/26/89	Martin Luther King, Jr. Center for Nonviolent Social Change - Community and Economic Development Atlanta GA	$35,292	$5,561	
90-DE-263-1001	12/21/89	Brock/Cook Advertising, Marketing and Public Relations - Interim Cost Audit Denver CO	$38,211	$241	
90-DE-262-1002	12/26/89	Ticor Title Insurance Company - Advisory Report on Final Costs Denver CO	$27,105	$21,292	
90-DE-263-1003	02/02/90	Hamilton & Associates Advertising, Inc. - Interim Cost Audit Denver CO	$12,093		
90-DE-262-1004	02/06/90	Ashby, Armstrong & Co. - Final Cost Audit Denver CO	$324,212	$324,212	

Appendix 1
EXTERNAL AUDIT REPORTS ISSUED

Report Number	Issue Date	Report Title	Questioned Costs Total	Questioned Costs Unsupported	Funds to be Put to Better Use
90-DE-261-1005	02/16/90	Gillham Advertising, Inc. – Cost Proposal Evaluation – Accounting System Review Salt Lake City UT			
90-DE-261-1006	02/21/90	G.L. Ness Agency, Inc. – Cost Proposal Evaluation – Accounting System Review Fargo ND			
90-DE-263-1009	03/12/90	Hamilton & Associates Advertising, Inc. – Interim Cost Audit Denver CO			
90-NY-262-1019	11/01/89	Midbronx Desperados Community Housing Corp. New York NY	$48,538	$45,296	
90-NY-262-1020	12/26/89	South Bronx 2000 Local Development Corporation – Advisory Report on Final Costs New York NY			
		12 reports prepared by Independent Auditors and other Federal Agencies	$21,166	$9,941	
MISCELLANEOUS					
		17 reports prepared by Independent Auditors and other Federal Agencies			

Appendix 2

AWARENESS PUBLICATIONS

Fraud Information Bulletins

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

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
P-90-1	Abuses in the Consolidated Supply Program

Other Publications

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:

Director, Publications and Awareness Division
Office of Inspector General, HUD
451 7th Street, S.W., Room 8254
Washington, D.C. 20410-4500

Appendix 3

HUD MATERIAL WEAKNESSES

This is a list of material weaknesses as identified in Secretary Kemp's FMFIA assurance statement in December 1989. The year of identification of each material weakness is shown in parentheses.

1. Multifamily coinsurance programs (88)
2. Section 8 subsidy payment process (83)
3. Title I manufactured housing loans (88)
4. Use of assets and income of multifamily insured and HUD-held projects (87)
5. Section 8 moderate rehabilitation program (88)
6. Supervision of Title I home improvement dealers by lenders (86)
7. Management of public housing modernization (88)
8. Entitlement grantee monitoring of subgrantees (89)
9. Single family loan origination - appraisals (87)
10. Single family property disposition - closings (87)
11. Single family property disposition - management of area management brokers (88)
12. GNMA management of securities issuers (89)
13. Hospital insurance program (89)
14. Management of assigned single family mortgages (89)
15. Single family mortgage insurance premium refunds and distributive shares (87)
16. Section 8 existing certificate program funding allocation process (89)
17. Retirement service centers (88)
18. Section 8 accounting system (89)
19. Section 8 discretionary loan management set-aside program (89)
20. Single family and multifamily property disposition - procurement (88)

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

Call
The HUD Hotline
(202) 708-4200

U.S. Department of Housing and Urban Development
Washington, D.C. 20410-4500

November 1990
HUD-1286-IG