

Report No. 24
For the 6-month
Period ending
September 30, 1990

Inspector General's Report to the Congress



PROFILE OF PERFORMANCE

	04/01/90 - 09/30/90	Fiscal Year 1990
Audit and Investigation Activities		
Cash Recoveries/Savings ¹	\$29,047,277	\$47,675,356
Cost Efficiencies Realized ¹	\$6,913,089	\$21,894,395
Commitments to Recover Funds ¹	\$36,185,725	\$98,553,485
Cost Efficiencies Sustained ¹	\$5,272,465	\$21,877,573
Total Fines Levied	\$2,573,103	\$2,888,812
Indictments	209	394
Convictions	152	296
Suspensions of Persons/Firms Doing Business with HUD	97	150
Debarments of Persons/Firms Doing Business with HUD	82	126
Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board	3	8
Subpoenas Served	29	63
Material Weaknesses Reported	8	14
Personnel Actions Initiated Against HUD Employees	26	51
Program Integrity Activities		
Awareness Publications Issued	2	3
Hotline Complaints Opened	181	441
Proposed Legislation and Regulations Reviewed	90	180

Note 1: Includes amounts due to HUD program participants

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U.S. Department of Housing and Urban Development

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Inspector General's Message to the Congress

During the 6-month period ending September 30, 1990, we conducted many significant audits and investigations as reflected in the following pages. At this same time we were called upon to support both Departmental and Department of Justice efforts, as well as provide resources to the Independent Counsel in the ongoing review of HUD. Lastly, Congressional requests, hotline complaints, and citizen complaints continued to require the attention of our staff. For these reasons, I am thankful that the Congress has recognized our need for a substantial staffing increase to carry out the mandate of the Inspector General Act. While we were unable to augment our staff resources during this past year because of funding constraints, we are hopeful that our Fiscal Year 1991 funds will be sufficient to support our authorized staffing level.

We identified eight new material weaknesses in HUD's management controls. Material weaknesses are reported by the Secretary in his annual assurance statement to the President under the Federal Managers' Financial Integrity Act. The Secretary has given significant attention to correcting these weaknesses and has implemented effective systems to track remedial actions. Material weaknesses recommended for reporting include:

- Section 8 Project Based Assistance Program
- Consolidated Supply Program
- Undue Concentration of Assisted Persons
- Title I Debt Collection
- Interim Float Loans in CDBG Programs
- Rapid Housing Payment System
- Title I Debt Management and Collection System
- Section 8 Contract Administration

Management's recognition of these weaknesses and close attention to their correction will go a long way to promoting the efficient and effective delivery of HUD programs.

The Secretary's Committee on Program Integrity, which I chair, made recommendations to strengthen and enhance the Department's sanctions process. These recommendations have been endorsed by the Secretary and communicated to senior staff; when fully implemented these recommendations will provide needed deterrents to those who would abuse the Department's programs. Also, we have installed a toll-free Hotline

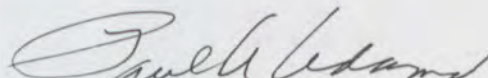
telephone number to provide easier access and encourage citizens to report instances of suspected fraud or abuse of HUD programs.

Prevention activities continue to be a high priority of our Office. We are actively involved in several initiatives to assure eligibility of the 4 million families receiving housing assistance. To assure that there are incentives for public housing agencies and owners of subsidized rental units to pursue cases of tenant fraud, we are proposing two legislative initiatives. These are detailed on page 82. I have forwarded these to HUD's oversight Committees for their consideration.

The Inspector General Act Amendments of 1988 require that each Federal audit organization have an external quality review performed of its operations by a Federal counterpart every 3 years. An independent review was conducted of our Office of Audit during this period. I am pleased to report that it concluded that our audit operations have an adequate internal quality control system in place and comply materially with Government Auditing Standards.

The Secretary's goals for sound management and fraud-free programs further enhance our efforts. Recommendations of the OIG are being actively addressed and there have been a number of improvements in management controls and program administration. Audit follow-up is being pursued more vigorously than ever to assure prompt resolution of audit findings and timely implementation of corrective actions. These actions in my mind will go a long way to quickly addressing the Department's problems. Nevertheless, a major OIG objective this fiscal year will be to determine how effective management has been in correcting previously reported problems. Our follow-up work with regard to closing agents discussed in this report notes significant progress to correct a long-standing problem. We will look at other areas where we have made major recommendations and assess whether similar progress has occurred.

We look forward to continued cooperation with Secretary Kemp, his top staff and the Congress in assuring HUD's programs are efficient and effective.


Paul A. Adams
Inspector General

Executive Summary

The Department recovered \$29 million in the past 6 months as a result of our audits and investigations. There were also \$6.9 million in cost efficiencies realized, \$36 million in commitments to recover funds and \$5.2 million in cost efficiencies sustained.

We issued 50 internal audit reports on HUD operations and 94 external audit reports on HUD grantees and program participants.

Our investigations resulted in 209 indictments, 152 convictions, 160 years of jail terms and \$2.5 million in fines.

Administrative sanctions against doing business with HUD totalled 97 suspensions and 82 debarments.

Other OIG activities included a redirection of the Tenant Integrity Program into multifamily housing, an external "peer review" of our audit operations and installation of 800-number access to our Hotline.

Audit

Eight new material weaknesses were identified in our audits over the past 6 months and we have recommended that they be reported to the President in the Secretary's annual assurance statement under the Federal Managers' Financial Integrity Act (FMFIA). They are appropriately identified herein.

Section 8

In a review of Public Housing Agency (PHA) administration of **Housing Vouchers**, we found that there are inadequate controls to ensure that rent-subsidized units meet HUD's Housing Quality Standards (HQS). In addition, 8 of the 15 agencies reviewed had weaknesses in financial management and five PHAs were using cost allocation procedures that permitted charging of ineligible or unsupported administrative costs. (Page 13)

Based on a review of the Cincinnati Field Office, inspections by Section 8 **Contract Administrators** may not be assuring compliance with HQS. We found HQS deficiencies in 82 of 86 units reviewed in Cincinnati. There was also lax oversight of billings. (FMFIA material weakness) (Page 15)

HUD oversight of the **Project Based Assistance Program**, which offers rehabilitation and rent subsidies to projects rather than individuals, needs improvement. (FMFIA material weakness) (Page 15)

HUD's procedures to enforce the statutory prohibition against "**undue concentration of assisted persons**" lack objective criteria and consistent

methodology. These reviews affect whether a project can be located in a particular neighborhood. *(FMFIA material weakness) (Page 16)*

Pursuant to a Congressional request, reviewed the **Norwalk, Connecticut PHA** Section 8 program. We found that the prior deficiencies reported in a 1988 HUD management review still exist. *(Page 17)*

Public Housing Agency Operations

Purchases made through the **Consolidated Supply Program**, HUD's national purchasing program for PHAs, cost 18 percent more than if local competitive bidding were used. This is because of basic flaws in the program. We recommended termination or substantial revamping. *(FMFIA material weakness) (Page 17)*

The **Housing Authority of New Orleans** mismanaged the agency's management contract, resulting in the award price being inflated by \$899,000 and contractor expenditures of \$519,000 for costs that were either unsupported or ineligible. HUD will not renew the management contract. *(Page 19)*

Multifamily Housing Programs

Millions of dollars of multifamily housing project funds are misspent or diverted each year, undermining the physical condition and financial stability of projects.

Management agents: J&B Management, The Woodlands, Texas, diverted or could not support disbursements of \$1.3 million. *(Page 20)* Housing Resources, Inc., Santa Monica, California, obstructed our audit. *(Page 20)* Wilco Management, Nashville, Tennessee, and the identity-of-interest owners diverted \$4.6 million from four HUD-insured projects, including \$2.7 million while the mortgages were in default. *(Page 20)* PCI Management, Christiansburg, Virginia, had \$1.2 million of ineligible costs at 17 HUD-insured projects. *(Page 21)* Administrative sanctions were recommended against all these firms.

Mortgagor operations: Perkins-Morris Nursing Home, Philadelphia, Pennsylvania, cost HUD \$4 million in insurance losses. *(Page 21)* At DeFours Ferry Manor Apartments, Atlanta, Georgia, \$500,000 was used for improper loans, advances and ineligible or unsupported costs. *(Page 22)* The owners of Regency Place Apartments, Cedar Hill, Texas, improperly withdrew \$455,447 while the project was delinquent. *(Page 22)* Erroneous revenue projections led to financial distortions at Lincoln Avenue and Crawford Home for the Aged, Cincinnati, Ohio. *(Page 22)* All these projects went into default.

HUD is underutilizing **mortgagee inspections**, which should be a valuable tool for monitoring multifamily projects. Instead, Field Offices sometimes perform their own inspections, a duplication of effort. (Page 23)

Farwell Mill, a **Housing Development Grant** project in Lisbon Falls, Maine, was abandoned before completion after the \$2.4 million HUD grant was used to repay construction advances instead of furthering the project. (Page 23)

Single Family Housing Programs

Our audits of 18 **area management brokers** found that 15 were deficient in such ways as failure to inspect properties, erroneous valuation of properties, procurement weaknesses, poor maintenance and defective reporting to HUD. These problems may lower HUD's net return on sales of repossessed properties. (Page 24)

HUD's monitoring of **closing agents** improved significantly. The most glaring weaknesses that allowed closing agents to embezzle millions of dollars in the past are being corrected at the 10 Field Offices reviewed in this 6-month period. However, procedural weaknesses still exist and we recommended improved monitoring to assure closing agent compliance with all requirements. (Page 26)

Our audits of mortgage firms revealed that substandard **loan origination** practices continue. Problems include false statements by borrowers, overvaluation of properties, deficient documentation, and lack of minimum down payments. At Waterfield Financial Corporation, Phoenix, Arizona, all 29 loans we reviewed were improperly originated. (Page 27, 43)

Some GNMA issuers are abusing the **streamline refinancing** program, which is intended to allow FHA borrowers to refinance high interest mortgages to lower current rates. Some mortgages are being refinanced repeatedly with partial reductions in interest rates each time. This "churning" increases the issuers' profits. (Page 28)

HUD's **Title I Debt Collection** program has numerous deficiencies in its effort to collect debts owed HUD on 80,000 defaulted property improvement and manufactured home loans. Errors in calculation of debt and interest resulted in misstatements totalling \$174 million in debts receivable. (FMFIA material weakness) (Page 28)

Programs for the Homeless

HUD programs to aid the homeless were generally effective in meeting their objectives, but administrative improvements were needed by both HUD staff and grantees. During the period we audited the **Supportive**

Housing Demonstration Program, the Emergency Shelter Grants Program, and the Single Room Occupancy Program. (Page 29)

Community Development Block Grant Program

Some CDBG grantees are misusing **float loans**, costing the U.S. Treasury millions of dollars in interest. Float loans are authorized as short-term loans to developers using funds that are not needed by the CDBG grantee until later. The City and County of Los Angeles improperly established a revolving loan fund totalling \$64.5 million and also used float loan funds for long-term financing. This cost the Treasury \$3 million in unnecessary interest. (FMFIA material weakness) (Page 31)

Section 108 loan guarantees are another form of up-front financing for CDBG capital projects. Future grantee entitlements are used as collateral for the Federally guaranteed loans. We found that some loans are made for ineligible purposes or economically unsound projects. Such deficiencies were noted at Niagara Falls, New York; Tacoma, Washington; and Bellflower, California. (Page 32)

We found various administrative problems in audits of local **CDBG program administration**. Delaware County, Pennsylvania, disregarded HUD regulations and spent \$5.6 million on ineligible or unsupported costs. We recommended termination of economic development funding there and an investigation is ongoing. (Page 33)

Administration

Ineffective ADP systems continue to be one of the Department's most persistent problems. The **Rapid Housing Payment System** made \$4 million in duplicate payments to PHAs. Another \$27 million in duplicate payments was erroneously authorized by the system but caught before disbursement. (FMFIA material weakness) (Page 34) The **Debt Management and Collection System**, which tracks 80,000 debts from defaulted property improvement and manufactured home loans, has inadequate access controls and other weaknesses. (FMFIA material weakness) (Page 35) There were also **access violations** at the Martin Marietta Data Systems computer facility that operates several major HUD systems. (Page 35) HUD's inventory controls on **microcomputer equipment and software** are outdated and inaccurate. Our audit noted 48 laptop computers missing. (Page 36)

Investigation

The biggest single investigative case in dollar impact was a GNMA case. The president of Maple Mortgage, Inc., of Dallas, Texas, was indicted in August 1990 for misappropriating \$18.4 million of escrow funds. He is alleged to have used customers' escrow funds to buy securities and other

assets for himself and his separate Canadian business. Losses to HUD were estimated at \$20 million. *(Page 39)*

Investigations in single family housing programs dominated our caseload in the past 6 months. This category took approximately 40 percent of our investigative time. Typical single family cases are closing agent fraud, equity skimming, strawbuying and loan origination fraud.

Closing Agents

Several closing agents were sentenced in the past 6 months for stealing proceeds from the sale of HUD-owned properties. *(Page 41)*

"Robin HUD," the Maryland closing agent who took \$6 million and claimed to give it to the poor, was sentenced to 46 months in jail and ordered to make restitution of \$600,000.

A Montgomery, Alabama closing agent who used counterfeit bank confirmation forms to conceal his theft was sentenced to 6 years in jail, fined \$2,025,000 and ordered to make restitution of \$2,073,499.

Two Indianapolis, Indiana real estate officials were sentenced to a total of 57 months in jail for diverting nearly \$1 million.

Equity Skimming

Three members of a Seattle, Washington family received jail terms for equity skimming involving \$100,000 from 34 properties. Two other members of the same family were placed on probation. *(Page 42)*

Strawbuying

Our investigations resulted in major strawbuying prosecutions in Texas, Mississippi, and the District of Columbia. In Houston, Texas, two speculators paid strawbuyers \$2,000 each in the sale of 36 properties that later foreclosed at a cost to the government of \$1.2 million. In Washington, D.C., a speculator agreed to repay \$490,000 to the government after pleading guilty to strawbuying schemes. *(Page 43)*

Loan Origination

Fraud in origination of home loans, usually involving false statements, resulted in many prosecutions. Five persons were indicted in Indianapolis, Indiana, after 12 condominium mortgage defaults cost HUD \$600,000. Two Washington, D.C. speculators were debarred from HUD programs and agreed to reimburse the government \$425,000. *(Page 43)*

Rental Assistance Programs

Family income is the key to eligibility for HUD's 4 million units of public housing and subsidized rental housing. We continue to investigate fraud by

tenants who understate or conceal family income. In one case, computer matching of tenant data versus public payroll information led to the indictment of 12 PHA tenants in Fort Worth, Texas. They received \$109,000 in rental assistance to which they were not entitled. (Page 44)

Multifamily Housing Programs

The most significant multifamily housing program case of the last 6 months involved billing fraud and kickbacks by a Chicago pest exterminating contractor. The contractor submitted false billings totalling \$500,000 for work on 10 HUD-owned multifamily projects. Kickbacks were paid to a HUD contracting officer and program manager who were aware of the false billings. The defendants were sentenced in June 1990. (Page 46)

Public Housing Programs

There were several major cases of fraud by PHA officials and their contractors in the past 6 months. Six top officials of the Passaic, New Jersey Housing Authority pled guilty in the investigative follow-up to our audit that was reported in our last Semiannual Report. (Page 47)

Community Planning and Development Programs

Fraud by program officials and contractors typified our investigations into CPD programs. In Corpus Christi, Texas, officials of the Boys Club and the City were indicted for financial irregularities in connection with construction of a baseball diamond and parking lot. In Aurora, Illinois, a rehabilitation specialist stole \$167,000 via false billings and kickbacks from a contractor. (Page 48)

Task Forces and Support of U.S. Attorneys

Substantial investigative resources have been devoted to supporting task force operations with the FBI and the Department of Justice. These include single family housing program task forces in Washington, D.C.; Oklahoma City, Oklahoma; Denver, Colorado; and Seattle, Washington. (Page 49)

Audit Follow-Up

HUD management agreed to implement most of our recommendations in several major audits reported in prior Semiannual Reports. These included the PHA Decontrol Program, Accounting and Budgeting for Section 8 Funds, Coinsurance Program, Retirement Service Centers Program, Housing Development Corporations, and Cook Inlet Housing Authority. (Page 51)

Chapter 3 also includes reports required by the Inspector General Act Amendments of 1988. (Page 58)

Prevention and Other OIG Activities

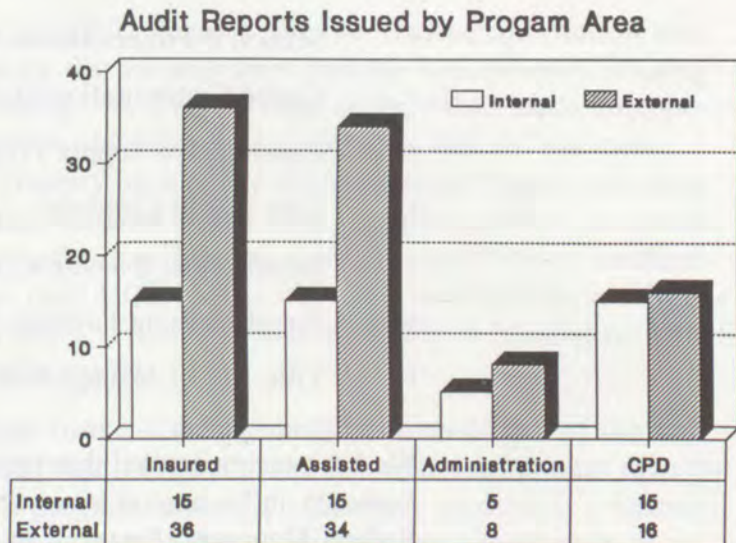
Chapter 4 reports on the OIG's proactive efforts to prevent and detect fraud and abuse and to promote economy, efficiency and effectiveness in HUD programs. These include tenant integrity initiatives, President's Council on Integrity and Efficiency, Secretary's Committee on Program Integrity, awareness publications, HUD Hotline, monitoring audit quality, and review of legislation and regulations. (Page 71)

Administrative Actions Against HUD Employees

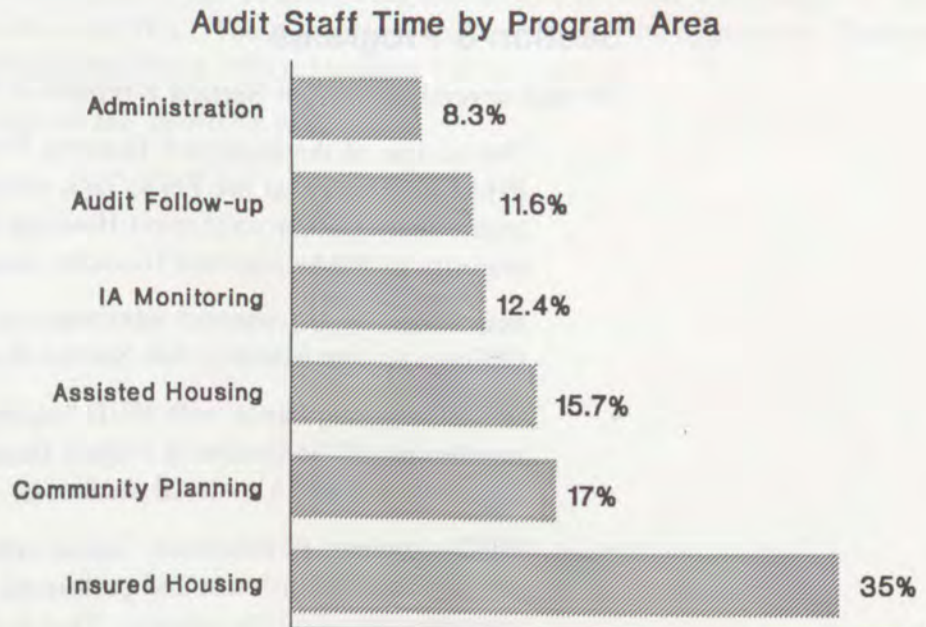
Chapter 5 reports on administrative actions against HUD employees for fraud or abuse. (Page 87)

Chapter 1 Audit

During the past 6 months we issued 50 internal reports on HUD management and 94 external audit reports on grantees and program participants. The chart shows the distribution of reports by program area.



The leading concentration of audit resources was devoted to Insured Housing, taking 35 percent of the total available hours. Audit follow-up and independent auditor (IA) monitoring also used significant levels of audit resources, as the following chart shows.



Eight material weaknesses in the Department's management controls were identified in our audits during the past 6 months. These were:

- Section 8 Contract Administration
- Section 8 Project Based Assistance Program
- Undue Concentration of Assisted Persons
- Consolidated Supply Program
- Title I Debt Collection
- Interim float loans in CDBG programs
- Rapid Housing Payment System
- Title I Debt Management and Collection System

We have recommended that these material weaknesses be reported by the Secretary in his annual assurance statement to the President under the Federal Managers' Financial Integrity Act (FMFIA).

These and other significant audits completed in the past 6 months are described in this chapter. The discussions are grouped in Section 8 programs, PHA operations, multifamily housing programs, single family housing programs, programs for the homeless, the Community Development Block Grant program, and administration systems.

Section 8 Programs

We had several significant Section 8 reports in the past 6 months.

- Our review of the Section 8 Housing Voucher Program at 15 PHAs disclosed that the PHAs lack adequate controls to assure that voucher units meet Housing Quality Standards. A majority of PHAs also had financial management problems.
- Inspections by the contract administrator in the Cincinnati Field Office were not assuring that Section 8 units met HQS.
- PHAs' noncompliance with HUD requirements and inadequate HUD monitoring of the Section 8 Project Based Assistance Program constitute a FMFIA material weakness.
- HUD's reviews to determine "undue concentration of assisted persons" are inconsistent and performed without the benefit of adequate operating procedures. This is a FMFIA material weakness.

- Management problems persist in the Norwalk, Connecticut Section 8 program.

Housing Vouchers

Audits of 15 PHAs in 9 HUD Regions disclosed inadequate controls and procedures for ensuring that voucher units met the Department's Housing Quality Standards (HQS). As a result, eight of the PHAs made improper payments of \$632,365 to subsidize over 1,600 units that did not meet HUD's standards. Property owners and PHAs received Federal subsidies and administrative fees for units which were ineligible for HUD assistance. PHAs did not consistently abate housing assistance payments to landlords for units that did not meet HQS. PHAs also gave landlords too much time to make necessary repairs, resulting in families living in housing with HQS violations for excessive periods.

*HQS
Controls
Deficient*

We also found serious financial management weaknesses at 8 of the 15 PHAs. The PHAs had not: (1) established financial management systems to monitor the use of program funds; (2) effectively used HUD's financial management guidance; (3) established plans for using excess reserves to assist additional families; or (4) set appropriate payment standards for determining tenants' rent and assistance levels. In addition, poor cost allocation procedures in five PHAs resulted in \$323,000 in administrative charges that were excessive, ineligible or unsupported.

Our audit reports made various recommendations to improve PHAs' administration of the Voucher Program as well as HUD's oversight of PHA voucher activities. These reports were provided to the appropriate Regional Administrator/Field Office Manager for their action.

A table of the 15 PHAs follows.

Audits of PHA Implementation of the Section 8 Housing Voucher Program

Public Housing Agency	Period Audited	Report		Deficiencies
		Number	Date	
City of New York Department of Housing Preservation and Development	01/01/88-09/30/89	90-NY-203-1025	06/04/90	a,b
Montgomery County Housing Authority ¹	11/01/88-10/31/89	90-PH-203-1007	03/12/90	
Housing Authority of the City of Atlanta	12/01/88-12/31/89	90-AT-203-1016	07/30/90	a
Jackson Housing Commission	07/01/87-11/30/89	90-CH-203-1012	05/22/90	a,b,c
Tulsa Housing Authority	10/01/88-09/30/89	90-FW-203-1006	07/02/90	b,c
White River Regional Housing Authority	12/01/88-11/30/89	90-FW-203-1005	06/19/90	b
Housing Authority of the City of St. Louis	12/01/88-11/30/89	90-KC-203-1006	05/04/90	a,b,c
Housing Authority of the City of Colorado Springs ¹	11/01/88-10/31/89	90-DE-203-1007	02/23/90	a
Housing Authority of the City of Pittsburg	07/01/88-12/31/89	90-SF-203-1012	07/03/90	a,b,c
Housing Authorities of the City and County of Fresno	01/01/89-12/31/89	90-SF-203-1009	04/20/90	
Housing Authority of the City of Richmond	02/01/86-12/31/89	90-SF-203-1007	04/17/90	a,b
Housing Authority of the County of San Diego	07/01/88-02/28/90	90-SF-203-1014	07/27/90	b
Housing Authority of the City of Tacoma	06/30/87-12/31/89	90-SE-203-1004	06/15/90	a,c
Boston Housing Authority	01/01/89-12/31/89	90-BO-203-1009	05/10/90	
Dayton Metropolitan Housing Authority	06/01/89-05/30/90	90-CH-203-1021	09/27/90	

Note 1: Issued in prior Semiannual Report period.

DEFICIENCIES

- a: PHAs which made improper payments for units not in compliance with HQS.
- b: PHAs having serious financial management weaknesses.
- c: PHAs using improper cost allocation procedures.

HQS Deficiencies

Contract Administrator Responsibilities

Inspections by HUD's Cincinnati Field Office were ineffective in assuring that Section 8 units complied with HQS. In our sample of 86 units, 82 had HQS deficiencies, a 95 percent error rate. This included 11 units the Cincinnati Office passed as acceptable within 90 days of our review. The Cincinnati Office administers 369 assisted projects with over 22,700 units. We estimated that for FY 90, the Field Office would inspect only half of its inventory. As a result, families may be residing in units which are not decent, safe and sanitary under HQS and therefore HUD may be subsidizing ineligible housing.

The Cincinnati Office's process for verifying owners' monthly housing assistance payments billings and recovering overpayments is deficient. In some cases, billings had not been reviewed for over 2 years. In those cases where overpayments to owners were detected, the Cincinnati Office did not always take actions necessary to recover the overpayments. As a result, HUD had no assurance that millions of dollars in assistance payments were correct.

We attributed these problems to the lack of adequate HUD-prescribed policies and procedures and lax oversight. The Cincinnati Office also lacked effective management controls and adequate staffing to conduct inspections and review billings.

Although not included in our review, available evidence indicated that two other Field Offices in the Chicago Region were not performing annual HQS inspections: Chicago and Indianapolis. If these problems are national in scope, HUD could be paying millions in Section 8 subsidies for units not meeting its standards. We therefore recommended that HUD conduct a nationwide assessment of Field Offices' ability to perform HQS inspections and other contract administration functions. We believe this is a FMFIA material weakness. The Office of Housing generally agrees with the conditions noted and is considering appropriate corrective action.

(Report No. 90-TS-103-0016)

Project Based Assistance

HUD needs to increase its monitoring to ensure that PHAs comply with the regulatory requirements of the Section 8 Project Based Assistance Program. The problem is serious enough to be recommended as a FMFIA material weakness.

The project based assistance program offers rehabilitation and rent subsidies to projects, in contrast to the tenant based regular certificate program. As of March 1990, HUD had approved project based assistance for 8,401 units for 77 PHAs.

We reviewed 10 projects in the Atlanta, Fort Worth and San Francisco Regions. We found that the PHAs did not: (1) establish written policies for selecting units for assistance or conduct the selection process in a way that provided for fair competition; (2) determine tenant eligibility prior to entering into Housing Assistance Payments contracts; (3) assure that tenants had not been permanently displaced; and/or (4) inspect units and ensure the minimum level of rehabilitation. (*Report Nos. 90-FW-103-0006, 91-AT-103-0002 and 90-SF-103-0005*)

Undue Concentration of Assisted Persons

The Housing and Community Development Act of 1974 requires HUD to determine that its assisted projects will not result in "undue concentration of assisted persons." Implementing regulations say that project site selection "must promote greater choice of housing opportunities and avoid undue concentration of assisted persons in areas containing a high proportion of low-income persons." These terms have not been defined in the statute or in HUD's regulations, nor is there a consistent methodology in place for making undue concentration determinations. Undue concentration reviews are important because they can be the deciding factor in determining whether a HUD-assisted project can or should be built in a given area.

We reviewed HUD's undue concentration procedures in part because of a court-ordered injunction against Casa Victoria, a proposed Section 202 project in New York City. A citizens group sued to stop construction of Casa Victoria. In granting the injunction, the U.S. District Court ruled that HUD's undue concentration determination was so flawed as to be "arbitrary and capricious." The project would have been built in a neighborhood where two-thirds of the housing units were Federally assisted.

*HUD Methods
Vary Widely from
Region to Region*

HUD field economists are primary participants in the process for determining undue concentration. Our survey of 11 field economists showed that they use widely varying review methods. There was no consistency in the percentage thresholds of assisted housing used and the manner in which neighborhood conditions and services were evaluated. It appeared that the same situation existed as in 1980, when a similar HUD Headquarters review found such wide variation between regions as to suggest that identical projects might be approved in one region and disapproved in another. The situation exists primarily because of the lack of objective criteria and methodology for performing undue concentration reviews. We believe this is a FMFIA material weakness.

We recommended that HUD revise the undue concentration regulations to define the terms and to state HUD's methodology for determinations. We also recommended development of detailed undue concentration review procedures for field economists. The Department generally agrees with our

recommendations and because of the cross-cutting nature of the issue is studying the most effective means for implementation.

(Report No. 91-TS-103-0001)

Norwalk, Connecticut Housing Authority

This audit was conducted at the request of a Congressman and was a follow-up to a HUD management review of the PHA's Section 8 program in July 1988. We found that, although the PHA initiated some action, the deficiencies identified in 1988 still exist. The PHA failed to: (1) conduct annual recertifications timely; (2) comply with HUD requirements to perform annual inspections, follow up on deficiencies noted during inspections, and perform quality control reviews; (3) assure that administrative costs charged to the Section 8 program were supported and reasonable; and (4) establish Section 8 and Low-Income Housing waiting lists in a manner that would support the priority selection of families. As a result, improper subsidy payments were paid to landlords; rents were inaccurate; tenants were housed in units that did not meet Housing Quality Standards; and, there were no assurances that applicants were being housed in their order of eligibility.

We attribute these deficiencies to the PHA's failure to adequately staff its Section 8 program and establish adequate administrative controls over program operations. We made several recommendations to the Boston Regional Administrator concerning staffing levels, controls over recertifications and inspection procedures, establishment of tenant waiting lists, and the implementation of a cost allocation plan to provide for equitable distribution of costs. *(Report No. 90-BO-204-1015)*

Public Housing Agency Operations

Each year we selectively audit some of the 3,300 PHAs throughout the country to determine if they are following HUD policies and procedures, complying with laws and regulations, and using HUD funds appropriately. Two of the more significant audits during the period were of the Consolidated Supply Program (CSP) and the Housing Authority of New Orleans.

Consolidated Supply Program

We determined that purchases made through CSP, HUD's national purchasing program for PHAs, cost 18 percent more than if local competitive bidding was used. This is because of basic flaws in the program. Therefore, we recommended termination or substantial revamping of CSP.

*CSP Purchases
Cost 18%
More*

Our audit of CSP procurement experience at 66 PHAs followed our October 1989 report on HUD's administration of the program. In the field audit, we found that CSP saves PHAs administrative costs and that the prices are lower than retail. However, these savings are not enough to offset HUD's cost of administering the program and the further price savings that are lost by not using local competitive procedures. Furthermore, because violations of CSP regulations are prevalent, we concluded that the program controls are a FMFIA material weakness.

Under CSP, HUD enters into competitive open-end contracts for indefinite quantities. The winning contractors are listed in 21 catalogs for use by the PHAs. The intent is to make competitive prices available to PHAs without the local administrative cost of competitive purchasing.

In practice, we found that PHAs who used local competitive procurement saved money on items available from CSP. The savings on 31 contracts totalling \$4,031,664 was \$923,595, or 18.6 percent lower than the CSP cost would have been. In some cases, CSP suppliers undercut their own CSP prices when asked by local PHAs to bid competitively.

CSP contractors said the following factors explain their CSP prices being higher than local competitive bids:

- CSP contracts are open-ended for 15 months or longer, increasing the risk.
- CSP contracts are for indefinite quantities, with no guarantee of sales.
- CSP specifications for installed items sometimes omit necessary work, so allowances are made.
- CSP requires the use of Davis-Bacon prevailing wages.
- CSP bids include transportation costs, which are usually estimated for the worst case.

In our opinion, another flaw is that CSP awards contracts to all bidders whose price is at or below the average of all bids. This gives contractors little incentive to submit their best price to CSP since they only need to be slightly better than average to win a contract.

We also found 152 violations of CSP regulations. These included noncompetitive add-ons to catalog items, misrepresentation of non-CSP items as CSP items, sales under expired or false CSP contract numbers, misuse of the HUD logo in advertising, overcharging, lack of third party certification labels, lack of bonding, and refusal to perform.

The Assistant Secretary for Public and Indian Housing said he is assessing the OIG report along with information from PHAs, CSP participants, outside experts and other Federal agency systems. He said a decision on the report recommendations would be made shortly.

(Report No. 90-AO-109-0007)

Housing Authority of New Orleans

Management Contract Fails

Because of prior poor management by the Housing Authority of New Orleans (PHA), HUD and the PHA agreed that the PHA would contract with a professional management firm for its day-to-day administration. However, our audit identified serious deficiencies in the PHA's procurement and administration of the management contract. Poor procurement practices inflated the contract amount by \$899,000. The PHA also paid the contractor \$519,000 for costs that were either unsupported or ineligible.

The PHA failed to follow its own procurement policies as well as HUD regulations in awarding the management services contract. Deficiencies included an inadequate technical evaluation, the lack of a PHA cost estimate, and the lack of a determination of contractor responsibility. The contractor selected had the highest target cost and the lowest technical rating among the three finalists selected by a committee. In addition, the PHA paid \$47,488 to the contractor for indirect costs even though the contractor had no indirect costs. The PHA's monitoring of the contractor was inadequate, permitting the contractor to enter into subcontracts that violated HUD regulations.

Based on our audit, HUD notified the PHA that HUD would not approve the renewal of the management contract for the 12-month period beginning October 1, 1990. *(Report No. 90-FW-201-1009)*

Multifamily Housing Programs

Management Agents

Diversion of Project Funds Continues

Past audits have disclosed that multifamily project owners and management agents have misspent or diverted millions of dollars of project funds in violation of the Regulatory Agreements. This undermines both the physical condition and financial stability of projects.

Our current audits show that these problems still exist. Problems include payments to or on behalf of general partners; use of project funds to liquidate unsupported project liabilities; poor internal controls related to rental receipts, security deposits, cash disbursements, and project accounting; and, incorrect tenant payments due to staff errors. We recommended that HUD and the projects be reimbursed for all ineligible

costs; that the agents establish procedures to ensure that project funds are disbursed only for authorized purposes; and, that proper documentation and accounting systems be maintained.

Following are some examples of these audits.

- J&B Management Company/Laclede Management Corporation (*J&B*), The Woodlands, Texas, improperly diverted or could not support disbursements of \$1.3 million. J&B also falsified its books and records. Other deficiencies identified in the audit included unsupported payments, payments for goods and services not received, and checks for which there were inaccurate or no addresses for payees. There were 1,628 transactions in 18 projects which contained one or more of these deficiencies.

Based on our audit, HUD suspended J&B as management agent. (*Report No. 90-TS-214-1804*)

- Housing Resources, Inc. (*HRM*), a Santa Monica, California management agent, obstructed our audit. We attempted to audit HRM because of the number of projects they are managing and because of indicators of possible management irregularities. However, HRM did not provide access to most of the project records and did not respond to requests for other information needed. HRM also ignored our subpoena for project records. We are seeking legal enforcement of the subpoena. HRM had been suspended from participating in HUD programs prior to our audit, and has since abandoned management of some of its projects. HRM filed for bankruptcy on October 18, 1990.

Information available at HUD Field Offices shows that some projects managed by HRM have hazardous and unhealthy conditions. Further review is needed to determine the degree to which HRM is responsible for these conditions. (*Report No. 90-TS-214-1803*)

- Wilco Management, Inc., Nashville, Tennessee, and its identity-of-interest owners diverted \$4.6 million from four HUD-insured projects. About \$2.7 million in diversions occurred while the mortgages were in default. The agent used project funds to pay expenses that should have been paid by the owners, including legal costs for defending the owners in various lawsuits, and excessive audit costs caused by an inadequate accounting system. HUD's Nashville Field Office issued a limited denial of participation to the management agent. However, the agent retained control of the projects and the diversions continued. Our audit report recommended that HUD recover \$4.6 million from the agent and

*Management
Agent Obstructs
Audit*

*\$2.7 Million
Diverted after
Default*

owners and initiate legal action to remove the agent from control of the projects. (Report No. 90-AT-212-1018)

- PCI Management, Inc., Christiansburg, Virginia, is a management agent for 17 HUD-insured projects. Our audit identified ineligible and unsupported costs of \$1.2 million and \$169,039, respectively. The agent, an affiliate of the projects' general partners, paid \$496,046 to or on behalf of the general partners and used \$160,154 to liquidate unsupported project liabilities; billed the projects for unauthorized expenses; paid security deposit funds to the general partners, thereby underfunding security deposits at 13 projects; and used operating funds to replace the security deposit funds. The agent also failed to maintain required accounting records and to adequately review recertifications and billings submitted to HUD for the Section 8 payments. We recommended that the management agent reimburse HUD and the projects for all ineligible costs and correct its internal procedures. (Report No. 90-PH-212-1015)

Mortgagor Operations

We performed several audits of mortgagors (*owners*) of HUD-insured multifamily projects to determine if they were complying with their Regulatory Agreements and HUD regulations; if internal control systems were adequate to safeguard project assets and assure operational efficiency; and if tenants participating in subsidy programs were eligible and assistance payments made on their behalf were proper. Following are examples of problems and deficiencies disclosed by our audits. Many of these and similar problems were found in previous audits of project owners and were discussed in prior Semiannual Reports.

- The owner of Perkins-Morris Nursing Home in Philadelphia, Pennsylvania, failed to properly handle and account for project funds. Because HUD acquired the project through foreclosure after the owner defaulted on the mortgage, HUD's insurance losses may exceed \$4 million. Our audit disclosed that the owner: (1) withdrew and diverted \$186,616 from project accounts while the mortgage was in default; (2) retained available cash and receivables of \$513,030 which could have been used to satisfy HUD claims; (3) had no documentation to support \$380,576 in project disbursements; (4) converted the project into a homeless shelter and incurred \$66,757 in unnecessary costs; and (5) failed to submit required IRS tax returns. We recommended that the owner reimburse HUD for all ineligible costs and file required corporate tax returns.

In March 1990, the Philadelphia Regional Office notified the nursing home corporation that it is temporarily denied participation in

*Default May Cost
HUD \$4 Million*

*Diversions Led
to Bankruptcy*

Section 232 of the National Housing Act for 1 year. Regional Counsel requested the U.S. Attorney to institute litigation to recover \$1.1 million. (Report No. 90-PH-219-1010)

- The general partner/management agent of DeFoors Ferry Manor Apartments, a coinsured project in Atlanta, Georgia, used over \$500,000 of project funds for loans, advances and other costs which were either improper or unsupported. These payments were made while the project was in default or in a weakened financial position. We believe they contributed to the subsequent bankruptcy of the project and foreclosure by the mortgagee. In addition, payments to reduce the general partner's personal liability may represent unauthorized distributions of project funds.

As a result of our audit, HUD issued a 1-year limited denial of participation to the general partner of DeFoors Ferry Manor and affiliated entities on May 30, 1990. Actions to pursue recovery of the \$500,000 are still underway. (Report No. 90-AT-212-1015)

- The owners of Regency Place Apartments in Cedar Hill, Texas, improperly withdrew \$455,447 while the HUD-assigned mortgage was delinquent by more than \$400,000. The prior owner disbursed \$338,076 for improper and questionable purposes. The current owner spent \$117,371 for separate business ventures, unapproved management fees and other questionable items. The owners also ignored HUD requirements for monthly accounting reports and annual audits. In addition, they impaired our audit by refusing us access to project records and refusing to meet with our auditors.

We recommended that HUD foreclose on the project and take administrative sanctions against the prior and current owners. Efforts to pursue recovery of funds and administrative sanctions are continuing. (Report No. 90-FW-212-1004)

- The owner of the Lincoln Avenue and Crawford Home for the Aged in Cincinnati, Ohio, did not operate the project on a sound financial basis. The home is in default and has been recommended for foreclosure. Because initial revenue projections were overstated, operating revenues were insufficient to keep the mortgage current. Mortgage default was delayed because the owner used cash reserves and charitable contributions to supplement revenues. The project continued to seek and receive State Medicaid reimbursements for the cost of the mortgage payments it was not making and used these receipts to offset operating cost overruns. The State is seeking reimbursement for the falsely claimed amounts. (Report No. 90-CH-212-1019)

*Mortgage
Inspections Are
Underutilized*

Multifamily Inspections

Annual physical inspection reports prepared by mortgagees on HUD-insured multifamily projects are underutilized by HUD. Eight Field Offices we reviewed neither controlled the receipt of inspection reports nor followed up on reported deficiencies. Instead, the Field Offices performed their own inspections as they felt they were needed. This approach represents a continuation of a problem that was discussed in our September 5, 1984 audit report. It stated that the Department's control over the receipt, evaluation and follow-up of mortgagee inspection reports was inadequate. In response to that audit, HUD's Office of Housing issued a Mortgagee Letter in July 1988 which reemphasized the mortgagee's responsibility for conducting annual physical inspections, established inspection and reporting standards, and put mortgagees on notice that HUD would aggressively monitor their performance and enforce compliance.

Mortgagee inspections can be an effective and useful management tool to assist in detecting and preventing conditions which can be detrimental to tenant welfare as well as project condition. Increased emphasis on their importance and an effective system of control is needed to improve the use of inspection reports and thereby stop a duplication of effort between mortgagees and HUD. We recommended that HUD provide new instructions and training as appropriate. The Office of Housing generally agrees with our recommendations and is preparing a corrective action plan. *(Report No. 90-TS-111-0017)*

Housing Development Grant Program

The grantee for the Farwell Mill project in Lisbon Falls, Maine, misspent \$2.4 million in Housing Development Grant funds and failed to take appropriate actions needed to protect HUD's interest in the project. These funds are for use as assistance to owners to support new construction or substantial rehabilitation of rental housing. In December 1988, the project was experiencing severe financial and construction problems. The grantee allowed the developer to use these funds to repay the Maine Savings Bank for construction advances, despite the fact that the grantee had reason to know that the project would not be completed. The grantee should not have requested the drawdown and disbursed the funds to the owner under the circumstances. The project is currently in foreclosure and remains incomplete because the developer abandoned it.

We believe the grantee should be held responsible for the entire Housing Development Grant. We therefore recommended that the Boston Regional Administrator direct the grantee to reimburse HUD for the \$2.4 million grant. *(Report No. 90-BO-219-1012)*

Single Family Housing Programs

Area Management Brokers (AMB)

We audited 18 brokers in eight regions. We found that 15 AMBs had serious problems in one or more aspects of their operations, such as:

- Failure to inspect properties;
- Erroneous valuation of properties;
- Procurement practices;
- Poor maintenance; and
- Inaccurate, incomplete, and untimely reporting to HUD.

*Problems Found
in 15 of 18
AMB's*

These 18 AMBs manage approximately 6,000 single family properties, or 13 percent of HUD's inventory acquired through mortgage defaults and conveyances. The problems result at least in part from inadequate oversight by HUD Field Offices.

- In one case, an AMB charged HUD \$37,000 for cleaning and yard work. Yet, 18 of 22 properties we inspected still had dirty interiors and yards. The AMB's property inspections did not disclose security and maintenance defects and hazardous conditions. The AMB used a cleaning firm that was owned by two of the broker's real estate agents. The AMB also submitted many inaccurate bills to HUD. (*Report No. 90-SF-222-0004*)
- Another AMB failed to report needed repairs on 18 of 31 properties we reviewed. The AMB did not report leaking pipes, exposed electrical wiring, major cracks in the walls, a leaking roof, and debris strewn throughout several properties. The AMB also recommended that five units be painted that did not need painting. (*Report No. 90-DE-222-1011*)

Given the size of HUD's single family inventory, substantial savings could be achieved with even small increases in efficiency. During FY 1989, HUD sold 80,000 single family properties for approximately \$3 billion. Increasing net returns on sales by just 1 percent (*about \$375 per property*) would result in additional revenues of \$30 million annually to the FHA insurance fund.

We provided a draft summary report to the Assistant Secretary for Housing-FHA Commissioner, who generally concurred with the conditions noted and stated that Housing is exploring various alternatives, including new types of AMB contracting methods, to address the problems identified in our audits.

Following is a table showing results of the AMB audits.

Audits of Area Management Brokers

Field Office	AMB	Report No	A	B	C	D	E
Philadelphia, PA	D. Woods R.E.	90-PH-222-1018	✓	✓	✓	✓	✓
	McCarthy R.E.	91-PH-222-1001		✓			✓
Atlanta, GA	Coleman Realty	90-AT-222-1001	✓				✓
Coral Gables, FL	Krone R.E.	90-AT-222-1801					
Indianapolis IN	Fairfield Realtors	90-CH-222-1017	✓	✓	✓	✓	
Minneapolis, MN	Crohn R.E.	90-CH-222-1016					
Ft. Worth, TX	Centerline Plus	90-FW-222-1008	✓	✓			
San Antonio, TX	Wakefield Realtors	90-FW-222-1007					
St. Louis, MO	Reed R.E.	90-KC-222-1007			✓	✓	✓
	Nicks R.E.	Note ¹	✓		✓	✓	✓
Denver, CO	Dungaree Realty	90-DE-222-1011	✓	✓	✓	✓	✓
	Westcor Properties	90-DE-222-1012			✓		✓
Las Vegas, NV	Suzy Q, Inc.	90-SF-222-0004	✓		✓	✓	✓
	Desert Realty	90-SF-222-1016	✓	✓	✓	✓	
Phoenix, AZ	Cash, Banker & Hale	90-SF-222-1011	✓	✓	✓	✓	✓
	Mundy Realty	Note ¹	✓	✓	✓	✓	✓
Anchorage, AK	Marston Prop. Mgmt.	90-SE-222-1007	✓	✓	✓		
	Marston Realty	90-SE-222-1006		✓	✓		
TOTALS			11	10	12	9	10

Note 1: To be issued in November 1990.

DEFICIENCIES:

- A: Poor Inspections
- B: Erroneous Property Valuations
- C: Incorrect Procurement Services
- D: Poor Property Maintenance
- E: Untimely, Incomplete or Inaccurate Reporting

*HUD
Improvement Is
Noticeable*

Closing Agents

Over the past year, there have been significant improvements in the handling of proceeds from the sale of acquired single family properties and related closing agent activities.

We reviewed 10 Field Offices to follow up on corrective actions taken by the Department in connection with our two previous reviews: "Internal Audit Report on HUD's Accounting for and Control Over the Acquisition and Sale of Single Family Properties" (*Report No. 88-TS-123/161-0009*), dated June 24, 1988, and "Handling of Proceeds from the Sale of HUD-Owned Single Family Properties" (*Report No. 89-TS-123-0006*), dated August 25, 1989. This review was more limited in scope than the two previous reviews and focused on contract execution, contract administration and Field Office monitoring.

Generally, sales proceeds and packages were being transmitted to HUD timely and when delays were observed, they were counted in days rather than weeks and months as discussed in prior reports. Of the seven offices where problems were detected, we found that sales proceeds were being received by the Treasury in an average of 1.9 days, with a range of 1.2 to 2.6 days. The national requirement is 1.5 days. Sales packages are being received by Headquarters within an average of 10.5 days, with a range of 6.2 to 13.6 days. The national requirement is 14 days.

We also noted other steps taken by HUD management to strengthen areas of weakness discussed in our prior audits: an increase in the bonding amount from 15 to 60 days' value of closings; issuance of a Request for Proposal contract format; a requirement for on-site reviews by HUD staff; and continuing emphasis on the timely deposit of proceeds and submission of sales packages. There was an overall reduction in the level of risk associated with the closing process.

Even with these improvements, however, we continue to observe frequent problems in the closing agent process which require the Department's close and continuing attention. We noted a lack of compliance by some Field Offices which resulted from their not having the latest instructions, difficulties of contractors securing the required bonding, and to some extent, interpretation of the adequacy of bonding coverage rather than lack of commitment on the part of Field Offices. The Department needs to continue its oversight and monitoring, with emphasis in the following areas:

- Timeliness, coverage, reporting and follow-up associated with monitoring of closing agents.
- Timely remittance of sales proceeds.
- Acceptable evidence for wire transfers and appropriate fees.

- Closing agent bonding, including subcontractor coverage where appropriate.
- Imposition of liquidated damages and strict adherence to contract requirements for establishing escrow accounts.
- Quality of data input/adequacy of reconciliations.

To remedy these weaknesses, we believe the Department should continue to refine existing requirements, develop a better means of monitoring compliance, and be certain that all offices have a thorough understanding of HUD policy. The Office of Housing generally agrees with the conditions noted and is in the process of taking steps to assure that consistent, clear guidance is provided to all HUD offices. (*Report Nos. 90-CH-123-0009, 90-CH-123-0007, 90-FW-123-0005, 90-FW-123-0001, 90-FW-123-0803, 90-FW-123-0002, 90-FW-123-0802, 90-DE-123-0001, 90-SF-123-0001, and 90-AT-123-0001*)

Loan Origination

Our audits of three companies showed serious mortgage origination problems.

29 of 29 Loans Improperly Originated

At Waterfield Financial Corporation, Phoenix, Arizona, we reviewed 29 FHA loans insured for over \$2 million. All 29 were improperly originated. Fifteen loans involved an investor/seller who falsified employment and down payment information. The other 14 loans involved a builder/seller who used improper home trade-in practices.

Waterfield originated another 135 loans insured by FHA for over \$11 million involving the same sellers. We believe those loans are likely to have similar deficiencies and should be reviewed by an independent party. We recommended that Waterfield be required to indemnify HUD for any losses, and we referred the matter to HUD's Mortgagee Review Board (MRB) for administrative/disciplinary action. (*Report No. 90-TS-221-1019*)

We also referred two other companies to the MRB: National Mortgage Corporation of Indianapolis and Heritage Mortgage Company of Chicago. Of 14 FHA-insured loans we reviewed, Heritage improperly originated 13 of them, due to poor underwriting practices and procedures and an inadequate plan to ensure quality control. (*Report No. 90-TS-221-1015*)

The findings against National were more striking. They approved ineligible units for insurance, overvalued properties, accepted false and questionable documents, and did not require buyers' minimum down payments. In May 1990, the U. S. Attorney in Indianapolis filed a four-count information against National's owner. Three of the counts related to his involvement in single family programs; the fourth count was for income tax evasion. In

June, he pled guilty to all counts and was fined and sentenced to prison.
(Report No. 90-TS-221-1016)

Streamline Refinancing of FHA Mortgages

Certain Government National Mortgage Association (GNMA) issuers are using the FHA streamline refinance program to "churn" single family loans, i.e., refinance them on numerous occasions, sometimes as often as every 6 months. These lenders are enticing borrowers to refinance high interest rate FHA mortgages to lower rates. But rather than reduce the rate directly to the present market rate, these issuers promote refinancing in steps, usually 1/2 to 1 percent lower each time.

Each new mortgage is then pooled into a new GNMA security. Because the pooled mortgages are above the market rate, investors pay a premium (typically 5 to 7 percent) to buy these GNMA securities. Each refinancing results in a pay-off of an old loan in the GNMA pool and considerable profit to the issuer of the new pool. For one company we audited, there were 644 properties that had been refinanced twice and 67 properties that had been refinanced three times during a 2-year period. We believe these rapid and repeated refinancings were done to increase corporate profits.

Because most FHA and VA loans have an average life of 12 years, investors think of GNMA securities as long-term investments and are willing to pay a premium for them. However, if "churning" became widespread, it would have a significant adverse impact on the GNMA securities market. The President of GNMA and the Assistant Secretary for Housing-Federal Housing Commissioner have taken steps to make loans that have been repeatedly refinanced ineligible for FHA insurance and for inclusion in GNMA securities. (Report No. 90-AO-121/171-0006)

Title I Debt Collection

In our audit of the Title I Debt Collection program, we found that the Department incorrectly calculated the amount of debt and interest due on defaulted home improvement and manufactured home loans. Debt and interest were not being calculated in accordance with the HUD-prescribed borrower loan obligation. There were 80,000 Title I debts on file. We estimated that the amount of misstatement totalled \$174 million. When a Title I borrower defaults, HUD pays an insurance claim to the lender and then tries to collect from the borrower. After debts are established at Headquarters, the three regional service centers in Seattle, Albany, and Chicago attempt to collect the debt.

In addition to the misstatement of debt balances, we found that:

- The Seattle Service Center manipulated debt data to improve their own performance indicators. At least \$42 million in debts were

*Loans 'Churned'
for Profit*

*Debt Collection
Deficiencies
Identified*

improperly forgiven and \$23 million in debts were incorrectly transferred to a collection agency or deactivated.

- The service centers have inadequate physical controls over file documents and cash receipts. As a result, some debts will never be collected because needed files have been lost. In addition, HUD has compromised the confidentiality of IRS taxpayer information.
- Contrary to Departmental policy, lender claims are paid for loans which are not always valid and enforceable against defaulted borrowers. This depletes the insurance fund and overstates debt collection potential.
- The Department does not always perform or adequately document its repurchase reviews. (If a claim was paid mistakenly, lenders are supposed to repurchase the debt.) Consequently, HUD has lost opportunities to recover monies paid to lenders inappropriately.
- The automated system which records Title I debt has inadequate controls to ensure security and accuracy. Our audit of the automated system is discussed in the Administration section of this chapter. (Page 35)

We recommended that the Title I Debt Collection functions be classified as a FMFIA material weakness. The Office of Housing does not agree that a material weakness exists and will provide detailed comments to us in response to our consolidated report which will be issued in early December. (Report Nos. 90-CH-166-0008 and 90-NY-166-0002)

Programs for the Homeless

The Department has undertaken a number of initiatives to attack the problem of homelessness. During this reporting period, we audited three programs established by the Stewart McKinney Homeless Assistance Act: the Supportive Housing Demonstration Program; the Emergency Shelter Grants Program; and the Single Room Occupancy Program. We found that these programs have been generally effective in meeting their objectives; however, administrative improvements are needed by both HUD staff and grantees.

Supportive Housing Demonstration

The purpose of this program is to develop innovative approaches to housing and supportive services for homeless individuals and families. Our audits of 11 HUD offices and 32 grantees showed the projects were in good physical condition and necessary supportive services were being provided.

*Inexperienced
Grantees Need
More Assistance*

However, HUD Field Offices need to provide better guidance and technical assistance and should improve their monitoring to ensure that grantees comply with grant agreements and requirements. This will help grantees, many of whom are inexperienced with Federal programs and regulatory requirements, to improve their program administration. Improvements are needed in accounting records, rents charged, tenant progress and needs, and use of rehabilitation fund advances.

We are in the process of consolidating these reviews and reporting to the Assistant Secretary for Community Planning and Development that HUD lacks consistent information from grantees to effectively evaluate the program. Grantees should perform follow-up monitoring to ascertain the status of residents who complete the program. Consequently, HUD needs to develop information to measure program success.

(Report Nos. 90-BO-156-0005, 90-DE-156-0002, 91-PH-156-0001, 90-SE-156-0001, 91-CH-156-0001, and 90-SF-156-0003)

Emergency Shelter Grants

This program provides emergency shelters for the homeless. We reviewed 12 HUD offices, 39 ESG grantees, 13 subgrantees, and 91 emergency shelters in 6 regions. With one exception, we found that the shelters were in generally good condition. However, monitoring by HUD offices was sometimes deficient. We noted a lack of comprehensive on-site reviews and deficient oversight of cash drawdowns. Similarly, grantees were not adequately monitoring subgrantees and shelter providers for compliance with grant requirements. Grantees also violated cash drawdown requirements by withdrawing Federal cash before it was needed.

Grantee deficiencies were due to unfamiliarity with program requirements. Our draft consolidated report recommends that HUD Headquarters supply better guidance to and oversight of the Field Offices to improve program administration. The Field Offices need appropriate training and should improve technical assistance to grantees to ensure effective and efficient use of program resources. The Office of CPD is reviewing our draft consolidated report. *(Report Nos. 90-NY-156-0001, 90-PH-156-0001, 90-SF-156-0004, 90-AT-156-0004, 90-FW-156-0003, and 91-KC-156-0001)*

Section 8 Single Room Occupancy

This program extends rehabilitation and Section 8 rental subsidies to single rooms occupied by the homeless. We audited nine locations. We found that the program is generally successful in providing housing for homeless individuals, but there are program monitoring weaknesses. The nine PHAs we reviewed received approximately 60 percent of the first year SRO funding of \$35 million.

We found that HUD Field Offices in Grand Rapids, Newark, New York City, Portland, and Seattle did not make the required number of reviews during the developmental phase and did not monitor PHA implementation. In turn, PHAs did not monitor shelter providers adequately. For example, support services, a vital component of SRO, were not monitored by PHAs. We found a high turnover rate at SROs because applicants were not being adequately screened to identify those best suited for SRO. We are consolidating the results of our field reviews and will be providing a report with recommendations to the Office of Housing. (Report Nos. 90-AT-109-0005, 90-CH-109-0005, 90-NY-109-0003, 90-PH-109-0002, and 90-SE-109-0002)

Community Development Block Grant Program

During this reporting period, our CDBG audits were concentrated on Interim Financing (Float Loans) and Section 108 Loan Guarantees. We found abuses of guidelines for both loan programs. In addition, we performed a series of program audits and noted numerous instances of ineligible and questioned costs incurred by grantees.

Interim Financing (Float Loans)

Misuse of float loans is costing the U. S. Treasury millions of dollars in unnecessary interest expenses. We reported this problem in a 1986 audit report and undertook this review to determine whether effective measures had been implemented. Float loans are short-term loans by CDBG grantees to developers and other subgrantees to finance eligible activities, such as economic development, housing construction, or land assembly. The source is the cash "float" of funds that are not specifically targeted or are scheduled to be used at a later time.

We audited ten grantees in California, Maine, Massachusetts, and Rhode Island who made 30 float loans totalling over \$103 million. The most serious findings were in California.

The City and County of Los Angeles used principal and interest payments from float loans to establish revolving loan accounts totalling \$64.5 million, contrary to HUD regulations. Further violations were:

- Using float loans as a permanent source of funds;
- Funding ineligible activities;
- Providing long-term loans and grants; and
- Circumventing letter-of-credit drawdown procedures.

These actions resulted in unnecessary interest charges to the U.S. Treasury of over \$3 million.

*\$64 Million Used
for Revolving
Fund*

On the positive side, HUD field office monitoring of floats was very effective in several instances. For example, field offices:

- Disallowed three loans totalling \$6 million that Riverside, California, made to for-profit businesses;
- Identified an ineligible \$2.5 million float loan made by Providence, Rhode Island;
- Disallowed a \$2.4 million loan that San Bernardino, California, made to a for-profit business; and
- Questioned the propriety of a \$15 million loan that Los Angeles made to a for-profit business.

We have provided a draft summary report to the Assistant Secretary for Community Planning and Development and we have recommended that interim float loans be reported as a material weakness under the Federal Managers' Financial Integrity Act. (*Report Nos. 90-BO-141-0003 and 90-SF-141-0006*)

Section 108 Loan Guarantees

Section 108 loan guarantees provide up-front financing for CDBG capital projects that could not be initiated with current CDBG funds. The loans are Federally guaranteed, with future grantee entitlement funds as collateral. Regulations permit grantees to obtain Section 108 loan guarantees up to three times their annual entitlement grant. Loans are generally repayable in 6 years. Regular CDBG requirements apply to Section 108-funded activities.

Our audits of five cities making Section 108 loans found that some loans are made for ineligible purposes. Others are made to economically unsound projects.

- Niagara Falls, New York, made a \$6.2 million Section 108 loan to a developer for construction of Niagara Splash Park. However, this loan went for ineligible or unsupported costs claimed as the developer's equity or private fund contributions. This was not only the wrong use of Section 108 funds, but it has adversely affected the City's security interest in the property, because substantial amounts of the Splash Park's costs: (1) were improperly paid with bond proceeds from another project; and (2) were based on invalid costs that were never paid. (*Report No. 90-NY-242-1028*)
- Tacoma, Washington, loaned \$492,000 to a developer who used the money for other than stated purposes, defaulted on the loan, and never completed the project. The City also misrepresented the terms of the project in its Section 108 application to HUD. Because of the

default, the City is obligated to the Federal Financing Bank for repayments on the loan through the year 2003.

(Report No. 90-SE-249-1008)

- Bellflower, California, loaned \$1.7 million to help develop a commercial retail center. At the time, this was an ineligible CDBG activity (although a change in the law has since made it eligible). More importantly, the City did not do a feasibility study to determine if the project was viable. Unfortunately, it was not, and the City had to invest an additional \$2.8 million of its own funds.
(Report No. 90-SF-249-1017)

Recommendations for corrective action on the above audits have been made to the appropriate Regional Administrator/Field Office Manager.

Community Development Block Grants

We reviewed local CDBG Program administration at selected grantees. Following are highlights of audits of four programs.

Delaware County, Pennsylvania, and its subgrantees completely disregarded HUD regulations, resulting in waste of funds and mismanagement of programs. Problems were not identified by the grantee. We found ineligible and questioned costs of \$5.6 million, including:

- Over \$1 million was spent on unnecessary advertising, printing, consultant fees, travel, meals, banquets, and salaries of employees who were not working on CDBG programs.
- Loans, contracts, and purchases were made by board members and related organizations. Four board members had ties to firms that received low interest loans.
- Almost \$3 million of CDBG funds were used for questionable loans that were not monitored to ensure they were used to achieve CDBG objectives.

Because of the severity of the problems, we recommended termination of funding of all of Delaware County's economic development programs. An investigation of the program is currently ongoing. *(Report No. 90-PH-249-1014)*

The City of Lincoln Park, Michigan, approved a \$250,000 CDBG loan without determining that it was necessary or eligible. The mayor had an undisclosed interest in the firm which received the loan to finance construction of a \$7 million hotel. However, the developer was underfunded and did not start construction, and there is little possibility the hotel will ever be built. The City also did not resolve three other conflict-of-interest issues before awarding certain rehabilitation grants.

(Report No. 90-CH-241-1020)

At Benton Harbor, Michigan, we found poor procedures and inadequately trained staff. The City did not record accounting transactions timely, routinely reconcile its bank account, pay internal liabilities owed, or ensure that amounts owed the City were recorded and collected.

(Report No. 90-CH-241-1013)

Wheeling, West Virginia, needs to improve its administration of the program. It cannot determine whether CDBG activities are benefitting those of low and moderate income, as was intended by the program. The City also does not maintain adequate records of who is participating in the program, who owes money, or who is complying with HUD regulations and applicable labor standards. *(Report No. 90-PH-241-1013)*

Administration

Ineffective ADP systems continue to be one of the Department's most persistent problems. This problem goes back at least to the 1970s. Although many systems improvements have occurred, there is still much need for improvement, especially with the accuracy of data and access to systems. Current audits covered the Rapid Housing Payment System, the Debt Management and Collection System, the Martin Marietta Data Systems facility, and the microcomputer inventory system.

Rapid Housing Payment System (RHPS)

From June 1988 through February 1990, HUD made \$4 million in duplicate payments to public housing agencies. This occurred primarily because of procedural weaknesses. The manual procedures used by Field Office staff were not effective in preventing duplicate payment authorizations. Automated edits were not totally effective in detecting duplicate payment requests. For example, the Detroit Housing Department made a routine request for \$364,266 one day and an emergency request the next day. Both requests were paid. We also found instances where HUD staff detected the errors and stopped an additional \$27 million in duplicate payments.

Our audit also noted that system security was poor. Password changes were not automatically required, and password sharing occurred. The RHPS System Administrator had the incompatible duties of changing on-line RHPS production software and maintaining security access to RHPS data. Further, the System Administrator had access to Field Office users' passwords.

We recommended that RHPS be reported as a FMFIA material weakness and that there be recovery of the erroneous payments, revisions to software, and training for users and input staff. The Assistant Secretary for Public and Indian Housing stated that the system has been modified to prevent

duplicate payments. He said that other modifications and an independent assessment of the system are also being done. His office is working with the Office of Finance and Accounting and Field Offices to recover the \$4 million in erroneous payments.

Debt Management and Collection System (DMCS)

DMCS is a contractor-operated computer system that tracks HUD's management of 80,000 accounts receivable from defaulted Title I home improvement and manufactured home loans. DMCS has inadequate internal controls against unauthorized access and unauthorized updates of data. Access control weaknesses were so pervasive that we recommended that DMCS be reported as a FMFIA material weakness.

Another weakness concerned the lack of a policy on when debt collection activities cease and the lack of capability within the DMCS to issue IRS Form 1099-G on defaulted debts on which collection activity ceased. Forgiven debt is considered income to the borrower. Form 1099-G is used to report this income to IRS, which should therefore collect additional tax revenues.

We recommended that HUD develop policy and procedures on forgiven debt. HUD management generally agreed with our recommendations and provided a timetable for completion of corrective actions.

We also audited the Title I Debt Collection function at Headquarters and the three Title I Service Centers. These audits are discussed in the Single Family section of this chapter. (Page 28)

Computer Access Violations

We followed up on our 1989 audit report on access controls to the Martin Marietta Data Systems' computer facility to determine whether illegal acts resulted from the internal control weaknesses discussed in that report. Overall, we found that actions were taken to correct outstanding material weaknesses related to this audit. MMDS operates several major automated systems for HUD, including the Single Family Insurance System, the Single Family Claims Subsystem, the Multifamily Insurance System, the Title I Insurance and Claims System, the Administrative Accounting System, and the Institution Master File System. HUD has designated these systems as critical and sensitive under the Computer Security Act.

We did not identify any illegal acts, but during a 4-month period in 1989, we noted there were over 2,000 attempts to access data by individuals not having the authority to do so. HUD personnel generally provided reasonable explanations for the violations. However, they did not routinely receive and analyze a computer-generated report of access violations. Corrective action is being taken.

Microcomputer Equipment and Software

The Department's microcomputer inventory records are outdated and inaccurate. HUD microcomputers are recorded in two inventory systems--a general personal property inventory system and a special microcomputer inventory system. But neither system has accurate records on microcomputers. Our audits at the Kansas City Regional Office and HUD Headquarters disclosed 48 laptop computers, worth \$78,000, were missing. There were also numerous unauthorized copies of licensed software noted in our review.

The Office of Administration generally concurred with the matters reported and has initiated several actions to tighten controls.

Audit Statistics

	04/01/90 - 09/30/90	Fiscal Year 1990
Cash Recoveries ¹	\$21,167,465	\$34,330,377
Cost Efficiencies Realized ¹	\$6,913,089	\$21,669,931
Commitments to Recover Funds ¹	\$34,990,482	\$96,338,302
Cost Efficiencies Sustained ¹	\$5,272,465	\$21,877,573
Suspensions of Persons/Firms Doing Business with HUD	3	22
Debarments of Persons/Firms Doing Business with HUD	3	13
Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgage Review Board	3	8
Subpoenas Served	2	13
Material Weaknesses Reported	8	14
Reports Issued:		
• Internal Audit Reports	50	72
• External Audit Reports	94	186
• Audit-Related Memoranda Issued	33	69
• Non-Federal and other Agency Reports Accepted	2,503	5,191

Note 1: Includes amounts due to HUD program participants

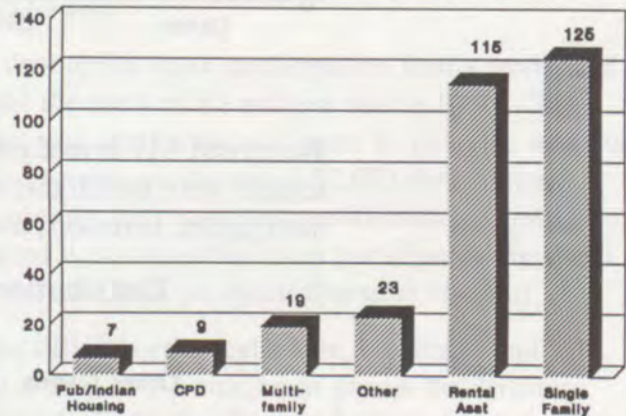
Chapter 2 Investigation

Investigations in single family housing programs dominated our caseload in the past 6 months. This category took approximately 40 percent of our investigative time and represents 48 percent of our cases. Typical single family cases are closing agent fraud, equity skimming, strawbuying and loan origination fraud.

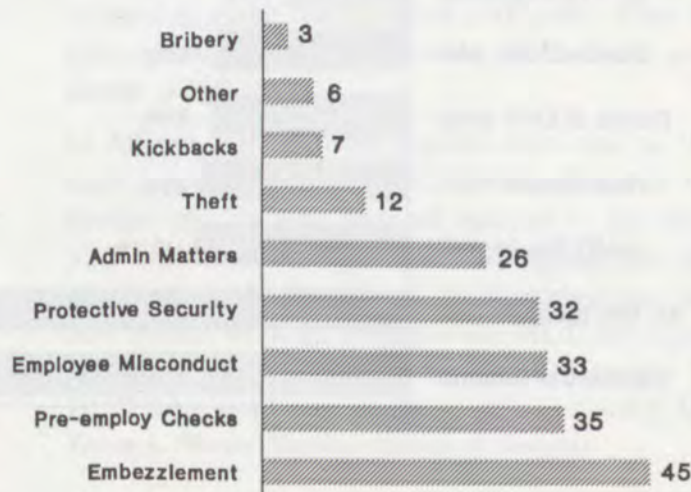
The biggest single investigative case in dollar impact was a GNMA case. The president of Maple Mortgage, Inc., of Dallas, Texas, was indicted for misappropriating \$18.4 million of escrow funds. He is alleged to have used customers' escrow funds to buy securities and other assets for himself and his separate Canadian business. The 35-count indictment charged him with fraud by wire. Losses to HUD are estimated at \$20 million. (*U.S. vs. William Grantmyre, Northern District of Texas*)

We opened 497 investigations during the last 6 months. More than half, or 298, involved false statements, mostly in single family and rental assistance programs.

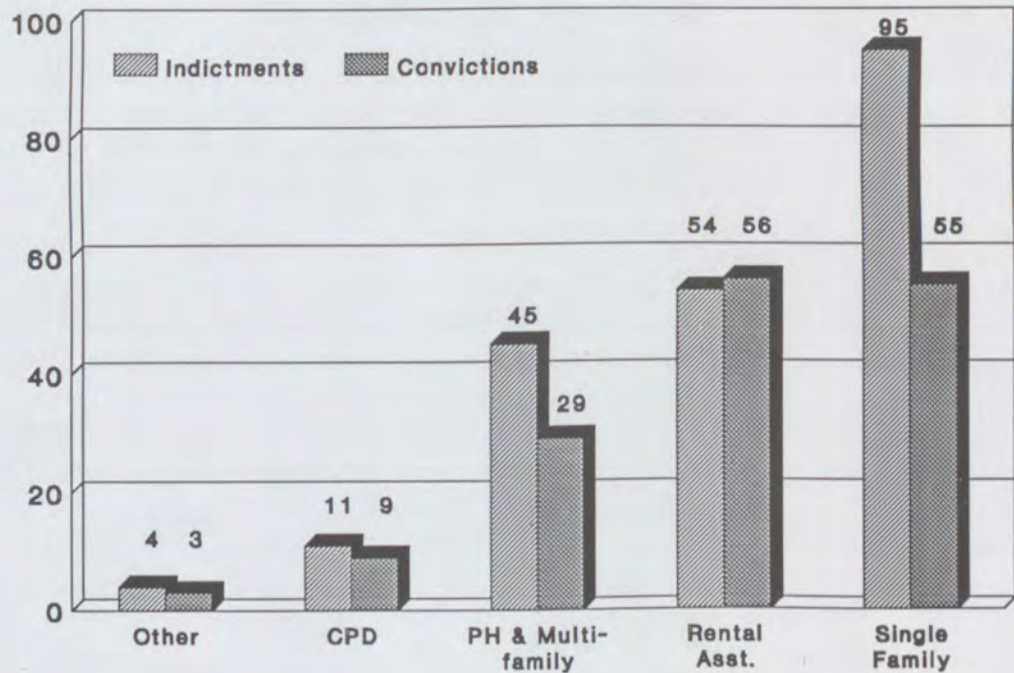
False Statement Investigation Cases Opened



Other Categories of Investigation

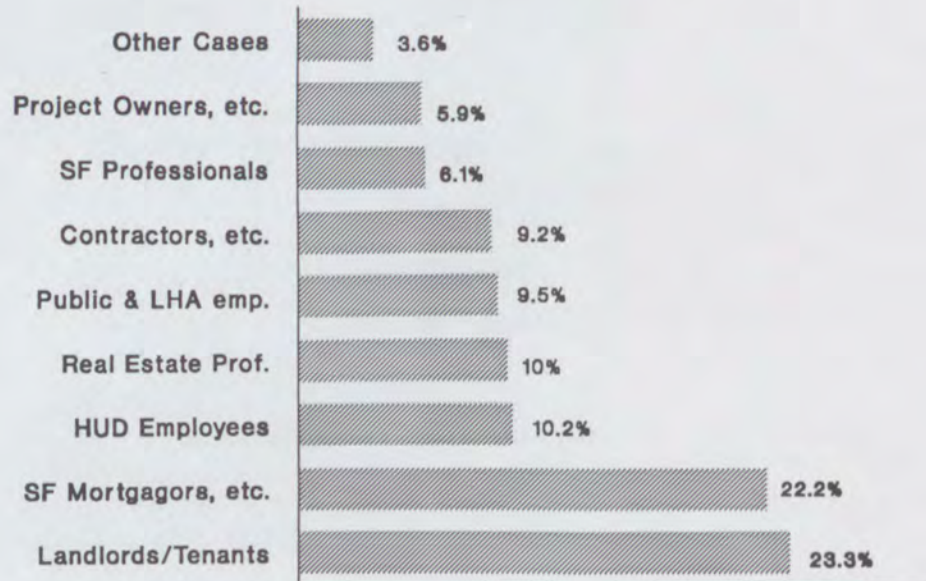


Prosecutions by Program Area



We closed 417 investigations during the last 6 months. Landlords and tenants were the largest category, followed closely by single family mortgagors, investors, and speculators.

Distribution of Closed Cases by Category



Single Family Housing Programs

Closing Agents

When a HUD-insured loan goes into default or foreclosure, title to the property is assumed by HUD and sold. HUD is generally represented in the sale by contracted closing agents. Proceeds of the sale are to be transmitted promptly to HUD. However, in many cases over the past few years, closing agents have failed to transmit the funds to HUD timely. In some cases, the closing agents divert proceeds to their own use.

In the most publicized case, a closing agent in Maryland took \$6 million. She became known as "Robin HUD" because she claimed to have taken sales proceeds and given money to the poor. However, the investigation showed that most of the money was diverted to her personal use. Some property purchased with the stolen funds was recovered by the government. Robin HUD was sentenced to 46 months in jail, 3 years probation, and 600 hours of community service. She was also ordered to make restitution of \$600,000, and has been debarred from participation in HUD programs. (*U.S. vs. Marilyn Harrell, District of Columbia*)

In Montgomery, Alabama, counterfeit bank confirmation forms were used by a closing agent to conceal the theft of \$2 million due to HUD. The closing agent pled guilty and was sentenced to 6 years in jail. He was also fined \$2,025,000 and ordered to pay restitution of \$2,073,499. Three associates who assisted in printing the counterfeit confirmation forms also pled guilty. The closing agent was suspended from participating in HUD programs. (*U.S. vs. Silas Jones Walker III, et al, Middle District of Alabama*)

In Indianapolis, Indiana, two officials of a real estate, mortgage and title company were sentenced to a total of 57 months in prison for diverting nearly \$1 million of HUD and bank funds. The thefts included \$384,000 taken from closing funds while one of the two was a HUD-contracted closing agent. In addition to the jail term, the two were fined \$6,000 and ordered to make restitution of \$300,000. They were suspended from participating in HUD programs. (*U.S. vs. Lena and Einar Stefansson, Southern District of Indiana*)

In Atlanta, wire transfer requests were sent to HUD to conceal the fact that sales proceeds were not actually transferred to HUD. A closing agent, his brother and his wife were all indicted in the scheme and a civil suit seeking \$2.5 million in damages was filed against the closing agent and his brother, an attorney. At the time of the investigation, the closing agent firm had \$14 million of sales proceeds due HUD on deposit in various bank accounts. An OIG audit determined that some transfers of sales proceeds to HUD were not being made. (*U.S. vs. David L. Martin, Robert E. Martin, and Teresa L. Martin, Northern District of Georgia*)

Equity Skimming

Equity skimming refers to the act of retaining rent receipts and failing to make mortgage payments on a HUD-insured property. When the mortgage goes into default, HUD is forced to pay off the lender.

Five members of a Seattle, Washington family were convicted and sentenced for skimming \$100,000 from 34 properties. The principal defendant was sentenced to 10 years in jail and ordered to pay restitution of \$354,000. His brother-in-law and father received jail terms of 2 years and 6 months, respectively. The principal defendant's wife and mother each were placed on 5 years probation. This case was a joint investigation with the FBI, the Postal Service and the Department of Veterans Affairs. The five individuals were suspended from participating in HUD programs. (*U.S. vs. Larry Cecil Van Schoiack, et al, Western District of Washington*)

An investigation of 162 defaulted loans insured by HUD and VA led to the indictment of two speculators in Austin, Texas. The defaults resulted in a possible loss to the government of \$4.8 million. The speculators were charged with equity skimming in connection with 11 rental properties on which they assumed the mortgages, collected rents, and failed to make mortgage payments from January 1988 to May 1989. (*U.S. vs. Jimmy Ray Hill and Jesus Angel Cindo, Western District of Texas*)

In the first equity skimming prosecution in Alaska, a Federal jury found an Anchorage investor guilty of equity skimming. The investor skimmed \$100,000 in rents from 16 properties. Defaults on the mortgages cost the government \$1,800,000. The investor was sentenced to 6 months in jail and fined \$5,000, and was suspended from participating in HUD programs. (*U.S. vs. Adam Bijan, District of Alaska*)

NAME & LOCATION	STATUS	DESCRIPTION	----- SENTENCING -----				OTHER AGENCY
			PRISON	PROB	FINE	REST	
EQUITY SKIMMING							
Toliver, Tulsa, OK	Charged	Attorney/CPA and wife indicted re 21 assumed properties.					FBI
Bentley /Lavit, Okla City, OK	Charged	Mortgage banker and agent indicted in OK-SKIM investigation.					FBI
Garrett, Tulsa, OK	Sentenced	Speculator pleads guilty, is sentenced.		5 yrs		66,765	FBI
Kornreich, Denver, CO	Sentenced	Malibu investor in 83 Denver properties is sentenced.	18 mos				FBI/VA

Strawbuying

In strawbuying schemes, a property is sold with a HUD-insured mortgage to a person (the strawbuyer) who has no intention of making the payments. The strawbuyer is usually paid by the seller to participate. When the property is foreclosed, HUD must pay off the insured loan.

In Houston, Texas, a speculator was convicted by a Federal jury. He and a partner paid strawbuyers \$2,000 each in the sale of 36 properties that were later foreclosed on at a cost to the government of \$1.2 million. The partner earlier pled guilty to his part in the scheme. The partners were suspended from participating in HUD programs. This case was investigated by the Housing Single Family Mortgage Fraud Task Force, a joint effort of HUD and the FBI. (*U.S. vs. Robert M. Baumstein and Louis H. Arky, dba Belltex Partners, Southern District of Texas*)

Two targets of the Goldnet Task Force in Washington, D.C., pled guilty to strawbuying charges. One of the two speculators agreed to repay \$490,000 in a civil settlement with the Department of Justice. They were suspended from participating in HUD programs. (*U.S. vs. Peter Kalavritinos and Martin Hollander, District of Columbia*)

NAME & LOCATION	STATUS	DESCRIPTION	----- SENTENCING -----				OTHER AGENCY
			PRISON	PROB	FINE	REST	
STRAWBUYING							
Milton, Clinton, MS	Charged	No payments after purchases.					FBI
Harwell, DeSoto, TX	Guilty	Mayor/developer convicted by Federal jury.					

Loan Origination

Fraud in origination of home loans insured by HUD generally involves false statements regarding income or other eligibility criteria.

In Indianapolis, a conspiracy by two investors, two sellers and a mortgage company loan officer cost HUD \$600,000 in defaulted mortgages on 12 condominium units. The five were indicted by a Federal grand jury after a joint investigation with the FBI. (*U.S. vs. William Miller, et al, Southern District of Indiana*)

In Chicago, two investors who claimed to be owner-occupant mortgagors were indicted by a Federal grand jury. They were charged with mail fraud and fraudulent statements regarding deposits, employment and financial worth in connection with three foreclosures which caused a loss to HUD of \$100,000. (*U.S. vs. Beverly Smith, et al, Northern District of Illinois*)

There were two Goldnet cases in Washington, D.C., involving loan origination fraud. Two speculators pled guilty to charges of false statements and interstate transportation of stolen property. They were suspended or debarred from participating in HUD programs and agreed to reimburse HUD for losses of \$425,000. (*U.S. vs. Marvin Gitelson and Max Chaiken, District of Columbia*) Another speculator was sentenced to 2 years in jail, fined \$5,000 and ordered to pay restitution of \$42,000. In addition, he signed a promissory note of \$100,000 and was suspended from participating in HUD programs. (*U.S. vs. Richard E. Grodsky, District of Columbia*)

NAME & LOCATION	STATUS	DESCRIPTION	----- SENTENCING -----				OTHER AGENCY
			PRISON	PROB	FINE	REST	
LOAN ORIGINATION							
Gitelson /Chaiken, Washington, DC	Guilty	Speculators agreed to repay \$425,000; sentencing is set for January 1991.					FBI

Rental Assistance Programs

HUD's programs of public housing and subsidized rental housing are restricted to low and moderate income families. Therefore, family eligibility based on income becomes the focus of many of our investigations. Tenants can illegally benefit from rental assistance or public housing by understating or concealing family income.

Computer matching programs are sometimes used to detect this type of fraud. The programs compare income declared by tenants to income recorded in public payrolls and other databases. In Fort Worth, Texas, 12 PHA tenants were indicted for false statements after matching of PHA wage data with that provided by the Texas Employment Commission and other agencies. The tenants received \$109,000 in rental assistance to which they were not entitled. (*U.S. vs. Lillian Washington, et al, Northern District of Texas*)

"Operation Welcheat" included nine rental assistance cases among 22 indictments obtained through a Springfield, Illinois Federal grand jury. The rental assistance defendants included a homeowner, an apartment manager and tenants. There was a total of \$60,000 in illegal rental benefits received. "Operation Welcheat" is a combined Federal/State multi-agency investigation of fraud against the government in Central Illinois. (*U.S. vs. Jeffrey Mercer, et al, Central District of Illinois*)

In Bluefield, West Virginia, a residential project manager certified two tenants as eligible even though she was aware they were failing to report all

their income. All three were indicted for conspiracy and false statements. The agency paid \$42,000 in ineligible rental assistance payments. The project manager was suspended from HUD programs. (*U.S. vs. Lena Lapradd and Yolanda and Mark Page, Southern District of West Virginia*)

NAME & LOCATION	STATUS	DESCRIPTION	----- SENTENCING -----				OTHER AGENCY
			PRISON	PROB	FINE	REST	
RENTAL ASSISTANCE							
Stofle, San Francisco, CA	Charged	Sec 8 tenant was resident of record at two units.					
Sanderson, et al., San Francisco, CA	Charged	Four Section 8 tenants charged.					
Williams, Elkhart, IN	Sentenced	PHA tenant.		3 yrs			
Kenny-Hall, et al., Green Bay, WI	Charged	Five Section 8 tenants.					

Multifamily Housing Programs

The most significant multifamily housing program case of the last 6 months involved billing fraud and kickbacks by a Chicago pest exterminating contractor. The contractor submitted false billings totalling \$500,000 for work on 10 HUD-owned multifamily projects. Kickbacks were paid to a HUD contracting officer and program manager who were aware of the false billings.

The president of the firm was sentenced to 9 months of work release and ordered to make restitution of \$100,468. The HUD contracting officer was sentenced to 3 years probation and 300 hours of community service, as well as a \$1,000 fine. The vice president of the firm was given 5 years probation and ordered to pay restitution of \$62,000. The corporate secretary of the firm was given a 5-year suspended jail term and 5 years probation and was ordered to pay restitution of \$112,000. The program manager is deceased. The others have been suspended from HUD programs. (*U.S. vs. Elmo Turner, Donna Haynes, et al, U.S. vs. Elmo Turner, Evelyn Clark, et al, U.S. vs. Jerome E. Posey, and U.S. vs. Jean Simms Turner, all in the Northern District of Illinois*)

NAME & LOCATION	STATUS	DESCRIPTION SENTENCING				OTHER AGENCY
			PRISON	PROB	FINE	REST	
MULTIFAMILY HOUSING							
Haley /Edwards, Kansas City, KS	Guilty	Funds diverted from project after default; owner pled guilty, management agent nolo contendere.					FBI
Heath, Pontiac, MI	Sentenced	Subcontractor used false payrolls to cover prevailing wage violations.		5 yrs		74,785	DOL

Public Housing Programs

There were several major cases of fraud by PHA officials and their contractors in the past 6 months.

Six top officials of the Passaic, New Jersey Housing Authority pled guilty in the investigative follow-up to our audit that was reported in our last Semiannual Report. (See also Chapter 3 of this report.)

The Passaic executive director admitted receiving \$125,000 of income fraudulently by using multiple job titles. He also pled guilty to an income tax evasion charge due to not reporting \$55,000 of income from kickbacks. The agency's attorney admitted aiding the executive director in the above schemes. The attorney, the deputy executive director and the chief of operations all pled guilty to obstructing the Federal audit. The maintenance chief admitted installing heating equipment at the executive director's home with agency funds. The housing commissioner pled guilty to submitting a false statement on an application to obtain subsidized housing. The executive director was debarred from HUD programs. (*U.S. vs. Paul Marguglio, et al, District of New Jersey*)

NAME & LOCATION	STATUS	DESCRIPTION	----- SENTENCING -----				OTHER AGENCY
			PRISON	PROB	FINE	REST	
PUBLIC HOUSING							
Stevens, Alma, MI	Charged	PHA project manager embezzled tenant collections; charged by State.					
Sema, Winslow, AZ	Sentenced	PHA Executive Director and city magistrate embezzled agency funds.	1 yr	4 yrs		30,098	
Hoose, Pontiac, MI	Charged	PHA modernization contractor falsified payrolls to hide prevailing wage violations.					DOL
Sudia, et al., New Jersey	Sentenced	Electrical contractor, 2 PHA directors in kickback scheme.					
		Carteret PHA executive director:	96 mos		40,000		
		Woodbridge PHA exec director:	54 mos	3 yrs	40,000		
		Contractor:	9 mos		75,000		
Duffy, Barrow, AK		PHA Executive Director mismanaged Mutual Help program; resigns.					
Cote, Crookston, MN	Guilty	PHA Executive Director pleads guilty to embezzlement.					

Community Planning and Development Programs

Fraud by program officials and contractors typified our investigations into CPD programs.

Investigation of a CDBG-funded baseball field project and parking lot in Corpus Christi, Texas, led to indictments of officials of the Boys Club and the City by a county grand jury. Charges of misapplication of fiduciary property and theft were filed after substandard construction was discovered. The five persons indicted included the assistant city manager, the chairman of the planning and zoning commission, two executives of the Boys Club, and the contractor. The CDBG funds were allegedly paid to a fictitious construction company and false invoices were submitted for payment. (*State of Texas vs. Arnold Moreno, et al*)

A rehabilitation specialist who embezzled \$167,000 from the Aurora, Illinois community development program was found guilty by a jury. The scheme involved false billings and kickbacks from a contractor. The contractor, who pled guilty, returned checks to the City employee for work not done. (*U.S. vs. Darrell Tipton, Northern District of Illinois*)

NAME & LOCATION	STATUS	DESCRIPTION	----- SENTENCING -----				OTHER AGENCY
			PRISON	PROB	FINE	REST	
COMMUNITY PLANNING AND DEVELOPMENT CASES							
Council, Southhampton, NY	Charged	CDC director embezzled \$20k CDBG rehab funds; also spent \$108k for senior citizens building based on inflated appraisal.					
Crozier, Scottsdale, AZ	Charged	CD director bought property of friend w/CDBG funds at \$30k above appraised value.					
Marin Fort Lauderdale, FL	Guilty	Businessman conspired w/CPD director to divert CDBG funds. Fled in 1986, captured in 1990, pled guilty.					FBI
Foster, Chicago, IL	Charged	Consultant to HUD project developer failed to report \$70,000 income.					IRS
Ellis, E. St. Louis, IL	Sentenced	Aide to mayor sentenced for extorting CDBG contractor to subcontract with aide's firm.	21 mos				

Task Forces and Support of U.S. Attorneys

Substantial investigative resources have been devoted to supporting task force operations with the FBI and the Department of Justice. These include single family housing program task forces in Washington, D.C.; Oklahoma City, Oklahoma; Denver, Colorado; and Seattle, Washington. Significant investigations such as "Robin HUD" also received priority and involved cooperative efforts with the FBI and U.S. Attorneys. We also continue to support requests from U.S. Attorneys for agents to be assigned for lengthy periods on investigations of fraud in multifamily housing programs.

The Goldnet task force in Washington, D.C., resulted in additional convictions and sentencing of brokers, strawbuyers and investors. During the past 6 months, 11 individuals were convicted on charges ranging from conspiracy and false statements to transporting stolen goods and securities. Of this group, five individuals received sentences totalling 14 years in jail, 160 hours of community service, and 12 years probation. They were also ordered to make restitution to HUD of \$1,637,000 and were fined \$60,000.

Since inception of the Goldnet task force, there have been 43 persons sentenced to a total of 88 years in prison. Civil recoveries totalling \$5.1 million have been made. The task force consists of HUD, the FBI, the U.S. Attorney, and the Department of Veterans Affairs OIG.

Mortgage fraud in Oklahoma City and Tulsa is the subject of the Oklahoma task force. During the past 6 months, there were five indictments and five convictions on charges including conspiracy, false statements, mail fraud and equity skimming. This brings the cumulative total for the task force to 63 indictments and 43 convictions. Total sentences are 21 years in prison, 63 years probation, 4,320 hours of community service and \$3,725,428 in restitution.

The Denver, Colorado task force is focusing on loan origination fraud. Schemes have involved inflated appraisals, false statements, and strawbuyers. Seven people have pled guilty and been sentenced. Assistant U.S. Attorneys from Washington, D.C., were assigned to assist in the prosecutions.

A task force in Tampa, Florida, is targeting single family program fraud. Two investors and one homeowner have been indicted for various violations including submitting false statements to HUD.

Joint efforts with the FBI in Indianapolis, Indiana, have resulted in prosecutions of HUD closing agents such as those described on Page 41.

Investigation Statistics

	04/01/90 - 09/30/90	Fiscal Year 1990
Cash Recoveries/Savings	\$7,879,812	\$13,344,979
Commitments to Recover Funds	\$1,195,243	\$2,215,183
Cost Efficiencies	—	\$224,464
Total Fines Levied	\$2,573,103	\$2,888,812
Indictments	209	394
Convictions	152	296
Investigations Pending as of 9/30/90		
OIG	828	
FBI/Other	737	
U.S. Attorney	218	
Total Investigations Pending	1,783	
Investigations Closed	417	828
Referred for Prosecution		
FBI (Prima Facie-OIG Investigation)	46	100
FBI (No OIG Investigation)	4	5
Department of Justice	56	128
Other	17	28
Total Referrals	123	261
Total Years of Prison Sentences	160	271
Suspensions of Persons/Firms Doing Business with HUD	94	128
Debarments of Persons/Firms Doing Business with HUD	79	113
Personnel Actions Initiated Against HUD Employees	26	51
Subpoenas Served	27	50

Chapter 3

Audit Follow-Up

This Chapter reports the status of OIG audit recommendations. Six significant audits from prior semiannual reports are discussed below. They are PHA decontrol, Section 8 accounting and budgeting, Section 223(f) Coinsurance, Retirement Service Centers, housing development corporations, the Cook Inlet Housing Authority's Mary Conrad Center, and the Passaic, New Jersey PHA.

Following these discussions are four tables showing the status of management decisions and final actions on audit recommendations. These tables, which are required by the Inspector General Act Amendments of 1988, begin on Page 58.

Public Housing Agency Decontrol Program

The results of our audit of the Public Housing Agency Decontrol Program were reported in our Semiannual Report for the period ending March 31, 1990. The audit was performed within the jurisdiction of HUD's Philadelphia Regional Office. The PHA Decontrol Program relieves certain good performing PHAs from certain HUD reviews and requirements, thereby allowing them greater authority and flexibility in managing their affairs.

Our audit disclosed that no real benefits were being derived from the program either for HUD or PHAs. Consequently, during the prior semiannual reporting period, we brought our August 1989 report to the attention of the General Deputy Assistant Secretary for Public and Indian Housing and recommended that the Decontrol Program be cancelled or revised. He agreed with our recommendation and suspended the program on January 31, 1990.

A successor program was subsequently developed by a Headquarters Working Group consisting of HUD Regional/Field Office staff, PHA Executive Directors, resident management staff, and housing industry representatives. The new program was named the Management Assessment Program. Under the new program, the performance standards used to assess PHA performance have been considerably revised and expanded. The new program provides for PHA performance standards similar to what are called for by Title VII, Section 713, of S.566, National Affordable Housing Act, and Title V, Section 504, of H.R. 1180, Housing and Community Development Act of 1990. Field testing is currently underway to assess the effectiveness of the new program. This testing involves a total

of 250 PHAs. It is expected that proposed rulemaking will appear in the Federal Register during early 1991. A final rule is expected to be published in mid-1991. The program will officially take effect on or about October 1, 1991.

Management decisions have been made on all of our remaining recommendations. These will remain in a "final action pending" status until the new program takes effect.

Accounting and Budgeting for Section 8 Funds

The Section 8 program represents one of the most significant material weaknesses facing the Department today. FY 1990 appropriated budget authority for Section 8 programs totalled nearly \$5 billion. A special Working Group of the Secretary's Task Force on Program Financial Management studied the program during the latter half of 1989 and concluded that the accounting and budgeting aspects of the Section 8 program were significantly deficient. As a result, HUD cannot be assured that Section 8 funds are being used effectively or are being budgeted and accounted for properly.

During the prior semiannual period, we reported that our review confirmed the serious nature of the Department's Section 8 problems. We concluded that HUD did not have accurate or reliable data to administer its Section 8 Program. We also determined that there was no assurance that funds were being optimized and accounted for properly. Further, we reported that the Department was unable to provide Congress with accurate estimates for amendment funding and expiring Section 8 contracts. We recommended that HUD develop long-range plans to address the mounting problems in the Section 8 Program.

An Action Plan has now been developed by HUD to solve the problems in the Section 8 program. A major accounting/consulting firm has been hired by the Department to further document and evaluate the problems and issues facing HUD in ensuring accountability in the Section 8 program. The documentation of the problems having been completed, the accounting/consulting firm is now into Phase II of its effort. This involves the conduct of a comprehensive, independent assessment of the Section 8 subsidy payment process and the identification of cost-effective corrective actions. The OIG needs further documentation from HUD program officials on three recommendations to determine whether management decision can be recorded. For all of the remaining recommendations, final action has been completed or target dates are current.

HUD also expects to report to Congress this year on its Section 8 cost amendment funding, including 5-year budget projections of needed amendment funds.

Although the Department is fully cognizant of the seriousness of its Section 8 accounting and budgeting problems, the remedial effort will be long-term in nature and staff and resource intensive. It will require the full commitment of the Administration, HUD, and the Congress. We will continue to monitor and report on progress.

Section 223(f) Coinsurance Program

In our Semiannual Report for the period ending March 31, 1989, we discussed the results of our audit of the Section 223(f) Coinsurance Program. Our audit disclosed that coinsuring lenders were not adequately complying with HUD's coinsured loan underwriting and servicing requirements. Lenders were underwriting unsound loans, overmortgaging properties, failing to detect indications of troubled loans in a timely manner, and not taking adequate actions to minimize mortgage defaults and coinsurance losses. At the time of our audit, 106, or nearly 13 percent of all Section 223(f) coinsured loans, had defaulted. The outstanding principal and accrued interest balance applicable to the 106 loans amounted to nearly \$700 million.

As of September 30, 1990, three of the five recommendations in our audit report had been closed with the termination of the Coinsurance Program. The changes included in these recommendations are no longer needed because of the limited time new loan applications will be accepted by coinsuring lenders.

The Final Rule terminating the Coinsurance Program was issued October 10, 1990, and will allow lenders to accept mortgage insurance applications up to November 12, 1990. HUD pre-commitment reviews will be required for all loans for which commitments are issued after November 12.

There are two remaining recommendations that will not have final action completed until the Department implements an effective enforcement policy that will invoke the appropriate administrative sanctions against coinsuring lenders for defaulting on their obligations to HUD. Further response is needed from HUD program officials on their enforcement policy.

Since September 1988, 10 coinsuring lenders with total coinsured portfolios of approximately \$4.8 billion have experienced severe financial difficulties as a result of coinsured loan defaults and have either defaulted on their obligations to holders of mortgage-backed securities guaranteed by GNMA or have been unable to fund scheduled draws on construction loans.

GNMA has been obligated, under its guaranty agreements, to take over the portfolios of these defaulted lenders and to make the required payments to securities holders. GNMA is authorized by HUD to assign defaulted loans to FHA for full indemnity. These lender defaults have, in effect, raised HUD's exposure on its coinsured loans from approximately 80 percent to 100 percent.

Retirement Service Centers Program

In our Semiannual Report for the period ending March 31, 1990, we reported the results of our multi-regional audit of HUD's insured Retirement Service Centers (ReSC) Program. We disclosed that ReSCs were failing at a high rate primarily as a result of poor loan underwriting by HUD and its coinsuring lenders, as well as inadequate program policies and controls. Our audit report, issued on April 6, 1990, contained numerous recommendations for corrective action under two different scenarios: one was HUD's continuation of the ReSC Program, and the other was HUD's termination of the program.

Following the issuance of our audit report, HUD's Office of Policy Development and Research (PD&R) released the results of its study of the economic feasibility of the ReSC Program. PD&R's study confirmed our conclusions regarding the serious financial plight of the program.

Both our audit and PD&R's study were addressed at June 29, 1990 hearings held by the HUD/Moderate Rehabilitation Investigative Subcommittee of the Senate Committee on Banking, Housing and Urban Affairs. During these hearings, HUD's Under Secretary testified that the net loss to the FHA General Fund from ReSC projects could range up to \$291 million. He further testified that as a result of the Department's findings, the ReSC Program would be terminated. He stated that the Department would develop an operating plan for reviewing troubled projects and for the efficient disposition of foreclosed ReSCs. A proposed rule to terminate the program is currently under review in the Department.

Further response is needed from HUD program officials on additional recommendations in our report that are applicable in spite of termination of the program.

Housing Development Corporations

In our prior semiannual report, we disclosed that HUD's control and oversight of the establishment and operation of PHA housing development corporations (HDC) were virtually nonexistent. These corporations are generally established to carry out housing-related activities on behalf of a

PHA. State laws governing nonprofit corporations and PHAs apply to the incorporation and operation of HDCs.

Our review of HDCs in the Denver Region disclosed that such entities may sometimes place HUD/PHA funds at risk. We also noted that the HDCs can be used by PHAs to circumvent HUD rules and regulations that govern PHA activities.

Management decisions have been reached on each of the report's recommendations. HUD management agreed that the Department needed to establish some controls over HDCs to protect the Federal Government's interests. HUD management has opted not to issue regulations. Instead, an effort will be made to increase HUD Field Offices' oversight of HDC activities. Instructions for Field Office monitoring are being designed to ensure that PHA assets are not being encumbered in any way by HDCs; costs are being properly allocated between PHA-owned projects/activities and HDC-owned projects/activities; and conflict-of-interest situations are eliminated in procurement activities involving both the PHA and HDC. It is expected that the instructions will be issued in December 1990.

Cook Inlet Housing Authority -- Mary Conrad Center

On September 29, 1987, we reported the results of our audit of the Cook Inlet Housing Authority, Anchorage, Alaska. The report was discussed in our Semiannual Reports to Congress for the 6-month periods ending September 30, 1987, and March 31, 1989.

The most significant problem disclosed in our report involved the construction and proposed operation of the \$13 million Mary Conrad Center as primarily a nursing home/intermediate care facility. The Authority originally proposed this project to HUD in 1984 as a congregate housing facility. HUD provided \$4.1 million to assist in financing the construction of the facility's congregate housing and agreed to provide operating subsidies over a 35-year period.

While Section 7 of the United States Housing Act of 1937, as amended, authorizes development of congregate housing, it does not expressly provide for the development of health-care facilities like the Mary Conrad Center. Therefore, we reported that the Mary Conrad Center did not appear to be eligible for funding under the Housing Act of 1937 and recommended that HUD terminate its funding of the facility.

On March 15, 1988, HUD's Office of General Counsel (OGC) issued an opinion that stated that the housing component of an intermediate care facility is eligible for assistance under the U. S. Housing Act of 1937, but that certain features of the Mary Conrad Center were incompatible with the

residential character of the facility and had to be removed. These features include nursing stations, television monitors, medical personnel on-site in residential areas, and various medical equipment in treatment areas. The opinion concluded that "...the Mary Conrad Center would be statutorily eligible for assistance if the Department is properly assured that during any period of HUD assistance the residential wings...will retain their original, primarily residential character."

On October 4, 1988, the Deputy Assistant Secretary for Public and Indian Housing advised the Seattle Administrator that the Mary Conrad Center had been determined to be a nursing home and therefore was ineligible for assistance under the U.S. Housing Act of 1937. This determination, along with several options for resolution, was approved by the former HUD Secretary and communicated to the Regional Administrator with selected and approved options suggested for resolution. Subsequently, on January 13, 1989, the General Deputy Assistant Secretary reminded the Regional Administrator of his October 4 determination and also directed him to consider other alternative resolutions and to cost out all alternatives considered. The Seattle Regional Administrator, however, did not comply with the General Deputy Assistant Secretary's instructions. Instead, the Regional Administrator, following advice of his Regional Counsel, refuted the OGC's opinion of March 15, 1988, and filed his own opinion with HUD's Deputy Under Secretary for Field Coordination. We did not concur in this action and on September 8, 1989, referred the matter to the Under Secretary for resolution.

On October 24, 1989, the Under Secretary advised us that he agreed with our finding and recommendations. He directed that all funds previously provided to the Cook Inlet Housing Authority with respect to the Mary Conrad Center be recovered and that periodic payment of operating subsidy to the facility be withheld. He advised that his directive would be initiated upon the completion of a determination by OGC of the legal remedies available to the Department.

On January 12, 1990, the PHA filed suit against HUD to obtain continued funding.

Housing Authority of the City of Passaic, New Jersey

In our Semiannual Report for the period ending March 31, 1990, we discussed the results of our audit of the Housing Authority of the City of Passaic, New Jersey. Our January 19, 1990 report disclosed that the Authority was not being administered economically and efficiently. The Authority's employees received excessive compensation and improperly accrued annual leave. The Authority also engaged in deficient practices

with respect to its budgeting, accounting, and obligation of project modernization funds, as well as its incurrence of travel and legal costs. We reported about \$1.1 million in questionable expenditures and identified about \$546,000 in potential cost savings.

Following the issuance of our audit report, HUD, in January 1990, assumed control of the Authority and suspended the Chairman and Vice Chairman. The remaining five commissioners voluntarily resigned. In addition, the Housing Subcommittee on Employment and Housing of the Committee on Government Operations held a hearing on February 6, 1990, on the results of our audit.

Since our report was issued, six officials of the Passaic Housing Authority, including the former Executive Director, former Deputy Executive Director, and former Attorney, have pled guilty to various felonies in connection with their employment with the Authority. HUD has also filed a \$1.3 million lawsuit against the former Deputy Executive Director.

HUD was still managing the Authority in October 1990. The Passaic City Council had not yet appointed any members to the Authority's Board of Commissioners, although it expected to nominate five new members in November 1990. Once the Commissioners are appointed, HUD will consider whether the Authority's assets should be returned to the control of the Passaic Housing Authority.

All of the recommendations in our report are under review by legal counsel.

Audit Follow-Up Tables

The tables on the following pages are required by the Inspector General Act Amendments of 1988.

They are:

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| Table A | Audit Reports Issued Prior to Start of Period with No Management Decision at 9/30/90 |
| Table B | Significant Audit Reports Described in Previous Semiannual Reports without Final Action at 9/30/90 |
| Table C | Inspector General Issued Reports with Questioned and Unsupported Costs at 9/30/90 |
| Table D | Inspector General Issued Reports with Recommendations that Funds Be Put To Better Use at 9/30/90 |

**Table A: Audit Reports Issued Prior to Start of Period
with No Management Decision at 9/30/90**

REPORT NUMBER	REPORT TITLE	ISSUE DATE	REASON FOR LACK OF MANAGEMENT DECISION	DECISION TARGET DATE
86SE1003 ¹	Seattle Housing Authority - Tenant Utility Allowances; Seattle, WA	02/21/86	A decision was deferred pending the outcome of a similar case. The report has been referred to the Under Secretary.	11/01/90
89TS0006	Handling of Proceeds from the Sale of Single Family Properties	08/25/89	Only one of the five recommendations does not have a management decision. Management has resolved the major issue and is working to finalize implementation of this recommendation.	12/31/90
90AO0001	Procedures for Issuer Monitoring	10/04/89	Discussions between OIG and GNMA staff have not led to a corrective action plan. However, management is working to resolve the issue.	12/31/90
90TS0004 ¹	Management of HUD's Assigned Single Family Inventory	10/30/89	Discussions between OIG and Housing staff have resulted in an impasse. Referral to the Under Secretary for a decision is being prepared.	12/31/90
90KC1002	St. Louis Community Development Agency - Program Income and Miscellaneous Revenue; St. Louis, MO	11/16/89	Discussions between Regional OIG staff and the action office have resulted in an impasse. The matter is under review in Headquarters.	11/15/90
90AT1007 ¹	U.S. Shelter Properties - Single Family Housing; South Carolina	02/07/90	OGC is reviewing to determine collectibility of monies due HUD.	12/31/90
90NY1023 ¹	Community Development Block Grant Program; San Juan Municipio, PR	02/23/90	City initially agreed with repayment for disallowed costs, but reversed itself. Demand letter to be sent with sanctions.	10/31/90
90AT1008 ¹	Community Development Block Grant Program - Use of Program Income; Atlanta, GA	03/09/90	Discussions between Regional OIG staff and the action office resulted in an impasse. The matter is under review in Headquarters.	11/09/90

Note 1: Significant audit reports described in previous Semiannual Reports.

Table B:

**Significant Audit Reports Described in
Previous Semiannual Reports without
Final Action at 9/30/90**

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	12/30/91
83CH1028	Mid-Towne Apartments - Multifamily Mortgage Insurance Program: Section 236; Cincinnati, OH	02/23/83	06/23/83	12/31/91
83CH1051	Detroit Housing Department - Public Housing Agency Activities; Detroit, MI	08/26/83	11/15/84	03/01/94
84BO1009	Barbour-Waverly Cooperative Apartments (Formerly Chappelle Gardens); Hartford, CT	02/28/84	06/25/84	09/30/91
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
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	12/31/91
85SF1008	Community Development Commission - Section 8 Moderate Rehabilitation Program; Los Angeles County, CA	03/11/85	06/26/85	06/30/91
85B01011	Community Development Block Grant - Discretionary; Marlborough, MA	05/16/85	08/21/85	12/31/91
85AT1018	Elizabethton Housing and Development Agency, Inc. - Section 8 Moderate Rehabilitation Program; Elizabethton, TN	06/05/85	09/13/85	10/31/90
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

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
86SE1003	Seattle Housing Authority - Tenant Utility Allowances; Seattle, WA	02/21/86	Note 1	
86PH1003	Urban Redevelopment Authority of Pittsburgh - Community Development Block Grant Program; Pittsburgh, PA	02/26/86	09/17/86	12/31/90
86TS0010	Title I Property Improvement Loan Insurance Program (Dealer Loans)	02/28/86	09/18/89	03/01/91
86BO1005	New Haven Housing Authority - Low-Income Housing Program; New Haven, CT	03/27/86	07/25/86	Note 2
86TS0011	Chicago Housing Authority - Project IL-06-P002-103	03/27/86	07/25/86	06/30/91
86KC1008	St. Louis Community Development Agency - Jobs Bill; St. Louis, MO	04/24/86	02/04/88	Note 2
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	11/07/86	03/31/92
87NY1014	Dayton Operating Company - Management Agent; New York, NY	11/20/86	02/11/87	05/31/91
87SF1002	Concord Senior Housing Foundation - Section 202 Direct Loan Program for Elderly and Handicapped; Pasadena, CA	11/21/86	01/14/87	12/31/90
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	03/31/91

Note 1: No management decision. Decision expected by 11/1/90.

Note 2: Management did not meet target date. Management decision is over 1 year old.

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
87SF0001	Section 8 Special Claims; San Francisco Field Office	03/13/87	11/16/87	03/31/96
87BO1012	Franklin Park Developments I and II - Multifamily Mortgagor Operations; Boston, MA	03/31/87	08/20/87	09/30/91
83NY1051	Cupey Baja Nursing Home - Mortgagor Operations; San Juan Municipio, PR	06/01/87	08/10/89	Note 2
87SF1009	G and K Management Company - Multifamily Management Agent; Culver City, CA	06/25/87	10/02/87	Note 2
87FW1004	Willow Tree Apartments - Multifamily Mortgagor Operations, Grand Prairie, TX	09/18/87	10/27/87	06/30/91
87SE1007	Cook Inlet Housing Authority - Low-Rent Housing and Mutual Help Programs; Anchorage City and Boro, AK	09/29/87	09/30/89	03/31/91
88AO0801	More of HUD's Appropriation Could Be Financed from User Fees	12/01/87	04/04/89	Note 2
88NY1006	County of Nassau - Community Development Block Grant Program; Mineola, NY	12/18/87	05/22/89	09/30/91
88NY1009	Municipality of Caguas - Community Development Block Grant Program; Caguas Municipio, PR	02/09/88	07/11/88	10/01/92
88TS0005	Repairs and Rent Increases on Multifamily Projects in HUD Possession	03/15/88	09/26/88	12/31/90
88TS0007	Section 8 New Construction and Substantial Rehabilitation Program and other Related Activities of State Housing Finance Agencies	03/29/88	04/10/89	09/30/91
88AO1005	Holland Consulting, Inc.; Livonia, MI	06/17/88	03/11/89	09/15/91
88TS0009	HUD's Accounting for and Control over the Acquisition and Sale of Single Family Properties	06/24/88	06/24/88	09/30/91

Note 2: Management did not meet target date. Management decision is over 1 year old.

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
88FW1017	East Baton Rouge Parish Housing Authority - Low-Rent Housing and Section 8 Existing Programs; Baton Rouge, LA	06/29/88	03/21/89	08/01/91
88TS0012	Review of the Title I Manufactured Home Loan Program	08/29/88	05/23/89	03/01/91
88TS0013	Review of Economic Development and Public Facility Grants in State Community Development Block Grant Programs	08/29/88	11/18/88	01/01/91
88BO1030	Lynn Housing Authority - Section 8 Moderate Rehabilitation Program; Lynn, MA	09/09/88	09/30/89	03/29/92
88FW1019	San Benito Housing Authority - Low-Rent Housing and Section 8 Existing Programs; San Benito, TX	09/09/88	11/21/88	09/30/99
88SF1013	Urban Development Action Grant; Compton, CA	09/19/88	03/09/89	03/08/91
88SF1016	San Diego Housing Commission - Section 8 Moderate Rehabilitation Program; San Diego, CA	09/30/88	09/30/89	04/01/91
89PH1003	Executive House - Multifamily Housing Program; Philadelphia, PA	10/28/88	08/03/89	Note 2
89NY0001	Flexible Subsidy Program	11/15/88	09/27/89	04/20/91
89TS0001	Nationwide Audit of the Housing Voucher Program - Phase I: Compliance with Housing Quality Standards	12/06/88	09/30/89	06/30/91
89TS0002	Section 223(f) Coinsurance Program	12/09/88	05/04/89	10/30/90
89BO1005	Housing Innovations, Inc. - Mortgagor Operations; Boston, MA	12/20/88	03/10/89	12/01/90
89AT1009	Community Development Block Grant Program; Biloxi, MS	01/11/89	02/06/89	09/01/91

Note 2: Management did not meet target date. Management decision is over 1 year old.

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
89AT1010	Cumberland Cove Apartments - Multifamily Mortgagor Operations; Raleigh, NC	01/13/89	06/16/89	03/31/91
89SF1004	Las Vegas Housing Authority - Low-Income Housing Program; Las Vegas, NV	01/20/89	07/18/89	06/15/91
89FW1003	King's Cove Apartments - Section 207 HUD-Insured Mortgage; Moore, OK	02/16/89	07/05/89	12/31/90
89SE1002	Continental Ventures Realty - Area Management Broker; Wasilla, AK	03/03/89	08/07/89	08/07/91
89TS1005	Benton Mortgage Company - HUD-Approved Coinsurance Lender; Knoxville, TN	03/20/89	09/30/89	Note 2
89PH1011	Community Development Block Grant Program - Subrecipient Monitoring; Washington, DC	03/31/89	09/20/89	04/15/91
89AO0007	Limited Review of Procurement of Mortgage Backed Securities Program	04/11/89	03/30/90	Note 3
89KC1010	Community Planning and Development Program; Davenport, IA	04/19/89	08/11/89	Note 2
89AT1023	Cypress Mill Plantation - Multifamily Mortgagor Development; Brunswick, GA	05/19/89	03/09/90	06/30/99
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	Section 8 Moderate Rehabilitation Program; Tulsa, OK	07/11/89	09/30/89	04/01/91
89PH1013	Community Development Block Grant Program - Subrecipient Activities; Philadelphia, PA	07/17/89	01/12/90	01/07/91

Note 2: Management did not meet target date. Management decision is over 1 year old.

Note 3: Management did not meet target date. Management decision is under 1 year old.

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
89TS1009	Section 8 Moderate Rehabilitation Program; Gastonia, NC	07/24/89	09/30/89	04/01/91
89FW1009	Crowley Housing Authority - Comprehensive Improvement Assistance Program; Crowley, LA	08/29/89	12/28/89	12/01/90
89TS0007	Anchorage Office's Administration of Development Activities in Alaska Mutual Help Program	08/29/89	05/08/90	05/08/91
89KC1013	Kansas City Housing Authority - Comprehensive Improvement Assistance Program; Kansas City, MO	08/31/89	03/30/90	11/30/90
89TS1014	Section 8 Moderate Rehabilitation Program; Denver, CO	09/05/89	09/30/89	04/01/91
89FW1803	Dallas Housing Authority - Low-Income Housing and Section 8 Programs Verification of Income; Dallas, TX	09/19/89	01/10/90	12/31/90
89NY1029	Bergen County Community Development Block Grant Program; Bergen County, NJ	09/29/89	01/23/90	11/30/90
89PH1017	Dickey Hill Forest Apartments Housing Development Grant; Baltimore, MD	09/29/89	05/04/90	03/15/91
90TS1001	San Antonio Housing Authority - Limited Review; San Antonio, TX	10/03/89	03/14/90	12/31/90
90TS1002	Colorado Housing and Finance Authority - Section 8 Moderate Rehabilitation Program; Denver, CO	10/12/89	08/10/90	04/01/91
90TS0002	Payment of One-Time Mortgage Insurance Premiums	10/19/89	08/15/90	01/31/91
90TS0004	Management of HUD's Assigned Single Family Inventory	10/30/89	08/15/90	01/31/91
90SF1001	Diversified Property Services - Multifamily Management Agent; Oakland, CA	11/15/89	03/07/90	10/10/90
90TS1003	Columbia Housing Authority - Section 8 Moderate Rehabilitation Program; Columbia, SC	11/16/89	08/10/90	04/01/91

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
90TS005	Housing Vouchers Phase II - PHA Compliance with Processing Requirements and Use of Voucher Authority	11/21/89	03/01/90	Note 3
90AO0003	Government National Mortgage Association's Office of Asset Management	11/22/89	01/30/90	Note 3
90SF1002	Mayor's Office of Community Development - Urban Development Action Grant; San Francisco, CA	11/24/89	07/11/90	06/30/91
90BO1003	Clipper Associates - Mortgagor Operations; Quincy, MA	11/30/89	03/23/90	Note 3
90CH1004	Community Development Block Grant Program; Pontiac, MI	12/08/89	05/29/90	11/30/90
90FW0001	Monitor and Control Closing Agent Activity - Property Disposition Branch	12/18/89	04/17/90	04/17/91
90TS1004	First Union Mortgage Corporation - Nonsupervised Mortgagee; Mesa, AZ	12/21/89	08/09/90	11/15/90
90FW0002	Monitoring of Closing Agent Activity - Property Disposition Branch	01/05/90	04/26/90	10/23/90
90TS1005	Arlington Housing Authority - Section 8 Moderate Rehabilitation Program; Arlington, TX	01/05/90	08/10/90	04/01/91
90SE1002	Community Development Block Grant Program - Program Income; Tacoma, WA	01/16/90	03/30/90	Note 3
90TS1006	Cityfed Mortgage Company - Nonsupervised Mortgagee; Nashville-Davidson, TN	01/16/90	08/09/90	11/15/90
90NY1022	Passaic Housing Authority - Comprehensive Improvement Assistance Program; Passaic, NJ	01/19/90	05/18/90	04/30/91
90TS1007	Dade County Department of Special Housing Programs; Dade County, FL	01/19/90	08/10/90	04/01/91

Note 3: Management did not meet target date. Management decision is under 1 year old.

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
90CH1006	New Center Hospital - Multifamily Mortgagor Operations; Detroit, MI	01/22/90	06/19/90	06/18/91
90SF1003	Loren Miller Homes - Multifamily Mortgagor Operations; San Francisco, CA	01/30/90	05/30/90	05/29/91
90TS1008	Mortgage and Trust, Inc.; Austin, TX	02/06/90	08/09/90	11/01/90
90AT1007	U.S. Shelter Properties - Single Family Housing; South Carolina	02/07/90	Note 4	
90KC1004	Rosedale Ridge Apartments - Multifamily Mortgagor Operations; Kansas City, KS	02/16/90	09/07/90	01/31/91
90NY1023	Community Development Block Grant Program; San Juan Municipio, PR	02/23/90	Note 5	
90TS0006	Public Housing Agency Decontrol Program	02/23/90	06/18/90	Note 3
90AT1008	Community Development Block Grant Program - Use of Program Income; Atlanta, GA	03/09/90	06/18/90	Note 3
90TS1010	Maryland Community Development Administration - Section 8 Moderate Rehabilitation Program; Annapolis, MD	03/09/90	08/10/90	04/01/91
90TS1011	American Residential Mortgage Corporation - Nonsupervised Mortgagee; Phoenix, AZ	03/14/90	08/09/90	11/01/90
90AO0004	Time and Attendance Function - HUD Headquarters	03/21/90	07/25/90	11/15/90
90TS0007	Public Housing Agencies Housing Development Corporations	04/02/90	06/30/90	Note 3
90TS0008	Insured Retirement Service Centers Program	04/06/90	Note 6	

Note 3: Management did not meet target date. Management decision is under 1 year old.

Note 4: No management decision. Decision expected by 12/31/90.

Note 5: No management decision. Decision expected by 10/31/90.

Note 6: Under 6 months old. No management decision due.

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
90TS0009	Comprehensive Improvement Assistance Program	04/06/90	Note 6	
90TS1013	United Austin Mortgage Company - Nonsupervised Mortgagee; Austin, TX	04/09/90	08/09/90	11/01/90
90TS0010	HUD's Efforts To Properly Account and Budget for Section 8 Funds	04/24/90	09/26/90	12/31/91
90TS0011	Community Development Block Grant Program Income and Miscellaneous Revenue	04/30/90	08/08/90	06/30/91
90TS0012	Community Development Block Grant Rehabilitation Entitlement Grantees	04/26/90	09/21/90	09/17/91
90TS0013	Insurance Commitments - Title X Land Development Projects - Phase I	04/27/90	Note 6	
90TS0014	Monitoring, Servicing, and Disposition of Title X Land Development Projects - Phase II	04/30/90	07/24/90	04/30/91
90TS0015	Housing Development Grants	04/30/90	08/06/90	12/31/91

Note 6: Under 6 months old. No management decision due.

Table C:

**Inspector General Issued Reports
with Questioned and Unsupported Costs
at 9/30/90**

(Dollars in Thousands)

REPORTS . . .	Number of Audit Reports	Questioned Costs	Unsup- ported Costs
A1. For which no management decision had been made by the commencement of the reporting period	72	50,912	25,009
A2. For which litigation, legislation or investigation was pending at the commencement of the reporting period	12	13,951	3,613
A3. For which additional costs were added to reports in beginning inventory	-	821	665
B. Which were issued during the reporting period	136	162,476	32,951
Subtotals (A+B)	220	228,160	62,238
C. For which a management decision was made during the reporting period	117 ¹	38,498	24,877
(1) Dollar value of disallowed costs:			
• Due HUD	52 ²	9,339	4,787
• Due Program Participants	55	21,075	14,057
(2) Dollar value of costs not disallowed	41 ³	8,084	6,033
D. For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation.	15	15,202	3,814
E. For which no management decision had been made by the end of the reporting period	88	174,460	33,547

Note 1: Ten audit reports also contain recommendations that funds be put to better use.

Note 2: Nine audit reports also contain recommendations with funds due program participants.

Note 3: Twenty-two audit reports also contain recommendations with funds agreed to by management.

Table D:

**Inspector General Issued Reports
with Recommendations that Funds Be Put
To Better Use at 9/30/90**

(Dollars in Thousands)

REPORTS . . .	Number of Audit Reports	Dollar Value
A1. For which no management decision had been made by the commencement of the reporting period	17	67,204
A2. For which litigation, legislation or investigation was pending at the commencement of the reporting period	4	5,960
B. Which were issued during the reporting period	18	9,235
Subtotals (A+B)	39	82,399
C. For which a management decision was made during the reporting period	17 ¹	66,603
(1) Dollar value of recommendations that were agreed to by management		
• Due HUD	8	2,348
• Due Program Participants	7	1,887
(2) Dollar value of recommendations that were not agreed to by management	5 ²	62,368
D. For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	5	6,419
E. For which no management decision had been made by the end of the reporting period	17	9,377

Note 1: Ten audit reports contain recommendations with questioned costs.

Note 2: Three audit reports contain recommendations with funds agreed to by management.

Chapter 4

Prevention and Other OIG Activities

In addition to audits and investigations, which deal with past events, the OIG is engaged in several proactive programs. These efforts to prevent fraud, waste and abuse and to improve the economy and efficiency of HUD programs and operations include:

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

Tenant Integrity Initiatives

We have been involved in several initiatives to assure eligibility of the 4 million families in public housing and subsidized rental units. These include: the Tenant Integrity Program; income computer matching; and legislative initiatives.

Tenant Integrity Program

In February 1989, the OIG introduced the Tenant Integrity Program (TIP) designed to train PHAs and Indian Housing Authority staff to prevent fraud and administrative error. The training covers original eligibility reviews, occupancy policies and procedures, tenant education, and post-audit verification techniques. The program also shows agencies how to document violations, administer repayment agreements, and pursue local (as opposed to Federal) prosecutions for fraud. Since February 1989, there have been 23 sessions attended by 2,300 individuals.

Beginning in June 1990, TIP was redirected to HUD assisted and subsidized multifamily housing projects. The OIG revised the TIP desk guide for use in training owners, management agents, and Section 8 contract administrators. We trained instructors for the various professional training groups who will continue these workshops. About 50 additional TIP sessions are planned over the next year.

TIP awareness materials developed and distributed include: a "District Attorneys' Guide for Prosecution of Tenant Fraud in Programs Administered by the U.S. Department of Housing and Urban Development;" "Things You Should Know," a tenant education brochure in four languages -- English, Chinese, Vietnamese, and Spanish; and a pamphlet entitled "Locking Out Tenant Fraud."

Income Computer Matching

Computer matching is a comparison between two or more automated systems of records. In the case of tenant income matches, the State's computerized database of quarterly wage and unemployment benefits data are compared with the PHA's computerized database of income information reported by tenants. The OIG has been performing income computer matches on a demonstration basis since 1985. For the approximately 47,000 families checked, we discovered that about 2,300 families failed to report over \$32 million of income. This resulted in almost \$8 million in overpaid assistance. Two matches are still in progress: the Chicago Housing Authority and the St. Louis County Housing Authority.

The Computer Matching and Privacy Protection Act of 1988 has required extensive revisions to our computer matching program. Revisions to all of the following were necessary to comply with the new law: HUD system of records; matching agreements with PHAs, State Unemployment Security Agencies and other Federal agencies; Federal Register Notice of Computer Matching; reporting to Congress and the Office of Management and Budget; and cost benefit analyses.

The effectiveness of these previous matches was limited by the scope of doing only one or two PHAs at a time. Starting last year, we began a new approach. We selected a State and issued an invitation to all PHAs to participate. This approach requires PHA staff to perform all follow-up work, track valid hits and take appropriate actions such as local prosecution, eviction, or recouping of funds owed. Florida is the first State, with 13 PHAs participating: Jacksonville, Tampa, Dade County, Ft. Lauderdale, Key West, Northwest Regional Housing Authority, Pompano Beach, Hialeah, Ft. Walton Beach, Tallahassee, Clearwater, Broward County, and Lee County. Most of these PHAs have sent out confirmation letters to employers to reverify earnings. Four PHAs submitted preliminary data on 1,361 families checked by the match. They found 56 families receiving excess benefits of \$67,585.

As an alternative to computer matching, our staff is involved in coordinating front-end access to State wage data. In about 20 States, the wage agency will provide PHAs access to wage data for use in the application process. Names of applicants or recertifying families will be

compared to the State wage database by direct access terminals. This method has the advantage of identifying income falsification or error before assistance is provided or continued. We provided advice to Wisconsin, Tennessee, and Maryland PHAs thus far.

Legislation Affecting Computer Matching

During the reporting period, we continued working to implement three statutory provisions: the Housing and Community Development Act of 1987, Section 165 (42 USC 3543); the Stewart B. McKinney Act Amendments, Section 904, "Preventing Fraud and Abuse in Housing and Urban Development Programs" (42 USC 3544); and the Computer Matching and Privacy Protection Act of 1988 (P.L. 100-503). Delays in full implementation of the first two statutes continue. Without full implementation, computer matches will be limited or stop.

Disclosing 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. The final regulation became effective on November 6, 1989, for all programs except Section 235 which became effective on March 30, 1990.

The final rule defines acceptable documentation as the Social Security card and states that HUD will prescribe additional documentation in administrative guidance. The Office of Housing issued instructions on how to implement this rule and what is acceptable documentation. Similar guidance is being drafted by the Office of Public and Indian Housing.

This new requirement also required revisions to the Privacy Act Notice statement on applications/certification forms. The forms must state that providing SSNs is now mandatory with the authority cited. In addition, the HUD Data Integrity Board has required that notification of computer matching also be included in the Privacy Act Notice statements. The Office of Housing has issued a revised Privacy Act Notice. As of September 30, 1990, publication by the Office of Public and Indian Housing was pending. Without these changes to Privacy Act Notice statements, PHAs cannot implement the SSN requirement.

Consent Forms

Section 904 of the Stewart B. McKinney Act Amendments, signed into law on November 7, 1988, provides the statutory authority for PHAs and HUD to obtain wage and claim information about applicants and participants in certain HUD programs from State Wage Information Collection Agencies. Consent forms are required as a condition of initial or continuing eligibility

in certain HUD programs. The HUD-approved consent forms must be obtained from applicants and participants before wage information can be requested from the State agency.

On November 3, 1989, a proposed rule to implement Section 904 was published in the Federal Register for public comment. On July 13, 1990, the draft final rule was placed into Departmental clearance. As of September 30, 1990, the final rule was being prepared for the Secretary's signature. We have requested that this rule be added to the list of priority regulations. HUD instructions for implementing the consent form requirement and HUD model consent forms were drafted by HUD's Offices of Public and Indian Housing and Housing, but are not issued at this time.

President's Council on Integrity and Efficiency

The HUD Inspector General is a member of the President's Council on Integrity and Efficiency (PCIE) and is Chairman of the Executive Development Committee. This committee develops, plans and presents executive and management forums to the OIG community. In the past year, the committee conducted three management forums and two executive forums. A survey to PCIE members was used to develop an agenda for the upcoming year, starting with a management forum in October.

The Inspector General is also an active participant in the Audit, Communications and Legislation committees.

During this period, the Audit Committee was involved in implementation of external quality reviews, or "peer" reviews. Our office was one of four PCIE members that participated in a series of pilot reviews. These reviews implement Sec. 109 of the Inspector General Act Amendments of 1988 and the Comptroller General's 1988 revision of Government Auditing Standards. They are commonly referred to as "peer" reviews.

We assembled a highly qualified team with participation by GAO to review audit operations of the Department of Transportation OIG. We issued our report on May 29, 1990.

At the same time, the Department of Education OIG conducted a review of our audit operations. Its report issued in June 1990 indicated that we complied with the requirements of the audit standards. The report made a number of recommendations to assure continued compliance. We provided a copy of our report to the Comptroller General and the Secretary for their information.

As part of the Communications Committee, we issued the second edition of the PCIE directory, updated to include the expanded membership of the PCIE, the Coordinating Conference and the Council of Counsels to the IGs.

Secretary's Committee on Program Integrity

On September 25, 1989, Secretary Kemp established the Secretary's Committee on Program Integrity 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 evaluates proposals to enhance the administration of HUD programs. During this reporting period, the committee completed an evaluation of the Administrative Sanctions process. In part because of the various violations of HUD programs which surfaced in 1989, this review was made to determine if HUD was making full use of its sanctioning authorities. The committee concluded that HUD staff instructions are outdated or incomplete. The instructions do not include "when to" and "how to" criteria and do not include all sanctioning authorities.

The committee made 10 recommendations to enhance and strengthen the sanctions process. The Secretary approved the report recommendations. In a memorandum to HUD managers, the Secretary reemphasized their responsibilities for oversight and protection of the programs through use of sanctions. He also instructed Principal Staff to revise and issue appropriate instructions to assure sanctions are used when appropriate.

Awareness Publications

The OIG publishes various bulletins to increase the awareness of program participants and HUD employees to fraud, waste, and abuse issues. The bulletins are intended to enhance their ability to detect and prevent waste and abuse. During the past 6 months, we issued two Fraud Information Bulletins (FIBs).

"Closing Agents" describes recurring problems in the sale of HUD-owned properties, including examples of agents who were prosecuted for illegal activities. The FIB reminds closing agents and HUD staff of their duties and responsibilities and gives tips on avoiding problems. Steps announced by Secretary Kemp to address property disposition problems are also outlined.

"Microcomputer Security and Management" identifies risks associated with microcomputers and emphasizes the HUD employee's role in safeguarding microcomputer equipment and data.

HUD Hotline

During the past 6 months, we installed a toll-free telephone hotline number to increase the accessibility for HUD staff and the public who wish to report suspected abuse of HUD programs and operations. To announce the number, an article and hotline poster were provided to professional associations that do business with HUD. They were asked to include this information in their newsletters. We also issued a HUD staff bulletin and prepared a poster to announce the toll-free number to HUD staff and visitors to HUD offices.

During the reporting period, 181 new complaints were opened by the OIG and 338 other complaints were referred to the appropriate HUD program office to handle. The total number of complaints received since the hotline was established in 1979 is more than 4,500. As in the past, most complaints are made anonymously and concern compliance with various programs administered by the Department.

Thirty percent of the 160 cases closed during the period resulted in corrective actions. Of the 48 valid cases closed, 19 concerned management of HUD-assisted housing by private entities, 17 concerned HUD employees or HUD management, and the remaining 12 related to a mixture of HUD activities. Corrective actions included \$156,000 in monetary recoveries or claims collections, \$140,000 in fines, and 401 months in sanctions such as limited denials of participation in HUD programs, debarments and prison terms. Specific examples of closed cases follow:

- HUD repurchased a single family property it had insured following substantiation that the property had been condemned by the local government while it was in HUD's Property Disposition Program.
- A Section 8 tenant repaid \$5,400 of ineligible subsidy and moved out of assisted housing after confirmation that the tenant was not qualified. He had not reported income from property he owned, interest earned from a \$100,000 bank account, and ownership of a mobile home and trailer. The tenant claimed to be unaware that any income other than his Social Security benefits had to be reported.
- A HUD single family property disposition office will no longer submit demolition contract requests to a city government but instead will procure demolition contracts under HUD procurement procedures. The office was found to be in violation of procurement guidelines because it obtained demolition services under a "gentleman's agreement" with the city's demolition department; the city selected the contractor and billed HUD for demolition costs.

- A Section 8 recipient was issued a voucher and moved into an apartment after substantiation that the applicant had been denied assistance because she did not attend a meeting to go over her application; she was accordingly placed at the end of the waiting list. The review confirmed that the applicant failed to attend the meeting because the meeting notice had been sent to the incorrect address.
- A former HUD employee's final paycheck was adjusted to recoup money due HUD including 24 hours absent without leave and past due health benefit premiums. This action followed verification that the employee falsified attendance record sheets by signing in and out for 3 days she was not at work.
- Two HUD employees were issued written reprimands after using a government-leased car for a gambling trip while on official travel. The Department was reimbursed for the cost of the unauthorized trip.

Eighty-two actions were generated on the 48 cases (30 percent of the 160 total cases closed) where the subsequent reviews found the allegations to be true. Major actions taken during the report period included:

ACTION	STATISTIC
Monetary Recoveries/Claims	\$156,293
Fines	\$140,000
Community Service	1,750 hours
Debarment/Temporary Denial of Participation	7 years
Participants Given Benefits Due to Program Enforcement	19 cases
Procedural Improvements	10 cases
Staff Reprimands	12 cases
Removed from HUD Programs	5 cases

Monitoring Audit Quality

This section summarizes our efforts to monitor and improve the quality of audit work performed by non-Federal auditors, or Independent Auditors (IA). The Inspector General Act of 1978 requires that the Inspector General take appropriate steps to ensure that audit work performed by IAs complies with the auditing standards established by the Comptroller General.

The Department annually receives more than 31,000 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 4,400 reports are controlled and issued by the OIG. The majority of IA 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 IA 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 IA audit work is found to be substandard or the IA 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 the AICPA and/or State Board to review the case and take appropriate sanctions. In the more deficient cases, HUD will debar or suspend an IA from auditing Federal programs. In lieu of debarment, auditors sometimes agree to voluntary exclusion from auditing Federal programs.

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

**Summary Results of IG Reviews of Audits by Non-Federal Auditors
April 1 to September 30, 1990**

	Cognizant Assignments and General Oversight Entities			HUD Program Audits			GRAND TOTAL
	INDEPENDENT PUBLIC ACCOUNTANT	STATE AND LOCAL AUDITOR	TOTAL	INDEPENDENT PUBLIC ACCOUNTANT	STATE AND LOCAL AUDITOR	TOTAL	
Total Reports Issued ¹	2,027	80	2,107	13	0	13	2,120
Reports Issued Without Changes or with Minor Changes							
Based on desk review	1,826	79	1,905	13	0	13	1,918
Based on QCR	8	1	9	0	0	0	9
Total	1,834	80	1,914	13	0	13	1,927
Reports Issued with Major Changes							
Based on desk review	180	0	180	0	0	0	180
Based on QCR	13	0	13	0	0	0	13
Total	193	0	193	0	0	0	193
Reports with Significant Inadequacies							
Based on desk review	0	0	0	0	0	0	0
Based on QCR	4	0	4	2	0	2	6
Total	4	0	4	2	0	2	6
Total Quality Control Reviews Performed ²	40	2	42	133	0	133	175
Number of Auditors Referred to State Boards/AICPA ³	2	0	2	1	0	1	3
Number of Auditors Suspended, Debarred, Voluntarily Excluded	2	0	2	6	0	6	8

Note 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.

Note 2: This includes QCRs done on reports not included in line 1.

Note 3: This does not include an additional six Independent Auditors who were referred to their State Boards for possible licensing violations.

Frequently Identified Audit Deficiencies

The following are the most frequent and serious standards violations which were identified from the QCRs performed during the reporting period. These violations are similar to those reported in previous Semiannual Reports.

We frequently encountered situations where an IA failed to:

- Prepare or document the audit plan or the audit program in the working papers.
- Document the study and evaluation of the auditee's internal controls in the working papers.
- Include working paper support of compliance testing.
- Obtain written representations from management and the auditee's counsel to complement other auditing procedures performed.

Examples of Extremely Deficient Audits

A CPA audited a HUD-insured multifamily project for 2 successive years. We conducted a quality review of the first year audit and found that the auditor did not adhere to certain AICPA and GAO auditing standards. The auditor's compliance report did not disclose that the project owner withdrew project funds when the project was in a deficit cash position, a violation of the owner's agreement with the Department. We requested the auditor to amend his report to disclose the noncompliance. The auditor agreed to disclose the finding if we could assure his client of no repercussions on the client's loan or any repayment of the withdrawal. The conditions requested by the CPA violated the AICPA and GAO independence standards. Following additional communication with the CPA and his attorney, the CPA submitted a revised report that was accepted. We subsequently performed a QCR of the second year audit. We again found the auditor did not disclose a withdrawal by the project owner while the project had a cash deficit. This audit was performed and the audit report issued after we advised the CPA of the deficiency with his prior report. Because of the CPA's continuing disregard for adequate disclosure and his lack of independence, we referred the auditor to his State Board of Accountancy and the AICPA for disciplinary action. He has also been debarred by the Department from participating in any Federal programs for 3 years.

A CPA performed two successive audits of a housing authority. We reviewed his work on both audits and discovered that it contained numerous departures from AICPA auditing standards in the areas of audit planning and required evidential matter. The CPA agreed with our assessment and

made two attempts to correct his audit work. However, he was not able to produce an acceptable report. Because his work was still deficient, we referred the CPA to his State Board of Accountancy and the AICPA for disciplinary action. Subsequently, he was suspended by HUD pending his debarment.

Suspensions and Debarments

During the reporting period, three practitioners were debarred for 3 years each, three practitioners agreed to voluntary exclusions ranging from 3 to 5 years and two CPAs were suspended pending debarment.

As of September 30, 1990, 21 CPAs were suspended, debarred, or voluntarily excluded from conducting business either with HUD or governmentwide as a result of our efforts in monitoring Independent Auditors.

Referrals to State Boards and the AICPA

During this reporting period, sanctions were taken against CPAs referred to State Boards and the AICPA in prior reporting periods.

In one case, the State Board fined the CPA \$2,000 and revoked his license to practice until he completes 110 hours of continuing professional education. In addition, the CPA is subject to a practice review during the 2 years subsequent to the reinstatement of his license. In the other two cases, State Boards issued cease and desist orders to prevent CPAs from performing further audits in the State. The AICPA expelled one member referred in March 1986. They suspended a second member, whom we referred in January 1987, for 60 days and will require an additional 55 hours of continuing professional education.

Review of Legislation and Regulations

Section 4(a)(2) of the Inspector General Act requires the IG:

to review existing and proposed legislation and regulations relating to programs and operations of such establishment and to make recommendations . . . concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by [HUD] or the prevention and detection of fraud and abuse in such program and operations.

In fulfillment of this responsibility we review all proposed legislation, regulations and policy directives issued by HUD. When we nonconcur on proposed regulations or directives, we negotiate the differences with the issuing office and the Office of General Counsel. Our comments on

legislation are considered by the drafters. Significant issues pending at the close of this 6-month period included a group of proposals to improve Federal financial management, the Housing and Community Development Act (HCDA) of 1990, and a bill to provide services to homeless veterans.

We also make our own legislative proposals. At the present time, we are proposing two new bills to be part of HUD's legislative program in the coming year. HUD officials have indicated their general support for these initiatives which are described below. This section is followed by discussion of the open issues on which we commented in the past 6 months.

Proposed Legislation

Rental Assistance Fraud Recoveries

This proposed bill would permit PHAs and owners of subsidized projects that investigate instances of fraud and abuse to retain a portion of HUD subsidies that they recover as a result of administrative repayment agreements or litigation.

This proposal expands on a previous law that permitted retention after litigation. However, most fraud recoveries are accomplished through administrative repayment agreements. PHAs and owners have less incentive for administrative recoveries because they are not reimbursed for the additional expenses incurred. In the Section 8 program, all administrative recoveries go back to HUD. This proposal would permit them to retain from amounts recovered, the greater of:

- Fifty percent of the amount collected, or
- Reasonable and necessary expenses to obtain recoveries for the case, such as investigation costs, legal fees, or collection agency costs.

Additional outlays are not needed to implement this proposal because the reimbursement would come from recoveries.

Fraud Related Evictions

This proposal would permit HUD to continue subsidies to a subsidized project until an eviction is complete, provided the eviction action was taken as result of fraud, or non-payment of rent caused by fraud.

This would overcome the drawback that owners of subsidized projects must end subsidies at the time an eviction action is started. Since tenants usually do not pay rent after eviction is started, the project loses the entire cash flow for the unit. Too many fraud cases would result in cash flow problems, and could jeopardize the project's ability to meet its mortgage payments. Permitting HUD to continue subsidy to the end of the eviction

would be similar to the authority HUD already has for using subsidy funds to pay owners for special situations, such as: unpaid rent, vacancies, and tenant damages.

This proposal would not require additional outlays because the subsidy would have been paid anyway, if the fraud had not been investigated and stopped by the owner.

Federal Financial Management Proposals

Two bills and an executive order contained proposals for improvement of Federal financial management. H.R. 5492, Federal Management Reform Act of 1990, and a Senate bill, the Federal Financial Management Improvement Act, both recommended creation of a Chief Financial Officer (CFO) for major departments as well as a governmentwide CFO. The executive order would establish a Federal Financial Management Advisory Board. We generally supported all three measures.

We support the general objectives of both bills. We commented in more detail on the House bill, raising the following concerns:

- **Financial Statement Audits:** We endorsed the House bill, which assigns to the Inspector General the responsibility to conduct financial statement audits. We oppose the Senate bill's provision that the Chief Financial Officers would arrange for financial statement audits. This is at least duplicative of and probably contrary to IG authority in the Inspector General Act. We also favored the House bill's 4-5 year transition to financial statement audits, as opposed to the Senate bill's immediate start in the first year.
- **CFO Term:** We recommended a fixed term appointment with removal only for cause. This will provide greater continuity and professionalism.
- **Governmental GAAP:** In order to have audited financial statements for Federal agencies, there needs to be provision for development of generally accepted accounting principles for Federal Government operations.
- **OMB Role:** The broad management role for the US CFO overlaps or duplicates the existing responsibilities of the current Executive Associate Director for Management at the OMB. Because of the importance of each of these positions, we strongly urge that the proposed bill not dilute the separate financial management effort with thinly related functions such as human resources and regulatory affairs.

- **Treasury/GAO Roles:** The roles of the Department of Treasury in financial reporting and the Comptroller General of the United States for setting accounting principles and audit standards have been overlooked in this proposed bill. To avoid jurisdictional differences, we recommend that the Congress clearly define their roles and degree of coordination with the US CFO.
- **Coverage:** The bill should be made to apply to all Federal establishments rather than limited to those enumerated in the bill. A long-term objective should be to have audited financial statements for all government organizations or operations. For example, the United States Information Agency is important enough to be a statutory Inspector General and yet is not covered by this bill.

The Federal Financial Management Advisory Board would recommend improvements in accounting and financial management for Executive Branch agencies and users of financial information of the Executive Branch. We endorse the concept, but we have serious reservations about the structure, objectives, and relationships to other organizations.

- **Structure:** We do not believe that appointment of members from two operating agencies is representative enough. The three private sector members together with one central agency (OMB or Treasury) could recommend accounting and financial management changes without the concurrence or support of a single Federal operating agency. We recommend expanding the Board membership to at least nine members with the additional two members to be from operating agencies. The four operating agencies should be comprised of the defense or military, two from civilian departments and one small "designated" agency. We believe that the Federal Inspectors General and GAO must be represented at least in an advisory capacity because of their acknowledged expertise and because financial systems must be audited. The order does not state to whom the Board will report its recommendations such as the President or the Director of the OMB.
- **Relationship to Other Organizations:** The order is too vague to determine the nature of the Board's relationship to the: (1) OMB Chief Financial Officer; (2) OMB Office of Financial Management; (3) Treasury's Financial Management Service; (4) GAO's Financial Management Division; (5) Chief Financial Officer's Council; and (6) statutory CFOs. As indicated earlier, the relation to the Igs or PCIE should be clarified. Since financial management is largely under the Assistant Secretaries for Administration or Management, a relation to the President's Council on Management Improvement should also be defined.

- **Objectives:** The lack of definitions and specific objectives for the Board raises questions to be addressed. For example, "financial management" can be construed to include budget development, budget execution, financial reporting, systems development, accounting, audit, asset or liability management.

Housing and Community Development Act of 1990

H.R. 1180, HCDA of 1990, establishes that the HUD Secretary be designated as Chairperson of the Board of Directors to the National Housing Trust and that the trust have the same powers as GNMA. Our comments on this bill were limited to Title I, Section 103, of the bill which deals with providing assistance to first time homebuyers.

The interest rate buydown to a fixed rate of not to exceed 6 percent is neither an efficient nor an effective subsidy. A more effective mechanism would be to tie the rate to a published single family mortgage index such as 3 or 4 points below the market. This would aid first time buyers without sharply increasing the burden on the trust funds during inflationary periods. Presumably, inflation would also increase buyers' income or wages, thereby enabling them to remain eligible for the higher interest rate. By reducing the subsidy drain, the trust would have more funds available for use by more first time buyers. The private sector practice of limiting or restricting the period of the buydown to the first few years of the mortgage is also more efficient because it recognizes that first time buyer incomes probably will rise more rapidly than the rate of inflation. This makes the fixed mortgage payment more affordable. Consequently, the need for subsidy beyond the initial 3 to 5 years lessens. We suggest that adding a fixed term buydown parameter will strengthen the trust fund over the long term.

The provision addresses the eligibility requirements for assistance to first time homebuyers. A principal criterion is no ownership in a principal residence for 3 years prior to the purchase date of the residence for which the homebuyer is applying for assistance. To ensure that the trust is not providing assistance to those who have previously defaulted on a Federally insured obligation, i.e., mortgage, home improvement loan, educational loan, farm loan, etc., the legislation should incorporate this restriction into the eligibility criteria. Also, the legislation should have a provision to preclude assistance to anyone with an outstanding Federal tax lien or a deficiency judgment on another Federal obligation.

The repayment upon sale indicates that it is repayable without interest and any principal deficiency will be discharged by Board action. It should be clarified that all proceeds of sale are first applied to interest accrued to the date of sale before reducing assistance principal. The discharge of

indebtedness will encourage assisted mortgagor sales at less than the maximum market value since they do not have an incentive to repay the government. This will again burden the trust fund program to the detriment of its objective to promote homeownership among those who currently are unable to afford it. We recommend requiring repayment of the balance of any debt over a fixed term of years after sale. The release of liens upon repayment should be delegated by the Board of Directors to the Chairperson or such other designee as a routine operating function. It is inefficient to require the Board to act on what may eventually become hundreds of payoffs. Repayment upon increased income of the buyer(s) is desirable. The trigger or administrative mechanism needed to implement this provision is missing. It would appear that mortgagees would need to mail notices biennially showing median income levels and requesting mortgagors to voluntarily report current family income.

Services for Homeless Veterans

We reviewed S. 2128, a bill To Establish and Maintain a Comprehensive Services Program for Homeless Veterans, and we supported the response of the Secretary of Veterans Affairs regarding the subject Senate bill. We strongly endorsed the notion that innovative programs should be established as demonstration or pilot efforts. The latter could add that any legislation enacted should include a sunset provision with a formal evaluation to be provided to the Congress at least 6 to 12 months prior to expiration of the demonstration program.

We questioned whether it is advisable to segment the homeless population into specialized classes according to prior employment or service, age, sex, race, marital status, etc. The Secretary's proposal to modify existing statutory authority to address problems that were not considered or envisioned appears to be a more viable way of achieving the goals of the bill's sponsors. By this we believe it is more efficient to utilize or expand an existing program delivery system rather than create a new one to serve a specialized program.

Lastly, it is in the interest of governmentwide economy that HUD, the Department of Veterans Affairs and other concerned agencies coordinate their limited resources to achieve the greatest benefit to the homeless as envisioned in Section 2 of the bill. The Secretary recognizes this problem of avoiding duplication with HUD's housing assistance efforts.

Chapter 5

Administrative 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.

- An Appraiser was suspended for 45 days for improperly using her position to have repair items included on a conditional HUD loan commitment for a single family property she was buying.
- A Financial Analyst was terminated after he admitted altering his grades on a college transcript that he submitted to HUD to be hired under the Outstanding Scholar Program.
- A Loan Specialist was suspended from duty without pay for 60 days for misuse of office for private gain, soliciting and/or accepting favors for doing business with HUD, and violation of the Standards of Conduct in that she participated in a matter in which she had a financial interest. She claimed interest deductions on her Federal income tax returns from two HUD-insured mortgage loans on single family properties for which she did not have title.
- A Housing Director was suspended for 1 day without pay for granting preferential treatment to his daughter in the processing and approval of a HUD-insured mortgage.
- A Housing Branch Supervisor was issued an official reprimand. The supervisor gave preferential treatment to the daughter of his immediate supervisor in processing and approving a HUD-insured mortgage.
- A Loan Specialist was issued a letter of reprimand for submitting false claims on travel vouchers. On three occasions, the specialist falsely claimed lodging for one more night than she actually stayed.
- A Realty Specialist resigned after being investigated for allegedly falsifying annual recertification documents regarding household composition and income in order to receive low-rent public housing assistance.
- A Field Office Manager retired after being informed he would receive a "Proposal of Removal" for sexual harassment and reprisal.

against an employee. The Manager engaged in misconduct by behavior and remarks offensive in nature to female employees.

- A Loan Assistant was terminated from HUD employment for misuse of a GSA vehicle; concealment of material facts regarding violations of agency and government rules and regulations by another government employee; and absence without leave. The Loan Assistant was aware of another HUD employee's scheme to obtain unauthorized funds by forging a HUD manager's signature of Form HUD-1164, "Reimbursement for Expenditures on Official Business," and subsequently cashed U.S. Treasury checks.
- An Administrative Clerk was suspended for 2 weeks without pay for failure to follow specific instructions on imprest fund procedures and negligent performance of her duties leading to a theft of government funds. Because of her negligence, a theft of government funds was allowed to go unchecked for an extended period of time.

Appendix 1

Audit Reports Issued

INTERNAL AUDIT REPORTS ISSUED					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
HOUSING:					
90-AO-121-0006	06/15/90	Questionable Use of FHA Streamline Refinance Mortgages			
90-AO-109-0007	07/12/90	HUD's Consolidated Supply Program			
90-AT-109-0002	06/22/90	Consolidated Supply Program			
90-AT-111-0003	06/26/90	Physical Inspections of Insured Multifamily Projects in Management			
90-AT-109-0005	07/25/90	Section 8 Moderate Rehabilitation Program - Single Room Occupancy			
90-BO-111-0004	05/24/90	Field Office Utilization of Mortgagee Physical Inspection Reports HUD-Insured Projects			
90-BO-103-0006	09/28/90	Section 8 Existing Certificates Mobility Program			
90-CH-123-0003	04/06/90	Demolition of HUD-Owned Properties - Property Disposition Branch			
90-CH-123-0004	06/07/90	Administration of Property Disposition Activities - Property Disposition Branch			
90-CH-109-0005	07/13/90	Section 8 Moderate Rehabilitation Program for Single Room Occupancy Dwellings for Homeless Individuals			
90-CH-103-0006	07/17/90	Review of Field Office Section 8 Contract Administrator Functions - Loan Management Branch			
90-CH-123-0007	09/20/90	Closing Agent Activities - Single Family Property Disposition Program			
90-CH-123-0009	09/28/90	Single Family Property Disposition Program - Closing Agent Activities			
90-FW-123-0005	09/17/90	Monitoring of Closing Agents - Property Disposition Branch	96,000	96,000	

INTERNAL AUDIT REPORTS ISSUED					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
90-FW-103-0006	09/24/90	Section 8 Existing Housing Program - Project Based Assistance			
90-KC-101-0002	05/30/90	Low-Rent Housing Program - Rapid Housing Payment System			
90-KC-111-0003	06/08/90	Use of Mortgagee Physical Inspection Reports for Multifamily Projects			
90-NY-109-0003	09/19/90	Single Room Occupancy Program - New York Regional and Newark Field Offices			
90-NY-123-0004	09/27/90	Monitoring and Control over Closing Agent - Property Disposition Branch - Buffalo Field Office	1,963		
90-PH-109-0002	09/28/90	Section 8 Moderate Rehabilitation Program for Single Room Occupancy Dwellings	2,851		
90-SF-103-0005	09/19/90	Project Based Assistance - San Francisco Regional Office	59,685		644,598
90-TS-108-0007	04/02/90	Survey of Public Housing Agencies Housing Development Corporations			
90-TS-111-0008	04/06/90	Multi-region Audit of the Insured Retirement Service Centers Program			
90-TS-101-0009	04/06/90	Multi-region Audit of the Comprehensive Improvement Assistance Program			
90-TS-103-0010	04/24/90	HUD's Efforts To Properly Account and Budget for Section 8 Funds			
90-TS-129-0013	04/27/90	Insurance Commitments Title X Land Development Projects - Phase I	456,178	332,798	
90-TS-129-0014	04/30/90	Monitoring, Servicing, and Disposition of Title X Land Development Projects - Phase II	5,471,269		
90-TS-112-0015	04/30/90	Housing Development Grants			
90-TS-103-0016	09/13/90	Section 8 Contract Administrator Functions - Cincinnati Office			
90-TS-111-0017	09/25/90	Mortgagee Physical Inspections of HUD-Insured Projects			

INTERNAL AUDIT REPORTS ISSUED					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
COMMUNITY PLANNING AND DEVELOPMENT					
90-AT-156-0004	07/25/90	Emergency Shelter Grants Program - Miscellaneous Community Planning and Development Programs			
90-BO-141-0003	05/14/90	Community Development Block Grant Program - Interim Financing Activities			
90-BO-156-0005	06/27/90	Supportive Housing Demonstration Program			
90-DE-156-0002	06/28/90	Supportive Housing Demonstration Program	67,514	38,757	
90-FW-156-0003	08/02/90	Emergency Shelter Grant Program			
90-FW-156-0004	08/17/90	Emergency Shelter Grant Program	70,627	18,645	
90-NY-156-0001	09/04/90	Emergency Shelter Grant Programs - New York Regional and Newark Offices	26,497	26,497	121,490
90-PH-156-0001	07/30/90	Emergency Shelter Grant Program	16,000		
90-SE-156-0001	06/28/90	Supportive Housing Demonstration Program	214,674		
90-SE-156-0002	06/28/90	Single Room Occupancy Program			
90-SF-156-0003	07/24/90	Supportive Housing Demonstration Program - Region IX	31,156		260,961
90-SF-156-0004	08/10/90	Emergency Shelter Grant Program - San Francisco Regional Office	154,393		
90-SF-141-0006	09/28/90	Interim Financing Activities Community Development Block Grant Program	99,401,311		
90-TS-145-0011	04/30/90	Review of Community Development Block Grant Program Income and Miscellaneous Revenue			
90-TS-144-0012	04/26/90	Community Development Block Grant - Rehabilitation Entitlement Grantees			

INTERNAL AUDIT REPORTS ISSUED					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
ADMINISTRATION					
90-AA-166-0003	08/09/90	Access Violations for the Martin Marietta Data Systems Computer Facility			
90-AO-165-0005	06/15/90	HUD's In-House Printing Plant			
90-CH-166-0008	09/21/90	Title I Debt Collection Management System			
90-KC-166-0001	04/12/90	Controls Over Microcomputer Equipment and Software			
90-NY-166-0002	09/07/90	Title I Debt Collection Management System - Albany Service Center			

EXTERNAL AUDIT REPORTS ISSUED					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
HOUSING:					
90-AT-211-1011	04/27/90	Meridian Nursing Center Multifamily Mortgagor Development - Cost Audit; West Melbourne, FL			
90-AT-209-1012	07/13/90	Housing Authority City of Tampa - Use of HUD's Consolidated Supply Program; Tampa, FL	50,636	50,636	
90-AT-212-1013	07/19/90	Wickham Village Associates, L.P. - Multifamily Mortgagor Operations; Nashville-Davidson	16,420		
90-AT-202-1014	07/20/90	La Follette Housing Authority - Public Housing Program - Management Operations; La Follette, TN	25,998	13,458	
90-AT-212-1015	07/20/90	Limited Review of Defoors Ferry Manor Apts - Bankrupt Insured Multifamily Development; Atlanta, GA	501,901	163,556	
90-AT-203-1016	07/30/90	Housing Authority of the City of Atlanta - Section 8 Voucher Program; Atlanta, GA	339,564		80,000
90-AT-212-1018	09/10/90	Wilco Management Inc., Nashville-Davidson, TN	4,763,773	113,795	296,591
90-BO-202-1008	04/11/90	Quincy Housing Authority - Controls for Safeguarding Assets; Quincy, MA			
90-BO-203-1009	05/10/90	Boston Housing Authority - Housing Voucher Program; Boston, MA			
90-BO-204-1011	05/30/90	Cambridge Housing Authority - Low-Income Housing Program; Cambridge, MA			
90-BO-202-1013	08/29/90	Plymouth Housing Authority - Controls for Safeguarding Assets; Plymouth Town, MA			
90-BO-202-1014	09/26/90	Revere Housing Authority - Controls for Safeguarding of Assets; Revere, MA			
90-BO-204-1015	09/27/90	Norwalk Housing Authority - Section 8 Program; Norwalk, CT	323,131	243,859	
90-BO-214-1016	09/28/90	First Realty Management Corporation - Multifamily Management Agent; Boston, MA	73,996		
90-CH-212-1010	04/06/90	Castlewood Apartments - Multifamily Mortgagor Operations; Davenport, IA	168,568	139,200	
90-CH-203-1012	05/22/90	Jackson Housing Commission - Section 8 Housing Voucher Program; Jackson, MI	126,891	52,720	

EXTERNAL AUDIT REPORTS ISSUED					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
90-CH-209-1015	06/14/90	Muskegon Heights Housing Commission - Low-Income Housing Program; Muskegon Heights, MI			
90-CH-222-1016	06/28/90	Crohn Real Estate, Inc. - Single Family Property Disposition Program; Lino Lakes, MN			
90-CH-222-1017	07/31/90	Century 21 Fairfield Realtors, Inc. - Single Family Property Disposition Program; Fort Wayne, IN			
90-CH-214-1018	08/03/90	Property Management Consultants, Inc. - Multifamily Mortgage Insurance Program; Birmingham, MI			
90-CH-212-1019	08/27/90	Lincoln Avenue and Crawford Home for the Aged - Multifamily Mortgagor Operations; Cincinnati, OH	17,628	17,628	
90-CH-203-1021	09/27/90	Dayton Metropolitan Housing Authority - Section 8 Housing Voucher Program; Dayton, OH			
90-DE-209-1010	04/09/90	Alamosa Housing Authority - Controls for Safeguarding Cash and Other Monetary Assets; Alamosa, CO			
90-DE-222-1011	07/20/90	Dungaree Realty, Inc. - Area Management Broker; Arvada, CO			
90-DE-222-1012	07/30/90	Westcor Properties, Inc., - Management Broker Audit; Lakewood CO	1,110		
90-DE-214-1013	08/02/90	Urban, Inc. - Management Agent Audit; Denver, CO	277,379	184,381	
90-FW-212-1004	04/05/90	Regency Place Apartments - Multifamily Mortgagor Operations; Cedar Hill, TX	455,446	210,278	
90-FW-203-1005	06/19/90	White River Regional Housing Authority - Section 8 Housing Voucher Program; Batesville, AR	254		
90-FW-203-1006	07/02/90	Tulsa Housing Authority - Section 8 Voucher Program; Tulsa, OK	73,536	15,259	
90-FW-222-1007	07/17/90	Wakefield Realtors - Area Management Broker; San Antonio, TX			
90-FW-222-1008	07/20/90	Centerline Plus, Inc. - Area Management Broker Contract; Fort Worth, TX			

EXTERNAL AUDIT REPORTS ISSUED					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
190-FW-201-1009	08/30/90	New Orleans Housing Authority - Procurement of Management Contract; New Orleans, LA	566,242	499,568	396,750
90-FW-203-1010	09/20/90	Texas Department of Community Affairs - Section 8 Existing Program; Austin, TX	4,113	4,113	
90-FW-212-1011	09/27/90	Morningview Oaks Apartments - Multifamily Mortgagor Operations; San Antonio, TX	211,319	130,248	
90-KC-203-1006	05/04/90	St. Louis Housing Authority - Section 8 Voucher Program; St. Louis, MO			
90-KC-222-1007	09/28/90	Alonzo D. Reed Real Estate Co. Inc. - Area Management Broker; Normandy, MO	855	855	
90-NY-212-1024	04/26/90	Limited Review of Cedargrove Heights - Mortgagor Operations; Cheektowaga Town, NY	76,056	56,753	7,212
90-NY-203-1025	06/04/90	Housing Preservation and Development - Section 8 Housing Voucher Program; New York City, NY	3,104,422	2,840,119	2,646,156
90-NY-202-1026	06/06/90	Limited Review of the Orange Housing Authority - Comprehensive Improvement Assistance Program; Orange Township, NJ	28,146	16,879	298,696
90-NY-204-1027	06/26/90	Perth Amboy Housing Authority - Comprehensive Improvement Assistance Program; Perth Amboy, NJ	1,034,199	186,607	60,639
90-PH-219-1010	04/17/90	Perkins-Morris Nursing Home - Mortgagor Operations; Philadelphia, PA	1,146,979	380,576	
90-PH-209-1011	04/30/90	Moundsville Housing Authority - Cash Management; Moundsville, WV			
90-PH-209-1012	05/04/90	Housing Authority of the City of Martinsburg - Accounting Controls for Safeguarding Monetary Assets; Martinsburg, WV			
90-PH-212-1015	07/16/90	PCI Management, Inc. - Multifamily Management Agent Operations; Christiansburg, VA	1,410,809	169,039	
90-PH-214-1016	07/30/90	Arbors Management, Inc. - Multifamily Management Agent Operations; Pittsburgh PA	38,148		
90-PH-211-1017	07/30/90	The Village on Park - Section 202 Direct Loan Program; Nitro, WV	274,819		

EXTERNAL AUDIT REPORTS ISSUED					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
90-PH-222-1018	09/28/90	Daniel Woods Real Estate - Area Management Broker Operations; Chester, PA	750		
90-PH-204-1019	09/28/90	Charleston Housing Authority - Public Housing Program; Charleston, WV	45,234		
90-SE-203-1004	06/15/90	Housing Authority of the City of Tacoma - Section 8 Housing Voucher Program; Tacoma, WA	43,323	40,979	
90-SE-202-1005	06/15/90	Southern Puget Sound Inter-Tribal Housing Authority - Safeguarding of Assets; Shelton, WA			
90-SE-222-1006	06/28/90	Marston Real Estate of Mat-Su, Inc. - Area Management Broker; Wassilla, AK			
90-SE-222-1007	06/28/90	Marston Property Management, Inc. - Area Management Broker; Anchorage City, AK			
90-SE-202-1009	09/27/90	Lummi Housing Authority - Safeguarding of Assets; Bellingham, WA			
90-SF-203-1007	04/17/90	Housing Authority of the City of Richmond - Section 8 Housing Voucher Program; Richmond, CA	57,436		1,200,000
90-SF-209-1008	04/19/90	San Francisco Housing Authority - Limited Review of Procurement Practices; San Francisco, CA	105,181		28,588
90-SF-203-1009	04/20/90	Housing Authorities of Fresno City and County - Section 8 Housing Voucher Program; Fresno, CA			
90-SF-222-1011	06/29/90	Cash, Banker and Hale, Inc. - Area Management Broker; Phoenix, AZ	111,270	11,500	
90-SF-203-1012	07/03/90	Pittsburg Housing Authority - Section 8 Housing Voucher Program; Pittsburg, CA	146,837	50,328	776,606
90-SF-222-1013	07/20/90	Suzy Q Incorporated - Area Management Broker; Las Vegas, NV	41,309	2,468	
90-SF-203-1014	07/27/90	San Diego County Housing Authority - Section 8 Housing Voucher Program; San Diego, CA			
90-SF-202-1015	09/20/90	Livermore Public Housing Authority - Safeguarding Monetary Assets; Livermore, CA			
90-SF-222-1016	09/24/90	Desert Realty, Inc. - Area Management Broker; Las Vegas, NV	16,600		

EXTERNAL AUDIT REPORTS ISSUED					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
90-SF-209-1018	09/25/90	City and County of Fresno Public Housing Authorities - Comprehensive Improvement Assistance Program; Fresno, CA			
90-TS-221-1012	04/05/90	Lake Mortgage Company, Inc. - Nonsupervised Mortgagee; Merrillville, IN			
90-TS-221-1013	04/09/90	United Austin Mortgage Company - Nonsupervised Mortgagee; Austin, TX			
90-TS-221-1015	06/13/90	Heritage Mortgage Company - Supervised Mortgagee; Chicago, IL			
90-TS-221-1016	07/24/90	National Mortgage Corporation of Indiana - Nonsupervised Mortgagee; Indianapolis, IN			
90-TS-221-1017	08/06/90	Clarence A. Marshall Mortgage and Investment Company, Inc. - Nonsupervised Mortgagee; Kansas City, MO			
90-TS-221-1018	08/17/90	First Union Mortgage Corporation - Nonsupervised Mortgagee; San Antonio, TX			
90-TS-221-1019	09/28/90	Wakefield Financial Corporation - Supervised Mortgagee; Phoenix, AZ			
COMMUNITY PLANNING AND DEVELOPMENT					
90-AT-248-1009	04/06/90	Accounting System Evaluation; Sarasota County, FL			
90-AT-248-1010	04/06/90	Accounting System Evaluation; Lee County, FL			
90-AT-241-1017	08/30/90	Community Development Block Grant Program; Ponce Municipio, PR	2,709,455	1,930,621	4,905
90-BO-249-1010	05/14/90	Department of Economic and Development - Interim Finance Loan Program; Augusta, ME	1,923,650		
90-BO-242-1012	07/23/90	Farwell Hill Housing Development Grant; Lisbon Falls, ME	2,472,500		
90-CH-259-1011	04/30/90	Rental Rehabilitation Grant Program; Cincinnati, OH	182,746	182,746	
90-CH-241-1013	06/01/90	Community Development Block Grant Program; Benton Harbor, MI	2,641	2,641	

EXTERNAL AUDIT REPORTS ISSUED					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
90-CH-241-1020	09/11/90	Community Development Block Grant Program; Lincoln Park, MI	380,825	130,823	
90-NY-242-1028	09/28/90	Urban Development Action Grant; Niagara Falls, NY	9,061,038	7,153,737	
90-PH-241-1013	05/09/90	Community Development Block Grant Program; Wheeling, WV	177,851	177,851	
90-PH-249-1014	06/12/90	Delaware County CDBG Program - Partnership for Economic Development and other Selected Areas; Media, PA	5,641,231	3,966,233	850,811
90-SE-249-1008	07/13/90	Section 108 Loan Guarantee Assistance Program; Tacoma, WA	677,703		528,994
90-SF-249-1006	04/05/90	Section 108 Loan Guarantee Assistance Program; Monterey Park, CA			
90-SF-249-1010	05/09/90	Section 108 Loan Guarantee Assistance Program; El Monte, CA			
90-SF-249-1017	09/25/90	City of Bellflower - Section 108 Loan Guarantee Assistance Program; Bellflower, CA			
90-SF-259-1019	09/28/90	Community Housing Partnership; Maricopa, AZ	77,514	11,806	
ADMINISTRATION					
90-AO-261-1001	04/09/90	Lam Associates, Inc. - Price Proposal Evaluation; Reston, VA			
90-AO-262-1002	04/25/90	Bush and Company - Contract Cost Audit; Washington, DC	30,143	24,588	
90-AO-269-1003	07/06/90	The Appraisal Foundation - Accounting System Evaluation; Washington, DC			
90-AO-262-1008	09/28/90	Quadel Consulting Corporation - Audit of Cooperative Agreement - Final Cost Audit; Washington, DC	124,676	95,920	
90-AT-261-1019	09/21/90	Martin Luther King Jr. Center for Nonviolent Social Change, Inc. - Evaluation of Cost and Price; Atlanta, GA			
90-AT-261-1020	09/28/90	Hoffman Research Associates, Inc. - Evaluation of Cost and Price Proposal; Chapel Hill, NC			

EXTERNAL AUDIT REPORTS ISSUED					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
90-CH-269-1014	06/01/90	Detroit Housing Department - Comprehensive Improvement Assistance Program; Detroit, MI	364,266		
90-TS-279-1014	06/08/90	Review of GNMA Subservicer Activities of Davis-Penn Mortgage Company; Pasadena, TX			

Appendix 2

Awareness Publications

Fraud Information Bulletins (FIBs)

- 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
- 90-1 Closing Agents
- 90-2 Microcomputer Security and Management

Program Integrity Bulletins (PIBs)

- P-86-1 Public Housing Agency Commissioners and the Low-Income Housing Program
- P-86-2 Asset Management
- P-86-3 Title I
- P-86-4 Mortgagee Review Board
- P-86-5 Computer Matching
- P-86-6 Rehabilitation Activities
- P-86-7 Avoid Loan Fraud
- P-87-1 Section 8 Moderate Rehabilitation Program
- P-87-2 GNMA Mortgage-Backed Securities
- P-87-3 Indian Housing Authority Commissioners and the Low-Income Indian Housing Programs
- P-87-4 Fee Appraisers
- P-87-5 Monitoring Subrecipients in 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: Integrity in Public Service - A Guide to the Standards of Conduct (March 1989)

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