

Report No. 25
For the 6-month
Period ending
March 31, 1991

Inspector General's Report to the Congress



PROFILE OF PERFORMANCE

Audit and Investigation Activities	10/01/90 - 03/31/91
Cash Recoveries/Savings ¹	\$57,157,040
Cost Efficiencies Realized ¹	\$30,746,924
Commitments to Recover Funds ¹	\$52,331,665
Cost Efficiencies Sustained ¹	\$26,760,176
Total Fines Levied	\$465,337
Indictments	168
Convictions	174
Suspensions of Persons/Firms Doing Business with HUD	97
Debarments of Persons/Firms Doing Business with HUD	122
Voluntary Exclusions of Persons/Firms Doing Business with HUD	4
Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board	1
Subpoenas Served	45
Material Weaknesses Reported	5
Personnel Actions Initiated Against HUD Employees	18
Program Integrity Activities	
Awareness Publications Issued	1
Hotline Complaints Opened	475
Proposed Legislation and Regulations Reviewed	144

Note 1: Includes amounts due to HUD program participants



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE SECRETARY
WASHINGTON, D.C. 20410-0001

May 24, 1991

Honorable J. Danforth Quayle
President of the Senate
Washington, DC 20510

Honorable Thomas S. Foley
Speaker of the House of
Representatives
Washington, DC 20515

Gentlemen:

It is with pleasure that I transmit to Congress the 25th Semiannual Report of the Department of Housing and Urban Development's Inspector General. This report covers the period from October 1, 1990, to March 31, 1991, and is prepared pursuant to Section 5(b) of the Inspector General Act of 1978. It will be provided to all members of the committees with HUD oversight responsibilities.

The reports of HUD's Inspector General have taken on a special significance since the Bush Administration took office in 1989. I'm sad to say that in the past, this report would have had little impact--on the Department, the Congress, or the public. Today, however, we heed the Inspector General's recommendations and we welcome his report as a chronicle of our accomplishments and a roadmap for the future. I think you'll be able to tell from the number of audits and investigations detailed in this report that were referred to the Inspector General by HUD program staff that our relationship is constructive and cooperative.

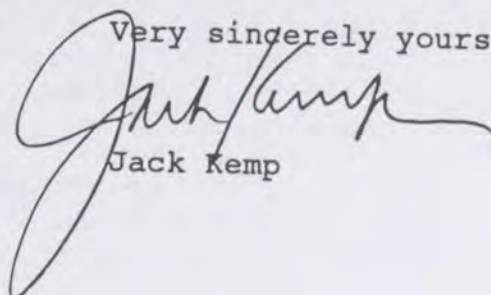
We have made significant progress in our efforts to reform the Department of Housing and Urban Development and restore financial and ethical integrity to its programs. We have taken steps to implement sound--and integrated--financial management systems and controls; we have led the way for the Federal Government in the appointment of a Chief Financial Officer and a Council of Comptrollers; we have made our ethics program a model for the Executive Branch; and have made those who use and administer HUD's programs accountable for any violations of the public trust.

Furthermore, we have recommitted ourselves to HUD's basic mission through the passage of the National Affordable Housing Act of 1989. This legislation charts new directions in housing policy by empowering low-income families with greater opportunities for homeownership and affordable housing. It also gives us the legal authority to build the capital needed to maintain the bulwark of our program of homeownership for low- and moderate-income families--the FHA.

I'd like to be able to tell you that no problems exist at HUD--but they do. Some of our most vexing challenges are in programs like Section 8 and FHA that affect hundreds of thousands of people and involve billions of dollars. The reforms we are undertaking are sound--but they are also costly, complex and time-consuming. These reforms won't be fully implemented for years--and in the meantime, despite our best efforts, the systemic flaws built into the system will continue to plague us. And while I am impatient and wish that we could snap our fingers and make everything work right, I am realistic enough to know that such a fix would be short-lived and foolish. I am also grateful that the Inspector General is on hand to help catch mistakes and work hand in hand with us to effectuate the needed reforms.

In closing, please be assured that you continue to have my solemn commitment to uphold the very highest standards of integrity and fairness as I carry out my responsibilities as Secretary of Housing and Urban Development.

Very sincerely yours,

A handwritten signature in cursive script, appearing to read "Jack Kemp". The signature is written in dark ink and is positioned above the printed name "Jack Kemp".

Jack Kemp

Enclosure

Inspector General's Report to the Congress

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For the 6-month Period ending March 31, 1991

U.S. Department of Housing and Urban Development

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Inspector General's Message to the Congress

Just over 24 months ago, the Department was under intense scrutiny by Congress, the media, and OMB for what has become known as the "HUD Scandals." Numerous Congressional hearings and media stories focused on Moderate Rehabilitation, Robin HUD, Coinsurance and former high-ranking HUD officials. Since that time significant progress has been made by Secretary Kemp to instill competence, ethics and accountability into programs and operations.

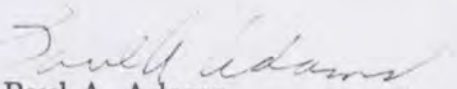
While progress is evident in many areas, we have been unable to assess the impact of the changes on resources and on existing, new, or planned programs. Moreover, it is my sense that progress is slower than expected. Delays were encountered in preparing some of the new or revised regulations to implement HUD reform measures, as well as OMB and Departmental rule changes to revamp/terminate existing programs/activities. A number of factors including insufficient staffing and "competing priorities," contributed to the delays. Although the resources needed to fully address the HUD Scandals could not have been foreseen 2 years ago when budgets were prepared and the administration changed, HUD management now needs to be more aggressive in identifying and removing impediments to progress.

More timely action is also needed in finalizing corrective actions stemming from audit recommendations. While progress has been made in addressing the recommendations, delays have occurred. Needed improvements in several programs have been impacted by these delays. These are detailed in Chapter 3. Recently, I brought this situation to the Secretary's attention and have seen improvement. He has assured me that more timely actions to improve efficiency and effectiveness of HUD programs will continue as a Secretarial priority and be closely monitored by the Deputy Secretary.

The Chief Financial Officer Act of 1990 has implications for both the Department and the OIG. Preparation of consolidated financial statements for the first time should bring improvements to the financial management system. Auditing these statements will be a new and challenging task for our office. I look forward to working with the Chief Financial Officer (CFO) to address many of HUD's problems. Your help in providing sufficient resources and oversight to HUD and all executive departments and agencies is essential if this important piece of legislation is to be effective. The HUD CFO took office in January 1991, and is assuming responsibility for coordinating numerous activities relating to improving HUD's management controls and financial systems.

HUD has made significant efforts to comply with the Federal Managers' Financial Integrity Act (FMFIA) over the past 2 years. In addition HUD management has now accepted responsibility for the Front End Risk Analysis (FERA) program which requires risk assessment analyses for all new or substantially revised programs. This function was transferred from the OIG and is an appropriate recognition that internal controls are the responsibility of management, not the auditors. HUD now has a comprehensive follow-up system for tracking FMFIA material weaknesses and a sense of accountability. However, I still believe that program managers need to have a greater degree of control consciousness to critically examine their program areas on an ongoing basis. I have expressed this concern to the CFO, and will provide whatever help and assistance we can to instill this lacking ingredient of a successful control program.

As a result of the "HUD Scandals" we have spent countless resources responding to Congressional, HUD management and citizen inquiries. This is in addition to resources committed to Department of Justice Task Forces investigating HUD fraud and the Independent Counsel's investigation of former HUD officials. Positive response to these various demands has required much of our attention. Our goal over the next 6 to 12 months is to focus our resources on reviewing the Department's implementation of the HUD reforms and providing an assessment to the Secretary. We will continue to keep you apprised of the Department's progress.

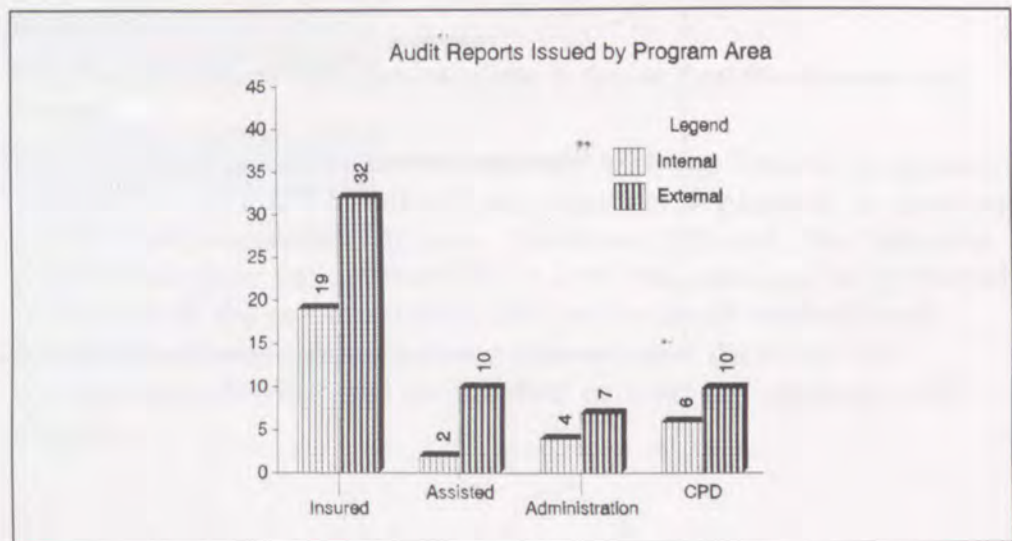

Paul A. Adams
Inspector General

Chapter 1 — Audit

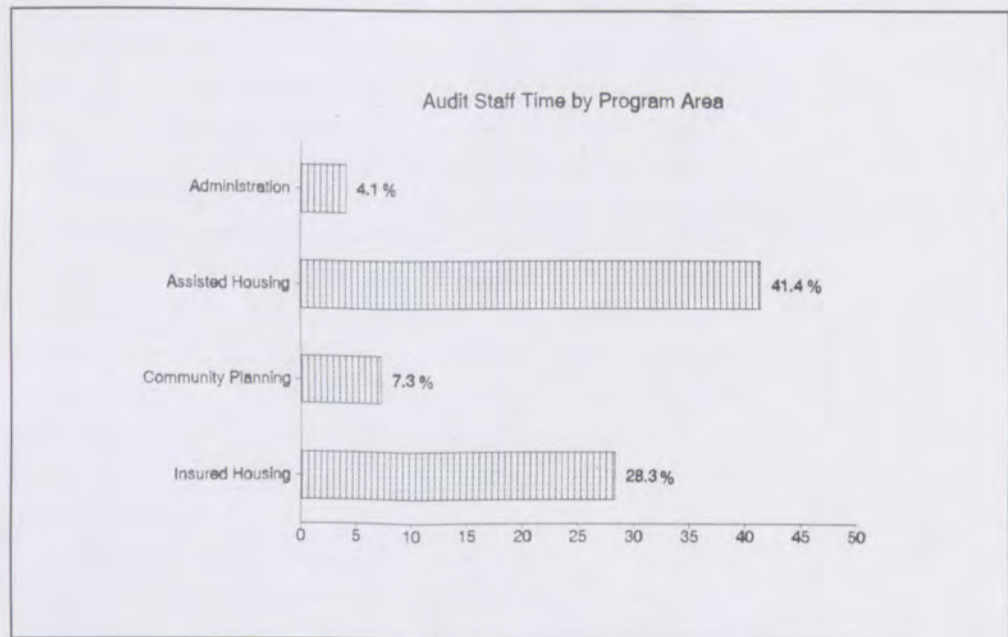
During the 6-month reporting period, we continued to identify material control weaknesses in disposing of single family properties and servicing of insured multifamily projects. These problems were discussed in past Semiannual Reports. Although closing agents made great strides in improving their handling of money from property sales, they can and should submit sales proceeds and packages more timely, improve their documentation and transmission of money to HUD, and strengthen their bonding coverage. Our audits also found that HUD's Property Disposition Branches were not assuring that area management brokers conducted adequate property inspections, properly valued properties for sale, or adequately administered their repair and maintenance programs.

On the multifamily side, management agents continue to charge excessive accounting and management fees, misuse project funds, make ineligible distributions of cash to project owners, and submit incorrect billings for housing assistance payments. The problems at these levels of program administration can ultimately be traced to weaknesses in the management of HUD's operations. This includes the development and maintenance of ADP systems, contract administration, and the allocation of adequate staff, training and travel funds to more effectively monitor program operations.

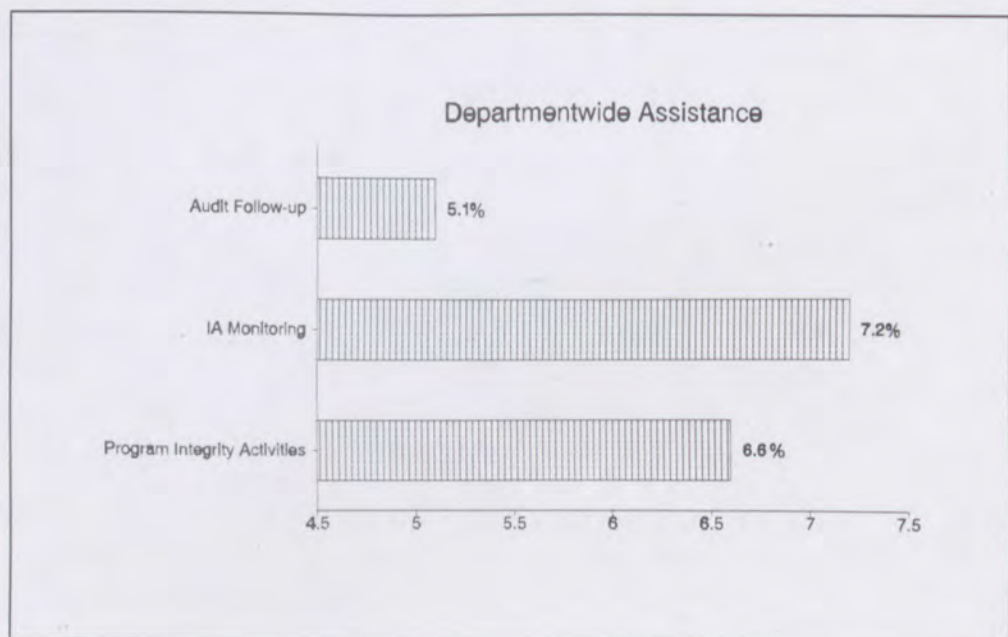
This Chapter highlights these and other problems found during our audits over the last 6 months. During this period, we issued 31 internal reports on HUD management and 59 external audit reports on grantees and program participants. The chart below shows the distribution of reports by program area.



The leading concentration of audit resources was devoted to assisted housing, taking 41 percent of the total available hours.



Departmentwide assistance also used significant levels of audit resources, as this chart shows.



□ Single Family Housing Programs

HUD's Single Family loan programs provide mortgage insurance to lenders to encourage them to make mortgage loans to first time homebuyers and others who might not qualify for conventional mortgage loans. Many of the programs were developed as a result of the passage of the National Housing Act of 1934. The purpose of the Act was to improve housing conditions and provide for the insurance of mortgages.

Over the years, OIG audits of these programs have identified patterns of irregularities and questionable practices with respect to loan origination and property disposition which raise serious questions about the integrity of HUD's Single Family Mortgage Insurance Programs. During this 6-month period, we focused our efforts on examining property disposition activities, specifically concentrating on Property Disposition Branches, closing agents, and foreclosure agents. This Section also summarizes activities of the Mortgagee Review Board and discusses our audit of Title I Service Centers.

Property Disposition Branches

We conducted reviews of the Property Disposition Branches at seven HUD Field Offices in six Regions. This audit was a follow-up to our earlier external area management broker (AMB) audits which found that AMBs were not: (1) conducting adequate initial property inspections or properly valuing properties for sale; (2) adequately administering their repair and maintenance programs; nor (3) maintaining proper administrative controls over their operations. We found that all seven offices had problems with the management of one or more aspects of their property disposition operations, including:

Procurement Actions were not Adequate to Ensure Cost Effectiveness and Fairness

Five of the seven offices did not comply with the Federal Acquisition Regulation and HUD handbook requirements in planning or carrying out various procurement actions. Problems included: the failure to prepare adequate procurement plans and cost estimates for proposed procurement; the use of questionable procurement methods and solicitation procedures; ill-advised procurement decisions and contract amendments; and mishandled contract bid openings and awards.

Monitoring of AMBs and Service Contractors was Ineffective

Five of the seven offices did not adequately monitor the activities of their property disposition contractors. This resulted in substantial overpayments to AMBs for management fees; payments to service contractors for services not performed; and payments for unnecessary services. Additionally, numerous instances in which the AMBs failed to ensure that properties were properly maintained and secured were not detected or corrected.

Properties were not Listed for Quick Sale

Property Disposition Branches are required to list all properties for sale in a newspaper within 14 days of acquisition. Four of the seven offices exceeded the goal; their average days to list were 19, 23, 51 and 92 days. This increased holding costs as well as vandalism and property deterioration.

Property Valuation Improvements Recommended

Independent appraisals on 161 properties at 11 Field Offices indicated that 41 percent (66) of the properties were either over or undervalued by at least 10 percent. Field Office reviews of the valuations were frequently superficial or conducted by insufficiently trained staff. On August 2, 1990, the Office of the Assistant Secretary for Housing eliminated the AMB's role in valuing HUD-acquired single family properties. Appraisals on HUD-acquired properties will now be obtained from an industry recognized appraisal source.

Property Preservation and Protection Costs Need to be Reviewed

Field Offices were not reviewing mortgagee preservation and protection expense billings. As a result, HUD had no basis for determining if services were provided, insurance claims should be adjusted, or reimbursement sought from negligent mortgagees.

Due to the high volume of properties sold annually, these deficiencies have a significant dollar impact. HUD sold 79,207 properties in FY 1990 for about \$3 billion. By increasing its net return by only 1 percent, or about \$375 on each property, HUD can increase returns to the FHA insurance fund by as much as \$30 million.

More effective management of AMB and related activities can be achieved through better training of Property Disposition Branch staff; improved administration of existing staffing and travel resources; consideration to increased staffing and travel resources in some offices; better management and oversight of Property Disposition

Branch operations; and more effective monitoring by Regional and Headquarters Offices. The Office of Housing generally agreed with our recommendations and cited actions taken or planned to correct the weaknesses. (*Report No. 91-TS-123-0002*)

Closing Agents

There was noticeable improvement in the handling of sales proceeds and related closing agent activities. Yet, even with the improvements, problems still exist. The primary problem is the manner in which Field Offices are implementing existing policies and procedures. Given the nature of the problems and the frequency with which they were observed, as well as the fact that the Department has not yet implemented its automated system for property disposition activities, we recommended and the Department did continue to report this activity as a material weakness under the Federal Managers' Financial Integrity Act.

Our summary report discussed our review of 41 closing agents at 10 HUD Field Offices. While the major problem of remitting property sales proceeds timely improved considerably, other key control functions still need attention. The Office of Housing is taking appropriate action to address our concerns. Such action includes:

- The Deputy Secretary issued a memorandum to all Regional Administrators and Field Office officials which contains all pertinent closing agent requirements that were established over the past few years and which remain in effect.
- The Office of Housing examined the feasibility of establishing a quality control staff under a Deputy Assistant Secretary, but concluded that resources were not available.

On February 5, 1991, we were advised that resources were not available to establish this staff.

- The Office of Housing assured us they are pursuing the implementation of a process for on-site reviews through contract services, including the development of a review guide and a third party evaluation of the closing process.

We concluded that the stated actions were generally responsive to our recommendations and asked for additional documentation regarding the lack of resources for establishing a quality control staff. (*Report No. 91-TS-123-0007*)

Foreclosure Agents

Significant problems were found with HUD's oversight of foreclosure agents that were under contract with the Department to handle foreclosure actions. Specifically, we found:

- Contractors' letters of credit were established in excess of contract limits;
- Undue reliance was placed on contractor-supplied information with limited independent verification;
- Instances of contract noncompliance were not detected; and
- Checks and balances to prevent contractor overpayments were nonexistent.

As a result of inadequate monitoring of single family foreclosure agents by HUD and the resulting noncompliance with contract provisions by foreclosure agents, we recommended that this be reported by the Department as a material weakness under the Federal Managers' Financial Integrity Act.

Under certain conditions, HUD may accept assignment of a defaulted insured mortgage from the mortgagee and execute a forbearance agreement with the mortgagor. If the mortgagor does not meet its obligations under the terms of the agreement or the mortgage, the HUD Field Office recommends foreclosure and sends the delinquent note and mortgage directly to the foreclosure agent. Upon receiving these documents, the foreclosure agent initiates the foreclosure process in accordance with local legal requirements and procedures. The foreclosure agent prepares a foreclosure deed for filing after completion of the foreclosure action and initiates eviction action if necessary. The foreclosure agent then sends a new deed, along with a new title policy, to HUD after the redemption period and the eviction action have elapsed. Between October 1, 1988, and September 30, 1990, HUD held contracts with three foreclosure contractors. The total contract authority for this 2-year period was \$9.3 million.

We made the following recommendations:

- The Office of General Counsel should establish better guidance and oversight to improve the monitoring and evaluation of foreclosure agent performance;
- The Assistant Secretary for Housing, in coordination with the General Counsel, should develop an independent case tracking system; and

- The General Counsel and the Assistant Secretary for Housing should develop a structured assessment process.

On April 4, 1991, the Department significantly modified its foreclosure procedures. It ceased sending new foreclosure cases to its one remaining multi-regional foreclosure agent. It is intended that future foreclosures will be the responsibility of the local HUD Field Office. (*Report No. 91-TS-123-0011*)

Mortgagee Review Board Actions

During this reporting period, we issued three audit reports to the Mortgagee Review Board (MRB) involving firms that violated HUD requirements. We recommended that administrative sanctions be taken.

The MRB is empowered to invoke administrative sanctions against mortgagees who violate HUD regulations or requirements. Sanctions include: letters of reprimand; suspensions; probation; and withdrawals of FHA participation.

The audit reports submitted to the MRB were on Horizon Savings Association and Tillman Smith and Company, both single family loans originators; and Citadel Mortgage Company, a multifamily coinsurance lender. MRB action is pending on Horizon Savings Association and Citadel Mortgage Company. During its meeting on February 28, 1991, the Board unanimously voted to sanction Tillman Smith and Company by withdrawing its FHA approval.

The Board also sanctioned or entered into settlement agreements with the following mortgagee firms based on prior OIG audits:

COMPANY	SANCTION/AGREEMENT
Midfirst Mortgage Company San Antonio, TX	Indemnified HUD for \$1.2 million and agreed not to submit claims on 20 loans.
Cityfed Mortgage Company Nashville, TN	Indemnified HUD for \$366,960 and agreed not to submit claims on two loans.
American Residential Mortgage Corporation Phoenix, AZ	Indemnified HUD for \$496,194 and agreed not to submit claims on seven loans.
Heritage Mortgage Company Chicago, IL	Placed on probation, indemnified HUD for \$35,912, and agreed not to submit claims on three loans.
National Mortgage Corporation of Indiana Indianapolis, IN	Approval authority withdrawn. HUD is currently seeking recovery for claim losses.

During this reporting period, the Department also received \$312,359 stemming from our December 30, 1986 audit of Liberty Mortgage Company. Under the terms of a May 8, 1987 settlement agreement with Liberty, the mortgage company sought recovery from Stewart Escrow and Title Company of the losses incurred by the Department on improperly settled loans. In accepting the payment, the Department acknowledged that Liberty fulfilled its obligation to HUD to pursue its remedies for claims arising out of the actions of Stewart Escrow and Title Company.

Title I Debt Collection

Our audit of the Title I Debt Collection Program was reported in our last Semiannual Report. We said that the Department incorrectly calculated the amount of debt and interest due on defaulted home improvement and manufactured home loans. The misstatement was estimated at \$174 million.

In addition to the problem with debt calculations, we found that:

- At one Service Center, at least \$42 million in debts were improperly forgiven and \$23 million in debts were incorrectly transferred to a collection agency. We concluded that these and other actions were taken as a means to reduce workload and improve performance statistics.

- There were inadequate controls in place to assure the confidentiality of Federal tax data and the security of file documents and cash receipts.
- Lender claims were paid for debts which were unenforceable against defaulted borrowers.
- The Department did not perform or adequately document its review of claims paid to lenders to ensure that they were paid appropriately.

In his January 24, 1991 response to our draft report, the Assistant Secretary for Housing-Federal Housing Commissioner generally agreed with four of the six findings in the report, but he disagreed with our conclusions on how debts should be calculated. Thus we are recommending that the Office of General Counsel provide the necessary legal opinions to resolve the issue. The Assistant Secretary also disagreed that data was intentionally manipulated, but did agree to establish controls to prevent recurrence of the situation. (*Report No. 91-TS-122-0009*)

□ Multifamily Housing Programs

HUD administers several mortgage insurance programs that finance the construction or rehabilitation of multifamily projects. In addition to projects with HUD-held or -insured mortgages, the Department also directly owns a number of multifamily projects acquired through its insurance and loan programs. Under the Multifamily Housing Programs, HUD, in some cases, subsidizes the rents for eligible low-income households through Section 8, Rent Supplement, and Rental Assistance Payments Programs.

During the reporting period, we audited mortgagor operations; management agents; the Section 8 Project Based Assistance Program; administration of the Section 232 Program by the Chicago Regional Office Loan Management Branch; and development costs of insured multifamily projects.

Mortgagor Operations

Regulatory Agreement violations by mortgagors (owners) of HUD projects continue to occur. The Regulatory Agreement specifies that expenditures must be reasonable and necessary to the project, and limits the circumstances in which cash may be taken out of a project by the owner. These violations affect not only the financial but also the physical condition of projects. These pictures are examples of the types of conditions we found at some of the projects we audited.

They are followed by problems and deficiencies disclosed by these audits.



Rotted bathroom ceiling - Parkgate Apartments, Kansas City, MO



Severely damaged kitchen - Parkgate Apartments Kansas City, MO



Rotted floor - French Village Apartments, Kansas City, MO



Intensified deterioration caused by lack of routine maintenance - French Village Apartments, Kansas City, MO

French Village Apartments, Kansas City, MO

Serious mismanagement by the general partner of French Village Apartments led to project failure and significant government losses. Fifteen months after buying the property for \$1.2 million, the general partner received a \$2.45 million coinsured mortgage based on an appraisal that increased property value for major renovations that never occurred. The property deteriorated, vacancies increased, and lower revenues led to mortgage default. We recommended that HUD take immediate possession of the property and begin foreclosure proceedings and that civil actions be pursued to recover an estimated \$1.7 million in HUD losses. A limited denial of participation was recently issued to the general partner. The Field Office is in the process of implementing our recommendations.

(Report No. 91-KC-212-1001)

Parkgate Apartments, Kansas City, MO

The owner of Parkgate Apartments received a \$1.6 million coinsured mortgage by not disclosing a second mortgage on the property. The owner neglected or deferred maintenance on the project and allowed it to deteriorate. We estimate that about \$450,000 is needed to restore the property. We recommended that HUD recover losses incurred through foreclosure and disposition of the property. A limited denial of participation was issued to the owner. Foreclosure and civil actions are underway. *(Report No. 91-KC-212-1003)*

Hato Rey Psychiatric Hospital, Bayamon, PR

Our audit, conducted at the request of the Caribbean Office Manager, found that the owner of Hato Rey Psychiatric Hospital, Inc., incurred ineligible costs of \$2.7 million and unsupported costs of \$2.6 million. Examples of the owner's violations include making \$1 million of unauthorized disbursements using checks set aside as a secret payroll account, and charging the project over \$1 million in unnecessary expenses for life insurance policies, luxury vehicles, per diem expenses for the Board of Directors, and stock options. Project funds were encumbered when the owner used \$1.3 million in accounts receivable to secure a line of credit with a commercial bank. Without HUD approval, the owner used project funds to give interest-free loans of over \$500,000 to other owners and their relatives and incurred another \$500,000 in liabilities for unreasonable expenses. The owner subsequently filed for bankruptcy. We recommended that the owner reimburse the project \$2.7 million and that HUD determine the eligibility of \$2.6 million in unsupported costs. HUD should also take administrative sanctions against the owner and replace the current management. *(Report No. 91-AT-212-1012)*

Waterford Associates, Melbourne, FL

This audit was requested by the Office of General Counsel. We found that diversions of \$3.4 million in coinsured mortgage proceeds were made from three Retirement Service Centers of Waterford Associates. The diversions by the owners and their identity-of-interest general contractor caused construction to halt on the three projects, The Fountains, The Isles of Vero Beach, and Camelot at Mariner's Village. The owners and general contractor diverted the \$3.4 million by transferring funds to other projects instead of holding mortgage proceeds in trust and paying only eligible costs. They also paid for costs not includable in a coinsured mortgage. In addition, the mortgage on The Fountains was overinsured by \$1.4 million because the coinsurance lender did not comply with HUD supplemental cost certification requirements and recompute the mortgage amount based on the actual amounts paid in cash.

We recommended that HUD recover the diverted funds, reduce the coinsured mortgage for The Fountains by \$1.4 million, and take administrative sanctions against the mortgagor and general contractor entities and the coinsurance mortgagee and its officers.
(Report No. 91-TS-211-1004)

Clinton Plaza Apts. & Clinton Plaza Apts. #2, Clinton Township, MI

Our audit, conducted at the recommendation of the HUD Detroit Office, found that the owners of Clinton Plaza Apartments and Clinton Plaza Apartments #2 transferred original ownership interests without HUD's approval. They also mishandled \$502,000 in project funds. We recommended, among other things, that the Detroit Office Manager instruct the owners to submit documentation needed for HUD's approval of ownership transfer. If the owners refuse to comply, HUD should consider debarment and imposition of civil monetary penalties under the provisions of the HUD Reform Act.
(Report No. 91-CH-212-1004)

Wellesley Townhouses Cooperative, Romulus, MI

The Wellesley Townhouses Cooperative needs \$3.4 million for the repair of 20 units and common areas and grounds, and improved management controls to safeguard their assets. Our review was conducted based on the recommendation of the HUD Detroit Office and found that none of the 20 units inspected complied with HUD's Housing Quality Standards (HQS). The project's vacancy rate has steadily increased and doubled in a 12-month period. We recommended that (1) the Cooperative and HUD take specific actions to ensure that members live in decent, safe, and sanitary units, (2) Section 8 assistance be discontinued for units not complying with HQS, and (3) the Cooperative establish procedures to assure that

necessary repairs are made and controls are implemented to safeguard project assets. (*Report No. 91-CH-212-1001*)

Treybrooke Apartments, Morrisville, NC

The owner of Treybrooke Apartments made ineligible payments of \$149,642 to an identity-of-interest management agent while the mortgage was in default. As of December 12, 1990, the owner was delinquent on the HUD-insured mortgage by \$448,218. Instead of using \$60,000 in project funds to reduce delinquent mortgage payments, the owner placed the money in a savings account. We recommended that the owner be required to repay the project \$149,642 and use the \$60,000 to pay project expenses and delinquent mortgage payments. (*Report No. 91-AT-212-1008*)

Management Agents

Past audits have disclosed that millions of dollars have been misspent or diverted by multifamily management agents and projects have been mismanaged, contributing to both physical deterioration and financial instability. As a condition of receiving mortgage insurance, project owners sign a Regulatory Agreement with HUD. Owners may delegate authority for operating the projects to a management agent for which the terms of the Regulatory Agreement remain binding.

While HUD is taking steps to improve loan servicing, the approval and monitoring of management agents need more attention. Our multi-region audit disclosed significant violations by management agents that were not detected during HUD monitoring. These violations included excessive charges for accounting and management fees, misuse of project funds, incorrect housing assistance payments billings, and ineligible distributions to owners. Seven management agent audits in Fiscal Years 1990 and 1991 identified ineligible and unsupported costs of \$6.1 million. This follows a similar trend of audit results during Fiscal Years 1987 through 1989 when 13 management agent audits disclosed \$5.1 million in ineligible or unsupported costs.

We made several recommendations designed to improve the management agent approval and monitoring process including implementing a system with comprehensive data on agents' performance; targeting a portion of monitoring review resources to agents managing a significant number of insured projects; and implementing systems and procedures for tracking and reporting on agent monitoring and follow-up efforts for ensuring corrective action is taken. The Office of Housing generally concurred with our recommendations. (*Report No. 91-TS-111-0014*)

Following are examples of three management agent audits performed during the last 6 months.

Gatsby Housing Associates, Providence, RI

Gatsby Housing Associates diverted an estimated \$846,399 from two HUD-insured projects to identity-of-interest firms and other companies. We were unable to determine the exact amount of diversion because the agent failed to maintain an acceptable financial management system. The agent also submitted housing assistance payment requisitions that were based on outdated tenant certifications, and claimed vacancy losses he was not entitled to receive. We recommended removal of the management agent from control of the projects and that an Independent Accountant be employed to determine the exact amount of project diversions. We also recommended that administrative sanctions be taken against the agent. The Field Office is still waiting for the auditee's response but has taken a number of actions to safeguard the assets of the two projects, including initiating cash set-offs, revoking previous participation clearance, and engaging a certified public accounting firm to perform the recommended audits. (Report No. 91-BO-214-1003)

Carey Arms Apartments, Las Vegas, NV

This audit was conducted at the request of the San Francisco Regional Administrator. We found that Carey Arms Apartments was mismanaged by Park Management Company to the point of insolvency and disrepair. Repair costs are estimated at \$2 million. As of September 30, 1990, the project had a negative \$39 in the operating account, and the tenant accounts receivable balance was \$55,363. By October 1990, the reserve for replacement account balance was \$138; the project had accounts payable of over \$500,000; and 71 units out of 289 were vacant, 43 of which required extensive repairs. The management of Carey Arms Apartments was subsequently turned over to another agent, and HUD staff in the San Francisco Region agreed to issue a limited denial of participation to Park Management Company and its owners, and work with the other Carey Arms general and limited partners to restore project solvency and make necessary repairs. (Report No. 91-SF-214-1801)

Housing Services Corporation, Hartford, CT

Housing Services Corporation failed to follow HUD requirements when it did not submit Section 236 excess income of \$327,648 to HUD. The agent is required to remit these funds to HUD on a monthly basis. The agent failed to deposit \$157,678 in residual receipts with two mortgagees as required. We recommended that the Regional Administrator consider imposing administrative sanctions against the management agent, obtain all monies due

HUD, and require the agent to establish procedures to correct all cited deficiencies. (*Report No. 91-BO-214-1006*)

Section 8 Project Based Assistance Program

In our last Semiannual Report, we discussed our audits of 10 PHAs in the Atlanta, Fort Worth, and San Francisco Regions. We found that PHAs were not complying with Section 8 Project Based Assistance Program regulations and that HUD needed to increase its program monitoring. We stated that the problems were serious enough to be reported by the Department as a material weakness under the Federal Managers' Financial Integrity Act.

Specifically, the PHAs did not establish written policies for selecting units for assistance or select units in a way that provided for fair competition; determine tenant eligibility prior to entering into Housing Assistance Payments contracts; assure that tenants were not permanently displaced; and inspect units and ensure they met the minimum level of rehabilitation costs required.

During this reporting period, we issued our multi-region audit summarizing overall problems along with recommendations for corrective action. We recommended that the Assistant Secretary for Housing:

- Issue Field Office procedures on the timing and frequency of site visits to PHAs; the scope of reviews; the process for reporting and resolving PHA/owner noncompliances; and the sanctions considered appropriate for continued noncompliance;
- Issue instructions for use by program participants, PHAs, and Field Offices incorporating all program requirements;
- Issue a directive emphasizing to Field Offices the need to improve their project based assistance application review and approval process, including approval of contract rents; and
- Develop and issue project based application processing procedures.

The Assistant Secretary for Housing-Federal Housing Commissioner generally agreed with our findings and recommendations. (*Report No. 91-TS-103-0003*)

Loan Management Branch - Chicago Regional Office

The Chicago Regional Office's Multifamily Loan Management Branch (LMB) did not service its Section 232 projects effectively. The LMB did not aggressively pursue remedies to cure mortgage defaults and delinquencies; take steps to obtain overdue audited financial statements and financial reports on projects; or conduct physical project inspections when required.

Section 232 of the National Housing Act authorized a program of mortgage insurance for the construction and/or rehabilitation of proprietary nursing homes. In 1964, the Act was extended to cover private nonprofit nursing homes. The Housing and Urban Development Act of 1969 expanded the program to include intermediate care facilities. Board and care homes were later added to the program. The Multifamily Loan Management Branch in each HUD Field Office is responsible for monitoring and servicing Section 232 projects to ensure the projects' financial viability and physical condition. Servicing activities include the review of financial statements and project inspections.

The LMB assigned a low priority to the servicing of Section 232 projects based on its misinterpretation of HUD handbook requirements. The handbook permitted HUD to refrain from on-site management reviews if projects were reviewed and inspected by Federal, State or local health and regulatory agencies. However, it was expected that the HUD offices would obtain copies of the review and inspection reports from these other agencies if they chose to refrain from their own reviews.

The LMB did not take action to obtain required and overdue audited financial statements, analyze financial data on troubled projects, or question adverse information. LMB inspections were not performed according to required schedules, nor were annual inspections made by mortgage companies obtained. Instead of following up on adverse conditions found, the LMB relied on the oversight provided by State regulatory agencies as a substitute for its own servicing responsibility. These agencies, however, focused on the adequacy of patient care, not the projects' financial viability.

On three of its five Section 232 projects with HUD-held mortgages, the LMB did not aggressively attempt to cure mortgage defaults. The LMB did not take prompt action when project owners failed to adhere to the terms of the workout arrangements and modification agreements, and did not account for payments needed for escrows and other charges when agreeing to adjusted mortgage payment amounts. As a result, delinquencies either increased or were allowed to continue unnecessarily.

We made several recommendations, including the establishment of appropriate internal controls, to correct problems found with the LMB's servicing of Section 232 projects. The Regional Administrator generally agreed with our findings and recommendations. (*Report No. 91-CH-112-0003*)

Development Cost Audits

At the request of HUD managers, our office audits development costs for insured multifamily projects to determine if certified costs are eligible under contract terms and in accordance with HUD policies, rules, and regulations, and whether costs support the full committed loan amount. Our audits determine the eligibility of reported costs; the adequacy of supporting documentation; the accuracy of reported payables; and compliance by mortgagors, sponsors, contractors, and Independent Accountants with contractual agreements and obligations. Following are examples of development cost audits performed during this reporting period.

Regent Street Housing, Philadelphia, PA

The mortgagor for Regent Street Housing charged the project \$983,105 in ineligible costs, including architect fees; FHA examination and financing fees; legal, organizational and cost certification audit fees; and costs for funding a contingency reserve. The mortgagor also included unapproved change orders in construction costs and did not deduct liquidated damages as required. The contractor charged nearly \$75,000 in ineligible fringe benefits and audit fees to the project. We recommended that the Regional Administrator reduce the mortgagor's and contractor's costs by the total ineligible amounts and determine the eligibility of any other fees in question. We conducted this audit at the request of the HUD Philadelphia Office. The Field Office has concurred with the audit findings and is in the process of implementing corrective action. (*Report No. 91-PH-211-1003*)

Ten Oaks Retirement Center, Lawton, OK

This audit was conducted at the request of the HUD Oklahoma City Office. The contractor and mortgagor of Ten Oaks Retirement Center did not properly certify construction and equipment costs. As a result, development costs are overstated by \$437,667 for items such as leased equipment, excessive overhead, double billing for equipment and an invalid charge for a bond premium. The contractor did not have support for another \$67,594 in leased equipment costs. Contractor and mortgagor officials attributed their noncompliance to not knowing HUD requirements. We

recommended that the Oklahoma City Office Manager adjust the maximum insurable mortgage by the \$437,667 of ineligible costs, determine the eligibility of unsupported equipment lease costs, and before initially endorsing additional mortgages, if any, for this mortgagor, ensure that HUD policies and guidelines are understood. The project was finally endorsed for mortgage insurance at \$488,980 less than originally cost certified by the mortgagor. (*Report No. 91-FW-211-1003*)

□ Public Housing Programs

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

Our audit work focused on the Major Reconstruction of Obsolete Public Housing Projects Program; the Accelerated Sales Initiative for Turnkey III Developments; Resident Management Corporations; Public Housing Agency Procurement and Contracting Practices; Housing Development Corporations (Allentown, Pennsylvania); and Personnel and Administrative Practices at PHAs in the Boston Region.

Major Reconstruction of Obsolete Projects (MROP)

HUD has been using varying project eligibility criteria throughout the life of the Major Reconstruction of Obsolete (Public Housing) Projects Program (MROP). These criteria did not comply with Congressional intent. At times, MROP has been redirected from a program of major reconstruction assistance for obsolete project units to one providing rehabilitation assistance similar to that of HUD's Comprehensive Improvement Assistance Program. Our review disclosed that HUD, during Fiscal Years 1986 and 1987, administered MROP in accordance with Congressional intent, but did not do so during Fiscal Years 1988 and 1989. Relaxed project eligibility criteria enabled more projects to qualify for MROP funding. HUD recently brought the program into closer conformance with Congressional intent during Fiscal Years 1990 and 1991.

Our audit included activities from MROP inception in Fiscal Year 1986 through Fiscal Year 1989. We also reviewed Fiscal Years 1990 and 1991 notices of fund availability.

MROP was designed to address the problem of "obsolete projects," i.e., projects with design or marketability problems which result in vacancies of 15 percent or more and estimated modernization costs of more than 60 percent of the cost of new construction. MROP eligibility means, among other things, that a project has long-term viability after rehabilitation.

The Office of Public and Indian Housing (OPIH) approved about \$54 million in MROP funding for eight projects that did not meet established program eligibility requirements. Our review disclosed that the waivers/funding requests for these projects were not processed by OPIH in a satisfactory manner. OPIH accepted Regional Office MROP recommendations without adequate review and follow-up to ensure that all questionable matters were properly resolved or that other required information was obtained. In most cases, "good cause" for waiving MROP requirements and approving project funding was not adequately demonstrated. In response to our draft report finding, OPIH took action to strengthen the MROP waiver process and monitor the eight projects cited in our finding.

We concluded that HUD's method for allocating Fiscal Year 1988 development/MROP funds did not equitably and adequately reflect the overall relative needs of the Department's Regions. HUD also transferred over \$26 million in MROP funds between Regions without documenting the basis for the transfers. As a result, some Regions were short-funded.

We made several recommendations specifically directed to correcting the deficiencies disclosed by our audit. In its April 12, 1991 response, the Office of Public and Indian Housing stated that it would: (1) instruct its staff on the need to fully document all future waivers of program requirements; (2) propose the development of regulations for the MROP area; and (3) continue to make MROP funding decisions in an equitable manner. (*Report No. 91-TS-108-0012*)

Accelerated Sales Initiative for Turnkey III Developments

HUD needs to determine the status of the Accelerated Sales Initiative for Turnkey III homeownership developments on a national basis. The Turnkey III Homeownership Opportunity Program, introduced in 1968, is a lease/purchase program in which the resident/homebuyers have the opportunity to purchase their homes after an initial rental period. Although the Turnkey III Program is the responsibility of HUD's Office of Public and Indian Housing (OPIH), former officials in HUD's Office of Policy Development and Research (PD&R) devised and implemented the Accelerated Sales Initiative for Turnkey III Developments in 1986 to accelerate lagging

sales of units and promote homeownership for low-income families. In establishing the Sales Initiative, the former PD&R officials did not coordinate their efforts with OPIH and others within HUD. The result was a breakdown in program administration.

The former HUD officials who conceived and implemented the Sales Initiative apparently had questionable authorizations and did not resolve conflicts between existing program regulations and provisions of the Sales Initiative. The Sales Initiative was never formally announced to public housing agencies (PHAs) or documented in any official HUD policy/procedural pronouncements. Administrative controls, standards for measuring PHAs' performance, and adequate oversight all were lacking. Further, the Sales Initiative has not been adequately monitored and the Department lacks basic information on the status and success of the initiative.

In response to a citizen's complaint, we reviewed the performance of the Mississippi Regional Housing Authority No. VIII (MRHA) in implementing the Sales Initiative. The MRHA, located in Gulfport, was the first of nine PHAs to participate in the Sales Initiative. Between September 1986 and August 1989, MRHA sold 171 Turnkey III units for about \$1.2 million, or an average of \$6,761 per unit. MRHA estimated that the average appraisal value of each home was about \$30,000.

Although the MRHA assessed its Sales Initiative as being successful, in reality it was not. The MRHA apparently achieved temporary success by selling 171 Turnkey III units for \$1.2 million, but these sales may have actually produced inappropriate windfall gains to private lenders and financial hardships to the low-income homebuyer/residents. MRHA's Sales Initiative program involved inconsistent pricing of homeowners' units, excessive interest rates on homeowners' loans, and excessive loan guarantees by the MRHA. As of June 1990, MRHA had purchased and resold 11 units as a result of foreclosures. Additional foreclosures are likely in view of the excessive interest rates on homeowner loans (up to 30 percent annually) and frequent refinancing (31 loans as of June 1990). To illustrate, 74 of the 171 sales made by MRHA (43 percent) involved loans obtained by homeowners from finance companies. One company financed 63, or 85 percent, of the 74 loans at an average annual rate of over 24 percent, ranging as high as 31 percent. Also, MRHA guaranteed homeowners' personal loans which were consolidated with their mortgage loans.

We recommended that OPIH direct the participating PHAs to provide HUD with reports to determine the overall status of the

Sales Initiative. We are also recommending that OPIH obtain legal advice from HUD's General Counsel concerning any potential HUD liability or obligation with respect to homebuyer/residents who may have been adversely affected by the Sales Initiative. Further, we are recommending that OPIH pursue termination of the Sales Initiative. Our report also contains numerous recommendations addressed to remedying MRHA's Sales Initiative. OPIH generally agreed with the majority of our recommendations. (*Report No. 91-TS-108-0015*)

Resident Management Corporations

We previously performed an audit of HUD's Public Housing Resident Management and Homeownership Program under Sections 20 and 21 of the United States Housing Act of 1937 (*Report No. 90-TS-101-0003*). Although we concluded that HUD's progress in promoting and facilitating public housing resident management and homeownership had been improving, we identified numerous other opportunities to further improve the Department's efforts in these areas. Our report contained 32 recommendations to enhance resident management and homeownership opportunity. The Department has resolved all 32 recommendations based on corrective actions taken to date. Because this is one of HUD's six major priorities, we will continue to devote audit attention to this important area.

We most recently reviewed the Lakeview Terrace Resident Management Firm (LTRMF) at the request of the Assistant Secretary for Public and Indian Housing as well as the president of the LTRMF. The LTRMF is currently managing the Cuyahoga Metropolitan Housing Authority's (CMHA's) Lakeview Terrace Estate. The LTRMF first contracted with the CMHA to manage the Lakeview Terrace Estate in November 1985. Since that time, the LTRMF has experienced both financial and other management problems. LTRMF's problems have consisted of inadequate tenant management operations, including deficient tenant recertifications to determine the need for rent adjustments; ineffective maintenance; and inadequate personnel management.

In addition to poor administration by the LTRMF, other factors have contributed to its unacceptable operations. These include inadequate monitoring and oversight of the LTRMF by the CMHA, a poorly defined resident management agreement, inadequate PHA systems for reliable accounts receivable data, and vague and restrictive by-laws. We also noted that some of the LTRMF's employees did not meet the organization's qualification requirements.

After conducting our survey, we briefed the Office of the Assistant Secretary for Public and Indian Housing on our findings. Based on our findings, that office stated they had sufficient information to pursue corrective action on the deficiencies identified. The Department has now followed up on our findings. Headquarters and Regional staff have made an on-site visit to the LTRMF to discuss the findings. As a follow-up to the visit, the Regional Office is expediting plans for returning the LTRMF to dual management status. Dual management technical assistance will be provided by a qualified private firm. (Report No. 91-TS-101-0802)

Public Housing Agency Procurement and Contracting Practices

PHAs have been experiencing problems in complying with prescribed procurement and contracting requirements. Over the past several years, our audit reports have cited PHAs for such deficiencies as failing to procure goods and services competitively; not soliciting vendor quotes; improperly executing purchase orders; overpaying for goods and services; improperly awarding contracts; failing to enforce contracts; improperly executing contract change orders; and other similar deficiencies. PHA procurement and contracting problems continued to be reported during the current period. Examples follow.

Philadelphia, PA

The Philadelphia Housing Authority did not exercise adequate control over the procurement of plumbing, electrical, and roofing repairs to its dwelling units. We found that the PHA paid nearly \$700,000 more than it estimated for repairs on two plumbing contracts. These indefinite quantity contracts were awarded by the PHA based on unbalanced bids, unreasonable prices, and inadequate cost and price analyses. As a result, the PHA not only paid inflated prices, but also compromised the sealed bidding system, thereby restricting future bidding competition.

Repairs totaling in excess of \$206,000 were not procured by the PHA according to HUD and PHA requirements. For example, on average, the PHA paid 72 percent over market prices for fence and iron work. Further, plumbing repairs totaling over \$108,000 were completed without the benefit of purchase orders and/or complete vendor quotes. In connection with open-end contract work for plumbing, roofing, electrical repairs and painting totaling \$2.3 million, it appears that: (1) the repairs were completed but not ordered; (2) contract specifications were not adequately modified based on the PHA's needs; and (3) contract awards were made without evaluating the contractor's background and performance capabilities.

We recommended a number of corrective actions to HUD's Regional Administrator to ensure the timely resolution of the PHA's deficiencies. We also reported our findings to the Assistant Secretary for Public and Indian Housing due to the PHA's repeated problems in the procurement and contracting area. (*Report No. 91-PH-101-0004*)

Pittsburgh, PA

Weaknesses in the administration of contract change orders at the Housing Authority of the City of Pittsburgh resulted in ineligible costs of \$585,788 and unsupported costs of \$1.1 million.

Construction change order deficiencies included:

- Duplication of work in the original contract specifications;
- Unitemized costs for materials and labor;
- Ineligible work items;
- Inflated costs;
- Improper procurement;
- Work outside the contract scope; and
- Substandard work.

The Authority failed to enforce architectural contracts. As a result, one architect did not adequately ensure construction specifications and compliance with HUD regulations, while another charged a mark-up for consultant work. The Authority will incur substantial additional costs in correcting the deficiencies resulting from the contractors' deviation from contract specifications.

We recommended that the Authority repay HUD all ineligible costs from non-Federal funds. We also made a number of other recommendations to correct the deficiencies found. (*Report No. 91-PH-209-1005*)

Ansonia, CT

The Ansonia Housing Authority overpaid \$272,359 for security grills because it failed to assure that the inspection, payment and all other administrative matters concerning the purchase were appropriately handled by the PHA and the contractor. The Authority also paid an architect \$62,764 for unnecessary services. The Authority negotiated a fee for the architect which greatly exceeded the amount allowed by HUD guidelines and amended the contract without providing supporting documentation. Because of the breakdown of internal controls and the Board of Commissioner's unwillingness to take responsibility for these problems, we concluded that the Authority

lacks the capacity to administer its Comprehensive Improvement Assistance Program.

We recommended recovery of overpaid costs and imposition of administrative sanctions against responsible Authority staff and others involved in the transactions. (*Report No. 91-BO-202-1007*)

Housing Development Corporations

Our last two Semiannual Reports disclosed that transactions between public housing agencies (PHAs) and their identity-of-interest nonprofit entities, such as housing development corporations, often circumvent HUD's requirements and pose undue risks to the Department.

Wasteful and abusive practices involving PHAs' nonprofit entities include, among others: improper contracting and procurement of goods and services; undue conveyance or encumbrance of public housing assets; and inequitable methods for allocating costs between the nonprofit entities and PHAs. An example during this period was our audit of the Allentown, Pennsylvania Housing Authority.

Allentown, PA

The Housing Authority's Executive Director received over \$220,000 over a 10-year period as a paid consultant to two housing development corporations (HDCs) which contracted with the Authority for management services for their housing projects. The Executive Director believes that his consulting duties are unrelated to his Authority responsibilities. However, we believe his activities on behalf of the HDCs and their projects do conflict with his responsibilities as an Authority employee, and therefore limit his ability to act in the best interest of the Authority and its housing programs.

The Authority did not receive reimbursement from the HDCs for the salary and fringe benefit expenses incurred to provide off-site project accounting, management and clerical services to HDC projects. Contrary to HUD guidelines, the Executive Director decided that all off-site salary costs would be offset by the management fee. As a result, the Authority's Public Housing Program incurred \$136,112 in excess administrative expenses.

We recommended that the Executive Director discontinue his consulting activities for the HDCs and that the Authority obtain reimbursement for all excess expenses incurred. This audit was conducted at the request of the Regional Administrator. (*Report No. 91-PH-209-1006*)

Personnel and Administrative Practices at PHAs

Possible abuses at five of eight PHAs we reviewed in the Boston Region may be resulting in excessive and unnecessary costs charged to their housing programs. Possible abuses were found in such areas as salaries and fringe benefits, leave, travel, service contracts, and hiring.

PHAs may be incurring costs for salaries and fringe benefits which are in excess of local comparability data and in excess of annual budgets. Indications of abuse were found in employee leave balance carryovers, terminal leave payments, and personal service contracts. Payments were made for personal services without executed contracts specifying the type and cost of services to be rendered. Payments were noted which were unsupported and/or appeared to be excessive for travel and credit card billings. Some PHAs lacked travel policies, while others had policies that were not comparable to local public practice. At three PHAs, the policies and practices for hiring consultants or part-time employees were questionable. The PHAs were not documenting the basis for their selections.

We recommended that the Regional Administrator assure that comprehensive management reviews are completed for the cited PHAs; take action to ensure that the PHAs correct any existing abusive practices; take administrative sanctions as necessary against PHAs that do not cease such practices; and recover any excessive or unsupported expenditures. The Regional Administrator agreed with our recommendations and stated that follow-up reviews on the cited PHAs are in process or would be conducted. The office is also planning to survey all PHAs in the Boston Region to identify possible mismanagement or abuse in personnel and related administrative practices. Because of the pattern of possible abuses at the Methuen Housing Authority, one of the PHAs cited in our review, the Boston Field Office completed a comprehensive management review. The Executive Director of the Methuen Housing Authority has resigned amid allegations of mismanagement and misuse of public funds. (*Report No. 91-BO-101-0801*)

□ Community Planning and Development Programs

The Office of Community Planning and Development (CPD) is responsible for administering a number of HUD programs and activities. The primary program for this office is the Community Development Block Grant (CDBG) Program. In addition to the CDBG Program, the office also has responsibility for many of HUD's homeless programs and initiatives, the Rental Rehabilitation and

Section 312 Rehabilitation Programs, the Urban Homestead Program and the Secretary's Technical Assistance Program.

During this reporting period, in addition to several external audits of the CDBG Program, we directed our efforts at the accounting and reporting of program income and miscellaneous revenue and the use of an interim financing mechanism referred to as a "float loan." We also reviewed the Supportive Housing Demonstration Program.

Community Development Block Grant Program

During this reporting period, CDBG audits focused on high risk program activities. The following discussion provides significant findings as a result of OIG audits.

Chester, PA

OIG found serious problems with the City's internal controls and outright mismanagement in CDBG Program operations and administration. Program deficiencies² have contributed to the expenditure of \$1,781,700 for questionable and ineligible activities.

Generally, the City and its subrecipient lacked the continuing capacity to manage the CDBG Program. We recommended that the City be placed on a reimbursement basis until the City demonstrates to HUD's satisfaction that it has the necessary controls in place and is efficiently administering its CDBG Program. We also recommended the City reimburse the Program for ineligible costs, justify questioned costs and implement specific controls and procedures to correct administrative deficiencies. (*Report No. 91-PH-241-1002*)

Dallas, TX

The City lacked an effective system to control the overall administration of the CDBG Program. We identified questionable expenditures totalling approximately \$1.8 million as a result of the failure to have an adequate system for managing the program in accordance with applicable program regulations and policies.

Specifically, the City failed to effectively monitor subrecipient activities, primarily in the area of meeting goals and performance standards. The City also charged the CDBG Program full payroll costs for City code enforcement, even though full time was not devoted to the CDBG Program. This audit was conducted at the request of the Dallas City Manager and because of Congressional interest in the National Housing Services portion of the City's CDBG Program.

We recommended that the City establish and implement formal written procedures for monitoring subrecipient activities; a system by which proper salary charges for code enforcement can be charged to the CDBG Program; and repay the CDBG Program \$128,000 for ineligible use of funds by two subrecipients. Further, unless the City can demonstrate the propriety of another \$990,000, we recommended that the City repay that amount to the CDBG Program as well.

(Report No. 91-FW-241-1005)

Program Income and Miscellaneous Revenue

San Diego, CA

The City failed to properly account for \$8.7 million of program income from two Section 108 loan-funded activities. The grantee improperly retained over \$1.6 million of program income while it continued to draw Federal funds from its letter-of-credit. As a result, the Federal Government incurred unnecessary borrowing costs to finance premature drawdowns. We recommended that the City be required to repay \$679,871 to the U.S. Treasury for interest earned on improperly retained program income from the Section 108 projects. We also recommended that the City establish procedures to ensure that future Section 108 projects are properly handled in accordance with applicable HUD requirements. *(Report No. 91-SF-249-1001)*

Kansas City, MO

The City failed to properly credit \$660,000 plus earned interest to its program account. The City also failed to properly account for and report program income totalling \$64,000 in its 1990 Grantee Performance Report. In addition, it was discovered that a City subrecipient improperly retained and expended \$385,000 of program income earned from a CDBG-assisted activity. We recommended that the City reimburse its program account for earned interest and report the interest as program income. We also recommended that the City improve controls over reporting and controlling program income. *(Report No. 91-KC-241-1004)*

Supportive Housing Demonstration Program

Generally, OIG audits found that projects were in good physical condition and necessary supportive services were being provided in a cost-effective manner. However, it was concluded that HUD Field Offices need to provide a higher level of technical assistance to certain groups and organizations undertaking homeless activities, especially those with little or no experience with carrying out Federal programming. Improvement is needed not only in the technical

aspects of the programs, but also with the development of proper accounting systems, program administration, and monitoring.

The purpose of the Supportive Housing Demonstration Program (SHDP) is to develop innovative approaches to housing and provide supportive services for the Nation's homeless. The transition from homelessness to permanent housing and independent living was a measure of the program's success. Organizational responsibility for the program shifted during our audit period from the Office of Housing to the Office of Community Planning and Development (CPD).

Audits were conducted in two Regional Offices and we found similar problems with the management of this program. Common deficiencies include the failure to adequately monitor and provide technical support to participating grantees. In addition, management needs to develop systems for receiving and controlling information to develop a data base for determining whether the program is achieving its statutory objectives.

We recommended that the Office of CPD initiate steps to overcome the noted deficiencies. CPD agreed and on April 18, 1991, prior to our reports' issuance, detailed compliance procedures were sent to Field Office Monitors. (*Report No. 91-TS- 156-0010*)

Rental Rehabilitation Program - Chicago, IL

We conducted an audit at the request of the Assistant Secretary for Community Planning and Development, due to a concern about the City of Chicago's compliance with Rental Rehabilitation Program (RRP) regulations. The City of Chicago disbursed \$1.3 million in excessive RRP funds and \$1.5 million for defective or incomplete work at a project referred to as the Michigan Beach Project. The City also disbursed \$574,884 for an ineligible YMCA project and \$105,070 of excessive RRP funds for a project referred to as the 1700 West Juneway Project. We concluded that the funds were disbursed as a result of the City's failure to maintain effective internal controls over its RRP.

The City failed to have policies and procedures which would assure that its program is administered in accordance with program regulations, policies, and requirements. Failure to have adequate internal controls contributed to the City's failure to carry out its RRP in an effective and efficient manner.

We recommended that the City of Chicago repay its RRP account the amounts found to be ineligible and excessive for the Michigan Beach, Austin YMCA, and 1700 West Juneway projects. We further ..

recommended that the City assure that rehabilitation work on the Michigan Beach project is satisfactorily completed at no additional cost to HUD-funded programs, or repay the full amount of assistance that was provided for the project. We also recommended that the City develop and implement policies and procedures which will assure the City's program is administered in accordance with all applicable program regulations and requirements. (Report No. 91-CH-259-1006)

Float Loans

An interim financing mechanism referred to as a "float loan" is costing taxpayers and the U.S. Treasury millions of dollars annually in unnecessary interest expense. We have concluded, as a result of our audit work on a number of CDBG grantees, that corrective measures to address deficiencies have not been effective. Float loan financing by its nature is a high risk process and HUD needs to place greater emphasis on the use of this method of financing in light of the repeated problems found.

While the Office of Community Planning and Development (CPD) has issued guidance on this method of financing and has revised its monitoring handbook on how to monitor float loans, grantees continue to fail to comply with program regulations. Based upon CPD monitoring reviews and OIG audits, we have found that float loans totalling over \$64.2 million were used for ineligible or questionable activities.

While Field Offices have improved their monitoring and oversight of float loan-assisted activities, a primary source of the continued problem with float loans is inadequate corrective action by HUD when problems are detected. Current remedial actions to address deficiencies are inadequate and appropriate sanctions to deter noncompliance are not available.

OIG undertook a multi-region audit of 14 grantees in three regions with approximately \$127 million in interim financing activities. Nationally, as of December 1989, 43 grantees were administering 78 loans for a total of approximately \$217,681,972.

As a result of our audit, the OIG concluded that CPD needs to be more aggressive in countering regulatory violations committed by grantees when they make float loans. Specifically, OIG recommended that:

- Measures be taken to monitor all float loan activity using mandated procedures;

- Consistent and aggressive action be taken to recover funds and interest from grantees who have been found to have undertaken ineligible activities using proceeds from a float loan; and
- CDBG program regulations be revised to require program income to be returned to a grantee's letter-of-credit.

Based on our recommendations, CPD has agreed to further improve the monitoring of float loan activities by improving the techniques for selecting grantees for review who carry out such activities and improving the guidance and increasing the scope for conducting the reviews. They also agreed to issue regulations which will require that any interest earned from undertaking ineligible activities which are financed in whole or in part with proceeds from float loans, be remitted to HUD. However, CPD did not agree to require grantees to reimburse the U.S. Treasury for any additional losses due to carrying out ineligible activities because estimates of such losses could be challenged as arbitrary. We will refer matter to the Deputy Secretary for resolution. (*Report No. 91-TS-141-0006*)

□ Administration

The OIG continues to monitor administrative processes, particularly pertaining to automated systems, debt management and HUD's management controls. In this 6-month period, we reviewed year-end procurement actions; projected revenues and savings which could be achieved with effective debt management procedures; and the Department's material weakness follow-up system under the Federal Managers' Financial Integrity Act.

Year-End Spending

Our review revealed that year-end procurement actions were generally appropriate. However, one action totaling \$1.6 million for systems furniture was an inappropriate Fiscal Year 1990 obligation. The Office of Administrative and Management Services requested and awarded the task order in late September. We believe the award was not a bona fide need for Fiscal Year 1990 since the furniture was to be installed in a building scheduled for occupancy in Fiscal Year 1992.

HUD has a control system to prevent improper year-end spending which was established in response to an Office of Management and Budget policy. Obligation of appropriated funds must comply with the bona fide need rule. This rule, which has been stated in numerous Comptroller General Decisions, requires that a fiscal year

appropriation may be obligated only to meet a legitimate need arising in the fiscal year for which the appropriation was made.

The Assistant Secretary for Administration disagreed with our finding and recommendation to make necessary appropriation adjustments. He believes a 14-month lead time for this procurement is reasonable and that this action met a bona fide need for Fiscal Year 1990. Therefore, we recommended that a Comptroller General Decision be requested, and if the decision finds the funding inappropriate, that necessary adjustments be made. *(Report No. 91-AO-163-0803)*

Federal Managers' Financial Integrity Act

HUD now has an effective formal material weakness follow-up system. We reviewed the system that records and tracks projected action dates and monitors whether changes are made as scheduled. Additionally there has been much progress made over the past 19 months as to management's views on the importance of correcting past problems. However, we still have concerns that senior managers do not have this same control consciousness to critically examine their operating controls for all their existing as well as new programs.

We recommended to HUD's Chief Financial Officer that management control should receive the same level of managerial attention as organizing, directing, and planning programs. We expressed a need for additional managerial or supervisory training on FMFIA and proposed that formal accountability be a part of the Department's performance measurement system. *(Report No. 91-AO-169-0801 and memorandum from the Inspector General to the Chief Financial Officer dated February 20, 1991)*

Debt Management and Collection System

We estimate that the U.S. Treasury would have \$3.2 million in higher potential tax revenues if HUD issued 1099-G forms on debts having no collection for the last 5 years. An annual issuance could result in interest savings of at least \$822,000 per year. The savings from issuing 1099-G forms for debts with no collections since 1986 (4 years) would be almost \$2 million.

The Treasury Department requires a form 1099-G to be issued when debt is forgiven if the debtor is not bankrupt or insolvent. The forgiven debt is then considered income to the debtor and the Internal Revenue Service then collects tax revenues on the income. Except for compromised debt, the Department had not ceased collection activities on any valid, enforceable Title I debt. We

recommended that HUD analyze the success of debt collection through IRS refund offsets and, based on the results, establish a policy on when debt collection efforts should cease and 1099-G forms be issued. (*Report No. 91-AA-166/122-0001*)

Audit Statistics

	10/01/90 - 03/31/91
Cash Recoveries ¹	\$42,765,621
Cost Efficiencies Realized ¹	\$26,842,565
Commitments to Recover Funds ¹	\$52,091,528
Cost Efficiencies Sustained ¹	\$26,760,176
Suspensions of Persons/Firms Doing Business with HUD	2
Debarments of Persons/Firms Doing Business with HUD	6
Voluntary Exclusions of Persons/Firms Doing Business with HUD	4
Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board	1
Subpoenas Served	12
Material Weaknesses Reported	5
Reports Issued:	
• Internal Audit Reports	31
• External Audit Reports	59
• Audit-Related Memoranda Issued	44
• Non-Federal and other Agency Reports Accepted	2,667

Notes:

¹ Includes amounts due to HUD program participants

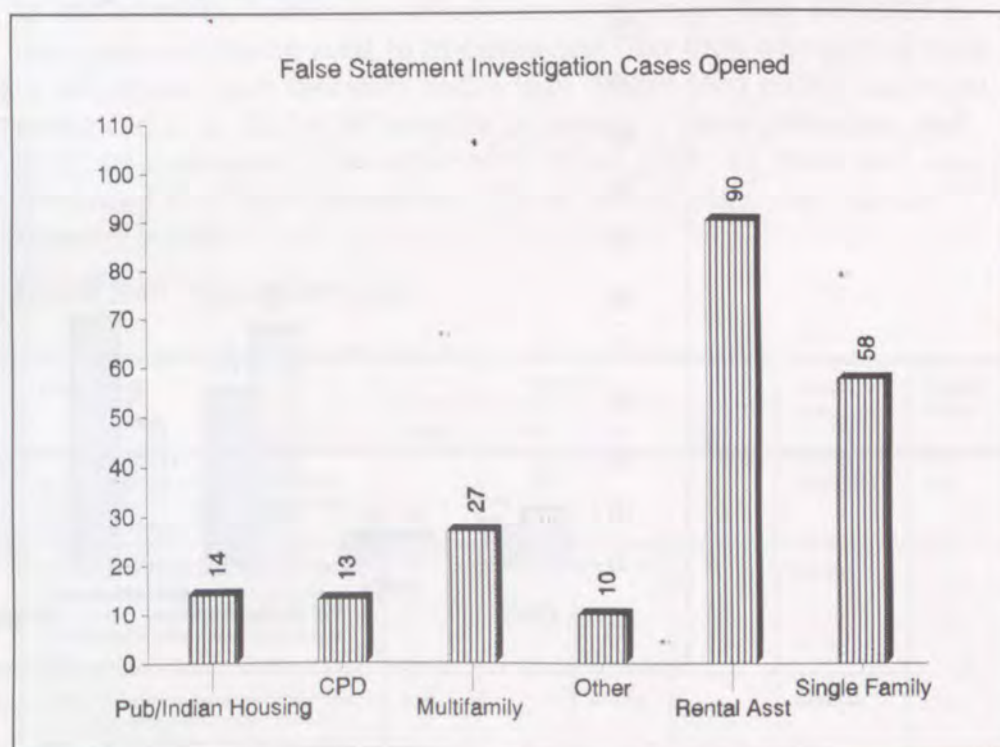
Chapter 2 — Investigation

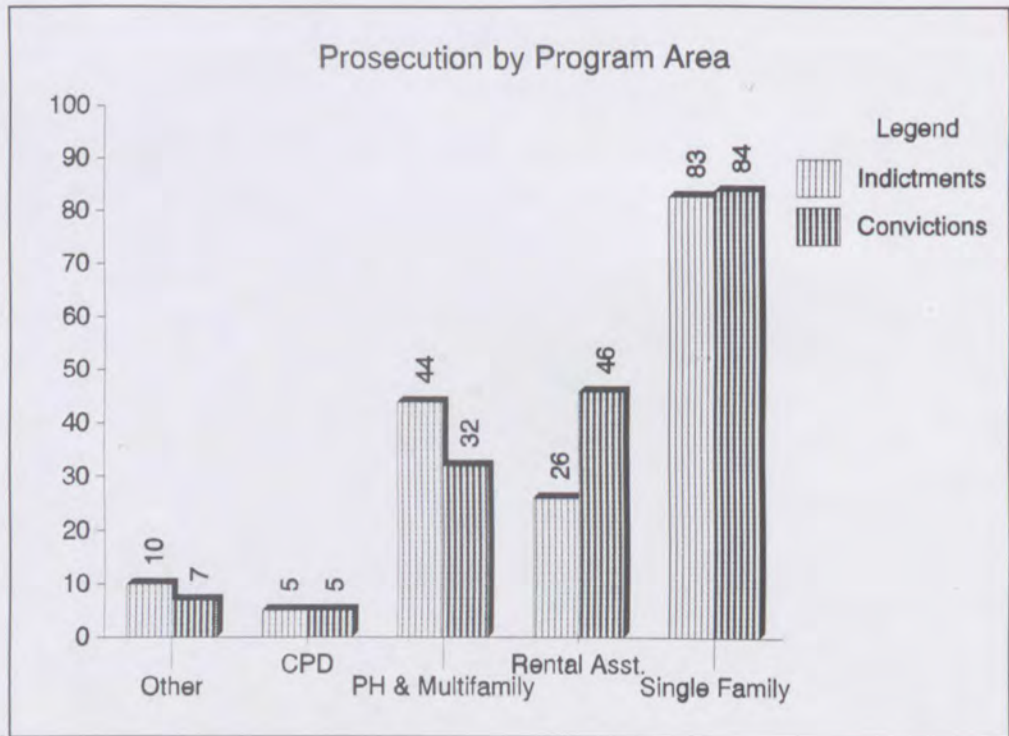
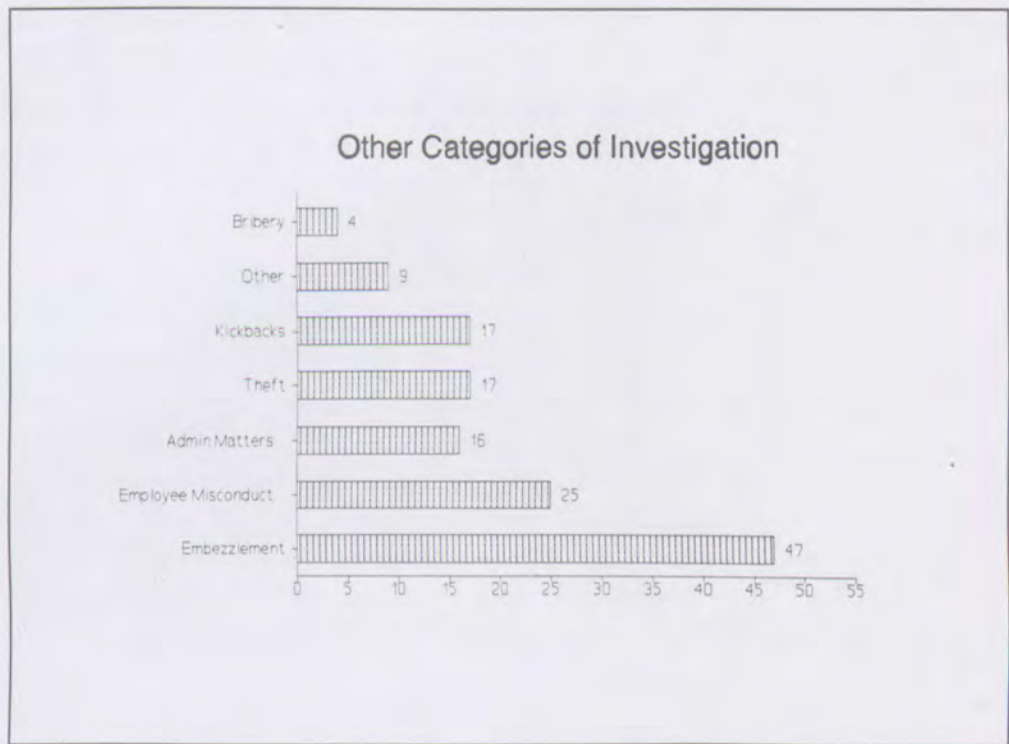
Investigations in Single Family Housing Programs continued to dominate our caseload in the past 6 months. Approximately 53 percent of our investigative time was spent on single family cases, representing 49 percent of our total investigations.

We have also worked very closely with the Federal Bureau of Investigation (FBI) and various U.S. Attorneys in addressing fraud in Single Family Housing Programs. Results included 83 indictments and 84 convictions.

Overall, we had 168 indictments and 174 convictions during the past 6 months. Sentences as a result of our investigations totalled 147 years of prison terms and fines of \$465,337. Administrative sanctions included 95 suspensions of individuals or firms from doing business with HUD and 116 debarments. We closed 295 investigations during the period and had 1,755 investigations pending at the end of the period.

We opened 347 investigations during the last 6 months. Of these, 212 involved false statements, mostly in Single Family and Rental Assistance Programs.





□ Single Family Housing Programs

Fraud in loan origination was the biggest category of investigation in Single Family Housing Programs. Others were strawbuying, equity skimming, and closing agents.

Loan Origination

Eligibility for HUD-insured home loans depends on various criteria including income, down payments, and owner occupancy. Fraud in the origination of these loans usually involves false statements regarding the eligibility criteria. Losses to HUD come when the defective loans are foreclosed and HUD must pay the balance.

Loan origination fraud by a real estate developer in Clinton, Mississippi, caused losses to HUD of approximately \$800,000. He was found guilty of fraud and submitting false statements after a joint investigation by the OIG and the FBI. He was sentenced to 15 months in jail, 5 years probation and a \$10,000 fine. All but 120 days of the jail term were suspended. The developer was suspended from doing business with the government. Another investor and closing attorney were previously sentenced in the same case. (*U.S. vs. Leon Ghetti, Southern District of Mississippi*)

In Indianapolis, Indiana, a scheme involved more than \$600,000 in loan proceeds being paid to bogus sellers and then transferred back to investors. Two investors and a loan officer pled guilty and were sentenced to a total of 89 months in prison, 6 years probation and \$113,500 restitution. One seller was found guilty of fraud and was sentenced to 5 years probation. (*U.S. vs. William Miller, et al., Southern District of Indiana*)

Other loan origination cases:

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN. SANCTIONS	OTHER AGENCY
			PRISON	PROB.	FINE	REST.		
U.S. vs. Alvaro Vasquez, Middle District of Florida	Guilty	Investor gave false statements on income and occupancy to obtain FHA loans on four properties which later foreclosed.					Suspended	FBI
U.S. vs. Douglas Pautsche, Northern District of Illinois	Guilty	A mortgage company used false employment verifications to obtain five insured single family loans. The principal pled guilty; two staff associates were also indicted and pled guilty.					Pending	
U.S. vs. Daniel Hoover, District of Colorado	Sentenced	A RAM Marketing Company real estate agent made false statements to obtain 39 insured loans. Two other RAM sales persons were also charged.	3 yrs		\$61,452		Debarred	

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN. SANCTIONS	OTHER AGENCY
			PRISON	PROB	FINE	REST.		
U.S. vs. Gilbert Balin and Mattie Spearman, Northern District of Illinois	Charged	Two real estate brokers and loan company officials obtained eight insured loans with false statements and false identifies.					Debarred	FBI
U.S. vs. Gaye Flood, Southern District of Illinois	Sentenced	Realtor conspired with seller in loan origination scheme involving false documents, inflated sales prices and kickbacks in four insured loans that later foreclosed. The seller was previously convicted.	1 yr	5 yrs		\$259,810	Suspended	FBI
U.S. vs. Michael T. Conway, Southern District of Indiana	Guilty	Investor falsified documents, failed to make any investment, and failed to perform required escrow rehabilitation on five homes. Investor, who is an attorney, also helped others prepare fraudulent loan origination documents.					Suspended	FBI
U.S. vs. John Porter, et al., Eastern District of Pennsylvania	Sentenced	Four real estate salespersons assisted in preparing false documents to allow unqualified persons to obtain FHA mortgages. They are cooperating in investigation of a real estate company in connection with \$1 million in HUD losses.	2-4 mos total	3-4 yrs total	\$1,000 to \$7,500 each		Suspended	FBI
U.S. vs. Fred Smith, et al., Northern District of Illinois	Sentenced	Chicago couple obtained insured loans on three houses using false asset and employment verifications. A conspirator assisted their scheme.	5 yrs each	8yrs each			Suspended	
U.S. vs. Shelly Shapiro, Eastern District of Missouri	Sentenced	Real estate broker certified receipt of cash down payments when no cash was actually paid.	2 yrs	3 yrs		\$35,500	Suspended	FBI
U.S. vs. Barry Deane Walker and Deborah Cardwell Walker, Middle District of North Carolina	Guilty	Couple falsely certified they would be owner/occupants of a property to be purchased through real estate firm owned by the wife's mother and employing the wife.					Pending	
U.S. vs. Carl W. Seitz, Eastern District of Pennsylvania	Guilty	Settlement agent helped prepare false statements to conceal seller's provision of buyers' down payments.					Suspended	FBI, IRS
U.S. vs. Jonathan K. Chandler, Northern District of New York	Guilty	Investor and five associates obtained 101 properties by providing funds and false verifications of employment to associates to qualify for HUD-insured mortgages.					Pending	FBI
U.S. vs. Diane Johnson, Northern District of New York	Guilty							
U.S. vs. Ronald Hunt, Eastern District of Virginia	Sentenced	Real estate broker purchased more than 100 distressed properties with falsely inflated prices to obtain higher mortgages to conceal omission of down payments.	3 mos	3 yrs	\$10,000		Suspended	FBI

Strawbuyers

Strawbuying is the use of a stand-in buyer who qualifies for a HUD-insured loan, but has no intention of occupying the property or making payments. The strawbuyer is usually paid by the seller to participate in the scheme. When the mortgage is foreclosed, HUD must pay off the insured loan.

Damages of \$2.5 million are being sought by the government in a Houston, Texas civil suit against a speculator and nine strawbuyers. Properties were purchased by strawbuyers at HUD auctions and then sold without substantial improvements for a higher price. The strawbuyers falsely certified their intent to be owner/occupants of the properties. The suit followed a joint investigation with the FBI as part of the Houston Task Force effort. (*U.S. vs. Roque Enriquez, dba E. M. Investments, et al., Southern District of Texas*)

In Dallas, Texas, a speculator was sentenced to 10 years in prison, 5 years probation and restitution of \$333,808 for strawbuying activity involving five strawbuyers and 14 properties. The speculator paid the strawbuyers a fee and assumed all loans immediately after closing. This was a joint investigation with the FBI. (*U.S. vs. Charles Harwell, Northern District of Texas*)

A joint task force investigation of home sales involving U.S. Mortgage, a former direct endorsement lender, led to criminal charges against 11 persons, mostly because of strawbuying schemes. A real estate agent conspired in selling 29 properties to strawbuyers and was sentenced to 5 years probation and \$12,000 restitution. (*U.S. vs. Judith Geist, District of Colorado*) An investor pled guilty to serving as a strawbuyer of 21 properties. (*U.S. vs. Richard Wilder, District of Colorado*) Another investor was charged with providing false statements as a strawbuyer on 41 properties and was debarred from government business. (*U.S. vs. John W. Aungst, District of California*) A strawbuyer of 15 properties was also indicted. (*U.S. vs. William Sheppard, III, District of Colorado*)

Other strawbuying cases:

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN SANCTIONS *	OTHER AGENCY
			PRISON	PROB	FINE	REST.		
U.S. vs. Glenn Snyder, Northern District of Texas	Sentenced	Closing attorney participated in fraudulent strawbuying scheme involving 16 single family loans	4 mos.	5 yrs		\$100,000	Suspended	
U.S. vs. Patrick Rahill and Patrick J. Irwin, Middle District of Florida	Guilty	Investors formed partnership to buy properties, falsely certifying they intended to be owner/occupants. Properties later foreclosed					Pending	
U.S. vs. David W. Stefko, Middle District of Florida	Sentenced	Strawbuyer convicted in ongoing task force case.		3 yrs		\$23,368	Suspended	FBI
U.S. vs. Lavon Broderick, District of Utah	Sentenced	Real estate agent used strawbuyers to acquire 15 FHA-insured loans which then went into foreclosure.	2 yrs	5 yrs		\$128,457	Suspended	

Equity Skimming

Equity skimming involves HUD-insured homes that are converted to rental use. Rent receipts are "skimmed" by investor/owners who fail to make mortgage payments. When the property goes into default, HUD must pay the balance of the mortgage to the lender.

HUD losses totalled over \$2 million in equity skimming foreclosures of 21 fourplexes known as the Alvernie Apartments. The properties were purchased through strawbuyers and then managed as rental properties by Las Investment Corporation. Two investors involved in the case were charged with conspiracy and equity skimming. They were also suspended from doing business with the government. (*U.S. vs. Richard Wayne Aley, Edward Zimelman and the Las Investment Corporation, District of Nevada*)

A Tampa, Florida investor pled guilty to equity skimming and was sentenced to 5 months in prison, 5 months community service and 1 year of probation. Mortgages on five triplexes purchased by the investor were foreclosed with a claim to HUD of \$800,000. The investor was suspended from doing business with the government. The investigation was conducted jointly with the FBI. (*U.S. vs. John DeMasso, Middle District of Florida*)

Other equity skimming cases:

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN. SANCTIONS	OTHER AGENCY
			PRISON	PROB	FINE	REST.		
U.S. vs. Scott Edward Sims, Northern District of California	Charged	Investor assumed loans on 10 houses, skimmed the rents and allowed properties to be foreclosed.					Pending	
U.S. vs. Charles Griffin, Grifco Homes, Southern District of Mississippi	Sentenced	Investor assumed 19 mortgages, skimmed rents and allowed foreclosure. Two developers and closing attorney also pled guilty to loan origination fraud.	15 mos	5 yrs			Suspended	
U.S. vs. Michael Terence Kondrat, Northern District of Texas	Charged	Speculator acquired 12 properties, collected rents and failed to make mortgage payments.					Pending	FBI

Closing Agents

HUD contracts with agents to handle the closing of sales of real estate that becomes government property after foreclosure on HUD-insured loans. Closing agents are required to transmit the sales proceeds promptly to HUD. However, the transfer is sometimes delayed and the funds diverted to personal use by the closing agents.

Three associates of a former Montgomery, Alabama closing agent who embezzled \$2 million were sentenced. One associate was sentenced to 3 years in jail and restitution of \$17,000 for receiving stolen Federal property. A second associate was sentenced to 13 months in jail for submitting false statements. The third associate was sentenced to 13 months in jail for conspiracy to defraud HUD. The closing agent, who was earlier sentenced to 6 years in jail, used counterfeit bank confirmation forms to conceal his failure to transmit closing receipts between August 1986 and October 1987 on 67 properties. The former closing agent was debarred from government business. (*U.S. vs. Silas Jones Walker, et al., Middle District of Alabama*)

Two Atlanta, Georgia attorneys, who are brothers, were sentenced for embezzling \$700,000 in closing funds from December 1984 through June 1987. One attorney, who was HUD's closing agent for the State of Georgia, was sentenced to 5 years in jail, 5 years probation and \$1.8 million restitution. His brother was sentenced to 2 years in jail, 5 years probation, 1 year of community service and \$1.5 million in restitution. The two were also sentenced to 30 months and 24 months in prison, respectively, in a related FBI investigation. They have also been debarred from government business. (*U.S. vs. David L. Martin and Robert E. Martin, Northern District of Georgia*)

In Indianapolis, Indiana, a closing agent used \$55,000 of HUD funds for personal use from June 1988 to August 1989. He was sentenced to 8 months in jail and ordered to pay restitution of \$5,000. He was also suspended from government business. This was a joint investigation with the FBI. (*U.S. vs. Garry Newman, Southern District of Indiana*)

□ Multifamily Housing Programs

The president of a savings and loan association in Hanford, California, pled guilty to bank fraud in connection with a HUD-insured multifamily project. The official, who was also mortgagor on the project, "sold" the project without HUD approval to his attorney for zero consideration. Then the S&L official approved a \$1.2 million loan to the attorney, but the funds were diverted to personal use. Two-thirds of the proceeds were used to purchase a pet food company and to cover overdrafts in a check kiting scheme. This was a joint investigation with the FBI. (*U.S. vs. Jordan Floyd Miller, Eastern District of California*)

In Miami, Florida, a contractor who made false statements to HUD was sentenced to 60 days house arrest, 2 years probation, a \$75,000 fine and \$85,030 restitution. The contractor inflated cost figures in

obtaining a loan to build an apartment complex. He was suspended from doing business with HUD. (*U.S. vs. Camilo Padreda, Southern District of Miami*)

Other multifamily housing cases:

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN. SANCTIONS	OTHER AGENCY
			PRISON	PROB	FINE	REST.		
U.S. vs. Enrique Ormaechea, District of Connecticut	Charged	Section 8 project manager accepted bribes from prospective tenants in return for renting them units.					Suspended	FBI
U.S. vs. Adrian S. Marin, Southern District of Florida	Sentenced	Businessman diverted \$20,000 from HUD-funded minority loan program.	4 yrs	5 yrs		\$20,000	Pending	FBI

□ Public Housing Programs

A conspiracy to increase HUD rent subsidies for the Alhambra Apartments in Cleveland, Ohio, involved the developers, a consultant and an official of the Cuyahoga Metropolitan Housing Authority (CMHA). All were charged, pled guilty and were sentenced after a joint investigation with the FBI. False land contracts were used to support higher Section 8 rent subsidies over the 15-year life of the moderate rehabilitation contract. After the investigation, CMHA recovered \$50,000 in overpayments of Section 8 rents.

The developers were sentenced to a total of 39 days in jail, 4 years probation and a \$10,000 fine to pay costs of the investigation. The consultant, who was also Executive Director of the Public Housing Agency (PHA) in Wayne County, Ohio, was sentenced to 19 days in jail and a \$5,000 fine for investigation costs. The CMHA Section 8 moderate rehabilitation coordinator, who cooperated in the investigation, was sentenced to a 6-month suspended jail term and a \$400 fine. The developers and the consultant were also barred for life from participating in projects funded by public sources, and the consultant was suspended from doing business with HUD. (*State of Ohio vs. John Rafferty, et al.*) and (*State of Ohio vs. John Fitzpatrick, et al.*)

In Passaic, New Jersey, the government sued the former Executive Director of the Passaic Housing Authority for \$2.5 million. The suit charges that the Executive Director obtained hundreds of thousands of dollars in kickbacks, bribes, and illegal payments for himself and relatives. The official allegedly received the combined salaries of five separate positions and received \$200,000 in kickbacks and bribes

from contractors. He has been debarred from government business. (*U.S. vs. Paul Marguglio, District of New Jersey*)

In Junction City, Kansas, the PHA Executive Director stole \$30,000 by converting the rent payments for units he listed as vacant on the agency records from 1986 through 1989. He pled guilty to charges filed after our investigation and was sentenced to 1 year in jail, 3 years probation and \$33,899 restitution. (*U.S. vs. Donald C. Melella, District of Kansas*)

The manager of a public housing project in Bluefield, West Virginia, allowed her sister's family to understate their income and receive public housing worth \$42,000 over several years. Based on charges developed jointly with the FBI, the manager pled guilty and was sentenced to 6 months in prison, 3 years probation and \$14,900 restitution. (*U.S. vs. Lena LaPradd, Southern District of West Virginia*) The sister was tried and found guilty of false statements and conspiracy. (*U.S. vs. Yolanda Page, Southern District of West Virginia*)

The administrator of a project for the elderly in Beaumont, Texas, assisted wealthy tenants in hiding assets to make them qualify for reduced rental rates. She also used project funds to purchase personal items totalling \$7,100 for family and friends. She was indicted for theft of government funds. (*U.S. vs. Helen L. Kuhn, Eastern District of Texas*)

In Inkster, Michigan, the manager of a Section 202 senior citizens project falsified records to conceal the theft of \$12,608 in rent receipts. She pled guilty and was sentenced to 8 months probation and restitution of the funds stolen. (*U.S. vs. Shawnita Scott, Eastern District of Michigan*)

Other public housing cases:

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN. SANCTION	OTHER AGENCY
			PRISON	PROB.	FINE	REST		
U.S. vs. Willis Hill, DBA: Earth Electric, Northern District of California	Guilty	Electrical contractor conspired with president and manager of a cooperative to create false competitive bids to win contracts and then submit inflated invoices.					Suspended	IRS
U.S. vs. William Henry, Brenda Bell, et al., Northern District of Illinois	Guilty	Janitorial service company owner and associate made \$13,500 kickback to City of Chicago alderman in connection with contract with Chicago Housing Authority.					Pending	FBI
Commonwealth of Massachusetts vs. Donald Mosely	Charged	Maintenance employee forged checks of a company with contracts to manage Boston PHA projects.					Suspended	
U.S. vs. Arthur J. Glover, District of New Jersey	Sentenced	Former Passaic PHA Commissioner falsified application to obtain subsidized apartment rental.		2 yrs		\$6,800	Suspended	FBI, IRS

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN. SANCTION	OTHER AGENCY
			PRISON	PROB.	FINE	REST.		
U.S. vs. Juan Ponce, District of New Jersey	Sentenced	Section 8 program administrator accepted bribes for priority consideration of prospective tenants.	1 year			\$8,000	Debarred	
U.S. vs. Ronald J. Jeffery, District of New Jersey	Charged	PHA Executive Director charged with accepting bribes of \$17,500 for awarding construction contracts.					Suspended	FBI
U.S. vs. Leroy White, Eastern District of North Carolina	Sentenced	PHA accountant embezzled funds from the Authority.	6 mos (halfway house)	5 yrs		\$16,115	Debarred	
U.S. vs. Evelyn Marie Walker, Southern District of West Virginia	Guilty	PHA Executive Director used the agency credit card for personal purchases and made fraudulent rental assistance payments to landlords who returned the money to her.					Pending	FBI

Rental Assistance Programs

Low- and moderate-income families are eligible for rental assistance subsidies by virtue of their income and family status. False applications and recertifications sometimes allow ineligible families to receive housing assistance. We have focused our efforts on the most serious cases; results have included 26 indictments and 46 convictions.

An Internal Revenue Service (IRS) employee in Birmingham, Alabama, concealed her Federal income from the local housing authority and thereby received Section 8 rental assistance to which she was not entitled. She was indicted by a Federal Grand Jury after a joint investigation with the IRS. She was found guilty and sentenced to 5 years probation and \$12,754 restitution. (*U.S. vs. Ann L. Williams-Ruffin, Northern District of Alabama*)

Other rental assistance cases:

CASE	STATUS	DESCRIPTION	SENTENCING				OTHER AGENCY
			PRISON	PROB.	FINE	REST.	
U.S. vs. Gerald L. Taylor, Northern District of Illinois	Guilty	IRS tax technician concealed IRS earnings in order to obtain an ineligible rent subsidy.					IRS
U.S. vs. Jacqueline Lee, et al., District of Maryland	Sentenced	Three Federal employees made false statements to obtain rental assistance.		5 yrs each		\$9,487 to \$12,404	
U.S. vs. Sandra K. Joubert, Eastern District of Michigan	Sentenced	A Michigan prison counselor's false statements on recertification documents were revealed during a background check after she applied to work for the Customs Service.		2 yrs		\$11,932	Customs Service

CASE	STATUS	DESCRIPTION	SENTENCING				OTHER AGENCY
			PRISON	PROB	FINE	REST	
U.S. vs. Ruby Crawford, Eastern District of Wisconsin	Sentenced	A State Department of Corrections youth counselor reported only babysitting income to obtain subsidized housing.	4 mos	3 yrs			FBI

Community Planning and Development Programs

The developers of a \$3.3 million industrial development project in Houma, Louisiana, were indicted by a grand jury for obtaining funds by theft and forgery of purchase orders, invoices and checks. The project was funded by a \$300,000 grant from the Terrebonne Parish Community Development Block Grant Program and a \$3 million loan guaranteed by the State of Louisiana. The indictments resulted from a joint investigation with the FBI and the Terrebonne Parish District Attorney. (*State of Louisiana vs. James Dondich; Mark O. Gerand; Donald Ritchie Holm; Ronald George Buday; Michael J. Kitching; and William Smith*)

In Aurora, Illinois, a rehabilitation specialist was sentenced to 4 years in prison and 5 years probation after being found guilty of kickbacks and tax evasion. The specialist obtained nearly \$167,000 in CDBG funds by getting a contractor to submit false invoices and kick back the payments to the specialist. The contractor was sentenced to 5 months work release and 5 years probation. Both were debarred from government programs for 24 months. (*U.S. vs. Darrel Tipton, et al., Northern District of Illinois*)

Other community planning and development cases:

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN. SANCTIONS	OTHER AGENCY
			PRISON	PROB.	FINE	REST.		
U.S. vs. Lloyd A. Gillespie and Robert C. Wagner, Western District of Louisiana	Charged	Businessman and Executive Director of Kisatchie-Delta Regional Planning District stole the proceeds of a \$450,000 CDBG grant. Funds were used to pay personal debts and to make deposits in a Texas bank.					Pending	
U.S. vs. Jimmy Ray Sutton, Southern District of Mississippi	Guilty	Builder of low-income housing funded by CDBG grants falsely certified he had paid subcontractors and suppliers.					Pending	
U.S. vs. Nettie Doane, Eastern District of Pennsylvania	Sentenced	Executive Director of CDBG subgrantee embezzled program funds.	4 mos house det	3 yrs		\$10,703	LDP	

Prosecutions and Recoveries

The OIG conducts investigations alone and jointly with other investigative agencies. In addition, the OIG refers cases to other Federal, State, and local agencies and monitors investigations and prosecutions by these agencies while providing limited investigative assistance. The following table summarizes the results achieved through investigations involving HUD programs.

	OIG/Joint Cases	Others Alone	Total
Cash Recoveries	\$12,824,620	\$1,566,799	\$14,391,419
Total Fines	\$445,221	\$20,116	\$465,337
Persons/Firms Indicted	90	78	168
Persons/Firms Convicted (Including pre-trial diversions)	121	53	174
Total Years Prison Sentences	107	40	147
Total Years Suspended/Probated Sentences	408	179	587

Investigation Statistics

	10/01/90 - 03/31/91
Cash Recoveries/Savings	\$14,391,419
Commitments to Recover Funds	\$240,137
Cost Efficiencies	\$3,904,359
Total Fines Levied	\$465,337
Indictments	168
Convictions	174
Investigations Pending as of 3/31/91	
OIG	81,099
FBI/Other	455
U.S. Attorney	201
Total Investigations Pending	1,755
Investigations Closed	295
Referred for Prosecution	
FBI (Prima Facie-OIG Investigation)	19
FBI (No OIG Investigation)	3
Department of Justice	47
Other	7
Total Referrals	76
Total Years of Prison Sentences	147
Suspensions of Persons/Firms Doing Business with HUD	95
Debarments of Persons/Firms Doing Business with HUD	116
Personnel Actions Initiated Against HUD Employees	18
Subpoenas Served	33

Chapter 3 — Audit Follow-up

This Chapter reports the Department's progress in implementing corrective actions stemming from previous significant OIG audits. Concerted efforts were made during the period by HUD managers to address operational and programmatic problems identified in our audit reports. As can be noted, the results to date are mixed. While certain corrective actions are long-term in nature, timely and effective improvements in some areas were impacted by a lack of sufficient resources including staff, automated systems, training and travel funds. The specific audits or program areas discussed below are: the Section 8 Moderate Rehabilitation Program; the Title I Insured Loan Program; Government National Mortgage Association; Multifamily Loan Servicing; Accounting and Budgeting for Section 8 Funds; Retirement Service Centers; User Fees; Housing Development Corporations; and Payment of One-Time Mortgage Insurance Premiums.

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

□ Section 8 Moderate Rehabilitation Program

Our nationwide audit report of the Section 8 Moderate Rehabilitation Program was issued in April 1989. The report discussed widespread abuse in all phases of the program including improper allocations of discretionary funds and substantial overpayment of housing subsidies.

In response, the Department initiated several measures to reform the program and to recover overpaid assistance. For example, all funds that were allocated improperly but not yet under contract were recaptured and reallocated to disaster areas using competitive selection processes. The methods used to establish rent rates for HUD coinsured projects were modified to provide HUD with better controls over the process. A contractor was hired to provide in-depth training to Field Office staff in order to upgrade future monitoring and to correct past problems. Office of Housing staff designed and implemented a strategy to review the contract rents at over 120 projects (all HUD coinsured projects and conventionally financed projects consisting of over 40 units). These steps were taken within months of the report's issuance and were generally effective in improving program administration.

While the measures to modify policy and procedure were taken timely, the actual recovery of misspent funds, either through repayments or future offset, was delayed for a variety of reasons including staff constraints, legal obstacles, records access problems and the sheer magnitude of the task. Concerted efforts were made and are continuing. Current plans provide that recovery or establishment of repayment plans will be completed by April 1992. *(Report No. 89-TS-103-0005)*

Title I Insured Loan Program

On February 28, 1986, we completed a review of the dealer originated portion of the Title I Property Improvement Loan Program. The report identified widespread fraud and abuse in the origination of dealer loans. We recommended that the dealer portion of the program be terminated.

On August 29, 1988, we issued a report on our review of the Title I Manufactured Home Loan Program. The report noted that hundreds of millions of dollars in losses were being experienced by the Government National Mortgage Association (GNMA) because of the coinsurance features of mobile home loans and the full guarantee GNMA provided when the loans were placed in mortgage-backed securities pools. We recommended that either the program be terminated or that lender participation and origination requirements be strengthened.

The Department did not make a decision on what corrective action would be taken on the report on property improvement dealer loans until September 18, 1989.

The Department did not respond to our manufactured housing report until March 31, 1989. GNMA placed a moratorium on accepting applications from new issuers of mortgage-backed securities involving manufactured housing. The moratorium is still in effect.

Proposed regulations on both programs were given to the Office of Management and Budget (OMB) on September 27, 1990, and OMB cleared the regulations on January 29, 1991. *(Report Nos. 86-TS-122-0010 and 88-TS-122-0012)*

Government National Mortgage Association (GNMA)

Our September 1989 and March 1990 Semiannual Reports discussed audit reports dealing with evolving problems in GNMA operations and activities. Significant deficiencies were cited in GNMA's

contract administration procedures and monitoring of issuer activities.

Use of Subservicers

We reported the results of our audit of GNMA's use of subservicers in our March 1990 Semiannual Report. We evaluated GNMA's procedures for awarding and monitoring subservicing contracts and paying its securities holders. We found several problems with potentially significant consequences.

GNMA's files were poorly documented as to why some subservicers were selected. Also, existing selection procedures were not consistently followed. To complicate the problem, GNMA did not adequately monitor its subservicers' performance and did not provide specific criteria or direction for reimbursing subservicers for certain expenses. As a result, GNMA had no assurance that the best subservicers were selected, the best price was obtained, subservicers were performing acceptably or were acting in GNMA's best interests, and reimbursements were made only for valid expenses.

Based on our audit, GNMA promised to implement actions designed to correct the problems found. Those actions included selecting three master subservicers to service defaulted pools. The master subservicers were to enhance GNMA's ability to monitor its contractors by transferring most defaulted pools to the master subservicers as then existing contracts expired. GNMA promised to change the master subservicing agreement to clarify which expenses would be reimbursed and to implement a system tracking payments to securities holders.

To date, GNMA has contracted with master subservicers in all three major programs (Single Family, Multifamily, and Manufactured Housing) to manage defaulted pools. In addition, the documentation of subservicer selection was improved, procedures were implemented to assure that only valid expenses are paid, and payments to security holders are recorded and tracked.

GNMA has developed but not implemented a plan to monitor all subservicers using a contractor. GNMA plans to award the contract by June 15, 1991, and to begin the reviews by September 15, 1991.

(Report No. 90-AO-171-0003)

Issuer Monitoring

In a related report on issuer monitoring dated October 4, 1989, we also found that GNMA's monitoring controls over issuers needed significant improvement. Specific problems discussed were prompt follow-up on overdue issuer financial statements, expanded desk procedures for financial statement reviews, and improved oversight. GNMA has improved enforcement of the timely submission of financial statements. GNMA has implemented and will formally establish expanded desk procedures and improved monitoring by May 15, 1991. (*Report No. 90-AO-171-0001*)

Our office has initiated reviews to evaluate whether the actions taken will effectively correct the material weaknesses in GNMA operations.

□ Multifamily Loan Servicing

In virtually every Semiannual Report issued since 1978, our office has discussed problems associated with HUD's ability to properly service multifamily insured loans. Despite numerous attempts to upgrade performance or to radically alter HUD staff's roles and responsibilities through the Coinsurance Program, the loan servicing problems persist. As noted in the Multifamily section of Chapter 1 of this report, mortgagors, management agents and HUD staff are not ensuring that HUD's interests in the projects are adequately protected.

In February 1988, we issued a summary report entitled "Misuse and Diversion of Assets and Income at HUD-Insured Multifamily Housing Projects" (*Report No. 88-TS-112-0003*). This report discussed a broad range of problems and contained extensive recommendations covering all phases of loan servicing including staffing, written guidance, training, monitoring, goal setting, management information systems and program enforcement. Progress in designing, developing and implementing corrective actions was quite slow for the first 2 of the 3 years since the report was issued.

During this reporting period, several steps were completed that addressed our recommendations. For example, in January 1991, a revised servicing handbook was issued that significantly improved the guidance concerning HUD's enforcement of contractual relationships with project owners and agents. In March 1991, a notice was issued to Field Office Managers on the comprehensive servicing of multifamily projects. The notice establishes procedures and priorities for monitoring the physical condition and management of insured projects. The notice also requires managers to review the resources available and needed to accomplish the inspections and

management reviews. Contract personnel are to be used to meet critical staff shortages.

The improved guidance, coupled with additional staff that was allocated to loan servicing in Fiscal Year 1991, should upgrade HUD's ability to monitor and service insured projects. However, implementing the revised procedures while dealing with the effects of terminating the Coinsurance Program provides a substantial challenge to program officials. During the next few months, our office will review the implementation of the corrective measures as part of the Department's process to verify that material weaknesses are corrected.

□ Accounting and Budgeting for Section 8 Funds

One of the most significant weaknesses facing the Department today is its inadequate process for accounting and budgeting for Section 8 housing assistance payments. Fiscal Year 1991 budget authority for the Section 8 area totalled over \$11 billion. A task force working group established by the Secretary concluded in 1989 that HUD had no assurance that its Section 8 funds were being budgeted and accounted for properly. A limited review completed by our office in 1990 confirmed the seriousness of the Department's Section 8 problems.

In our April 1990 report, we disclosed that HUD was unable to provide Congress with accurate estimates of its Section 8 funding needs. Among our recommendations was that HUD commit itself to carrying out a formal long-range work plan to develop a reliable integrated financial management system for the Section 8 Program.

In response to the lack of control and accountability in the Section 8 Program, HUD hired a major accounting/consulting firm to provide advice and guidance to management in addressing the Department's mounting Section 8 problems. In February 1991, that firm concluded a key phase of its study relating to the vulnerabilities of the current Section 8 Program systems and recommended a multi-year course of action. The Secretary has accepted these recommendations and has committed the Department to implementing a plan on a phased basis, subject to the availability of resources. We will continue to monitor and report on the Department's progress in correcting the current Section 8 weaknesses. (*Report No. 90-TS-103-0010*)

□ Retirement Service Centers

In our prior two Semiannual Reports, we disclosed the results and status of our multi-region audit of HUD's insured Retirement Service Centers (ReSC) Program. We reported that ReSCs were failing at a high rate due to poor loan underwriting and inadequate policies and controls. During Congressional hearings held on June 29, 1990, HUD's Deputy Secretary testified that the net loss to the FHA General Fund from failed ReSC projects could range as high as \$291 million. He further testified that the ReSC Program would be terminated.

On November 23, 1990, HUD published a proposed rule in the Federal Register to terminate the ReSC Program. The final rule has just completed Departmental clearance and should be published in the Federal Register shortly.

Our audit report contained 14 recommendations under the option HUD management selected, i.e., termination of the ReSC Program. Final actions have been completed for eight of the recommendations. Some of the recommendations affected other insured programs as well as the ReSC Program. Final action is pending on five recommendations. To resolve these recommendations, HUD management needs to: (1) update the Department's automated ReSC data base; (2) improve the process for resolving in-house adverse market opinions; (3) develop an operating plan for the orderly management and disposition by HUD of assigned/foreclosed ReSCs; (4) establish requirements for Headquarters documentation of high cost waivers; and (5) issue internal instructions for the execution of workout agreements for distressed ReSCs.

The remaining recommendation concerns the need for HUD to revise applicable regulations and handbooks to define the terms "low- and moderate-income families," as relates to the Section 221(d) Program. By not defining these terms, HUD cannot be assured that only families statutorily authorized to receive assistance under Section 221(d) are actually receiving such assistance. This matter is a complex issue and will require further review to satisfactorily resolve. (*Report No. 90-TS-111/112-0008*)

□ User Fees

The results of our audit on HUD's implementation of user fees were reported in our Semiannual Report for the period ending September 30, 1988. The report focused on HUD's implementation of 31 United States Code 9701, commonly known as the User Charge Statute. The Statute provides general authority and requirements for user fees.

Federal policy related to the Statute is contained in OMB Circular A-25.

Our report stated that HUD has not determined the full costs of providing user fee related services and that existing fees may be too low. At the time of our audit, HUD had 43 user fees with annual collections of \$1.2 billion. These fees are to be based on the full cost of services, both direct and indirect costs. At the time of our audit, HUD had no basis to determine if proper fees were being assessed. Our report was addressed to the then Assistant Secretary for Administration. She disagreed with our report recommendations.

In early 1989, we notified the current HUD Secretary of the problems with implementing the User Fee Statute. On April 19, 1989, the Secretary asked the Assistant Secretary for Administration to develop and issue centralized policies and procedures for identifying the full cost of HUD programs and implement OMB Circular A-25.

In early 1990, a draft HUD handbook on user fees was circulated for Departmental clearance. The handbook received several nonconcurrences because it was too general and lacked a Departmental coordinator.

In October 1990, the OIG agreed to an extension, moving the action date to February 28, 1991, and transferring responsibility to the Chief Financial Officer. Our follow-up disclosed that as of March 31, 1991, the Comptrollers were reviewing the draft handbook. However, we have not been provided a revised target date for issuance. (*Report No. 88-AO-169-0801*)

□ Housing Development Corporations

In our prior two Semiannual Reports, we disclosed that there were deficiencies in HUD's control and oversight of public housing agencies (PHAs) nonprofit housing development corporations (HDCs). These entities are sometimes used by PHAs to circumvent HUD rules and regulations and sometimes put at risk the funds of HUD-assisted programs that are administered by the PHAs. Our current Semiannual Report (Chapter 1) describes yet another example of this problem.

HUD management largely agreed with our April 1990 report recommendations, but pointed out that existing program regulations already established clear prohibitions against the kinds of abuses noted in the report. Action has been taken to strengthen controls over transactions between PHAs and their identity-of-interest nonprofit entities, such as HDCs. To assist PHAs in avoiding violations of existing requirements when establishing and operating

nonprofit corporations, the Department published a directive on Section 8 program requirements, and recently placed in clearance a second directive on the requirements for public and Indian housing programs. These directives are also designed to guide HUD Regional and Field Offices in monitoring PHA compliance with the requirements of their HUD-assisted programs in transactions involving nonprofit affiliates.

Although we found one point of nonconcurrence in the second directive because we believed that further clarification on conflict-of-interest rules was needed, the Department has indicated that a revision will be made to satisfy our concern. In addition, final clearance requires the concurrence of the Office of General Counsel. Consequently, we have had to further extend the target date for issuance of the second directive. (*Report No. 90-TS-108-0007*)

□ Payment of One-Time Mortgage Insurance Premiums

Our report on the payment of one-time mortgage insurance premiums was issued on October 19, 1989, and identified a series of problems in the payment process which included the untimely remittance and misuse of premiums by mortgagees as well as the placing of uninsured mortgages in GNMA mortgage-backed securities pools. We made nine recommendations, four of which were implemented. Corrective action on five recommendations is still pending.

The recommendations deal with implementing of policies or procedures to keep uninsured mortgages out of GNMA pools; requiring mortgagees to maintain acceptable bonding and increase net worth requirements; maintaining stricter controls over mortgage insurance certificates; and eliminating the duplication of effort involved in the separate financial statement reviews being conducted by the Office of Housing and GNMA. Corrective action will be completed on the two recommendations concerning mortgagees when the FHA comprehensive reform package is implemented. This is expected to occur in January 1992. We have reviewed the draft regulations and agree that they will resolve the recommendations. Implementation of the recommendation dealing with uninsured mortgages in GNMA pools is being delayed because of computer programming problems. The Office of Housing has instructed Field Offices to control insurance certificates but has not developed specified control procedures. They plan to issue these procedures by September 1991. The Office of Housing and GNMA have not implemented a coordinated review process and have yet to provide us a target date for implementation. (*Report No. 90-TS-121-0002*)

TABLE A: AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD
WITH NO MANAGEMENT DECISION AT 3/31/91

REPORT NUMBER	REPORT TITLE	ISSUE DATE	REASON FOR LACK OF MANAGEMENT DECISION	TARGET DATE
89SF1804	North Las Vegas Housing Authority Review of Appliance Rental Fees North Las Vegas NV	04/27/89	Discussions between OIG and Housing have not led to an acceptable corrective action plan. Management is working to develop a plan.	06/06/91
90KC1002	St. Louis Community Development Agency Program Income and Miscellaneous Revenue St. Louis MO	11/16/89	Discussions between OIG and CPD have reached an impasse. A referral to the Deputy Secretary is being prepared.	06/30/91
90AT1007 ¹	U S Shelter Properties Single Family Housing State of South Carolina	02/07/90	OGC is working with the U.S. Attorney to resolve.	05/31/91
90AT1008 ¹	Community Development Block Grant Program Use of Program Income Atlanta GA	03/09/90	Discussions between OIG and CPD have not led to an acceptable corrective action plan for 1 of 5 recommendations referred to Headquarters. OIG is requesting an OGC opinion to resolve the issue.	06/30/91
90TS0008 ¹	Multi-Region Audit of the Insured Retirement Service Centers Program Office of Housing-Federal Housing Commissioner	04/06/90	Discussions between OIG and Housing have not led to an acceptable corrective action plan for 1 of 14 recommendations. Efforts to resolve the issue are underway.	06/30/91
90NY1025 ¹	Housing Preservation and Development Section 8 Housing Voucher Program New York NY	06/04/90	A management decision was reached April 11, 1991.	----
90AT1015 ¹	Limited Review of Defoors Ferry Manor Apartments Bankrupt Insured Multifamily Development Atlanta GA	07/20/90	OGC is reviewing to determine the collectibility of ineligible and unsupported disbursements of project funds.	05/13/91
90AT1804	Peyton Gardens Apartments-Lenox I and II Insured Multifamily Development Atlanta, GA	07/25/90	Discussions between OIG and Housing have not led to an acceptable corrective action plan. Management is working to resolve the issue.	05/31/91
90TS0804	Section 203(k) Rehabilitation Home Mortgage Insurance Program Weaknesses Office of Housing-Federal Housing Commissioner	08/16/90	Discussions between OIG and Housing have not led to an acceptable corrective action plan with implementation dates. Management is working to develop a plan.	05/03/91

REPORT NUMBER	REPORT TITLE	ISSUE DATE	REASON FOR LACK OF MANAGEMENT DECISION	TARGET DATE
90TS1803 ¹	Housing Resources Management, Inc. Santa Monica CA	09/14/90	Discussions between OIG and Housing have identified a satisfactory course of action. However, the OIG cannot agree to the management decision until implementation dates for final actions are provided.	05/31/91
90AO1008	Quadel Consulting Corporation Final Cost Audit of Cooperative Agreement Washington DC	09/28/90	A management decision was reached April 12, 1991.	---
90SF0006 ¹	Community Development Block Grant Program Interim Financing Activities San Francisco Regional Office	09/28/90	Discussions between the Regional OIG and the action office resulted in an impasse. The matter is under review in Headquarters.	05/20/91

Note to Table A:

¹ Significant audit reports described in previous Semiannual Reports.

**TABLE B: SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS
WHERE FINAL ACTION HAS NOT BEEN COMPLETED AS OF 3/31/91**

REPORT NUMBER	REPORT TITLE (Key for notes is at end of table.)	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
HOUSING				
83CH1051	Detroit Housing Department Public Housing Agency Activities Detroit MI	08/26/83	11/15/84	03/01/94
85AT1018	Elizabethton Housing and Development Agency, Inc. Section 8 Moderate Rehabilitation Program Elizabethton TN	06/05/85	09/13/85	06/15/92
85CH1017	Promex Midwest Management Corporation Multifamily Mortgage Insurance Program Des Plaines IL	09/19/85	12/04/85	12/31/91
85NY1002	Metro Interfaith Management Corporation Management Agent Binghamton NY	10/23/84	02/06/85	04/01/92
85SF1008	County of Los Angeles Community Development Commission Section 8 Moderate Rehabilitation Program Los Angeles County CA	03/11/85	06/26/85	06/30/91
86BO1005	New Haven Housing Authority Low-Income Housing Program New Haven CT	03/27/86	07/25/86	Note 1
86SE1003	Seattle Housing Authority Tenant Utility Allowances Seattle WA	02/21/86	02/19/91	07/01/91
86TS0010	Title I Property Improvement Loan Insurance Program (Dealer Loans)	02/28/86	09/18/89	08/01/91
87NY1014	Dayton Operating Company Management Agent New York NY	11/20/86	02/11/87	05/31/91
87PH1002	Maryland Community Development Administration Section 8 New Construction and Substantial Rehabilitation Annapolis MD	12/22/86	03/17/89	06/30/91
87SE1007	Cook Inlet Housing Authority Low Rent Housing and Mutual Help Programs Anchorage City and Borough AK	09/29/87	09/30/89	05/31/91
87SF1009	G and K Management Company Multifamily Management Agent Culver City CA	06/25/87	10/02/87	04/30/91
88PH1006	Philadelphia Housing Authority Procurement Activities Philadelphia PA	03/25/88	09/20/89	09/30/91
88SF1016	San Diego Housing Commission Section 8 Moderate Rehabilitation Program San Diego CA	09/30/88	09/30/89	04/30/92
88TS0005	Repairs and Rent Increases on Multifamily Projects in HUD's Possession	03/15/88	09/26/88	06/30/91

REPORT NUMBER	REPORT TITLE <i>(Key for notes is at end of table.)</i>	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
88TS0005	Repairs and Rent Increases on Multifamily Projects in HUD's Possession	03/15/88	09/26/88	06/30/91
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
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
88TS0012	Review of the Title I Manufactured Home Loan Program	08/29/88	05/23/89	08/01/91
89AO1801	Misuse of Consolidated Supply Contracts Results in Public Housing Agency Overcharges Washington DC	11/23/88	09/27/89	04/20/91
89AT1010	Cumberland Cove Apartments Multifamily Mortgagor Operations Raleigh NC	01/13/89	06/16/89	03/31/92
89BO1005	Housing Innovations, Inc. Mortgagor Operations Boston MA	12/20/88	03/10/89	Note 1
89FW1009	Crowley Housing Authority Comprehensive Improvement Assistance Program Crowley LA	08/29/89	12/28/89	08/01/91
89NY0001	Audit of Flexible Subsidy Program	11/15/88	09/27/89	04/20/91
89PH1017	Dickey Hill Forest Apartments Housing Development Fund Baltimore MD	09/29/89	05/04/90	09/30/91
89TS0001	Nationwide Audit of the Housing Voucher Program (Phase I) Compliance with Housing Quality Standards	12/06/88	09/30/89	Note 1
89TS0006	Handling of Proceeds from the Sale of Single Family Properties	08/25/89	02/25/91	10/01/91
89TS1007	Housing Authority of Tulsa Section 8 Moderate Rehabilitation Program Tulsa OK	07/11/89	09/30/89	04/30/92
89TS1009	Gastonia Housing Authority Section 8 Moderate Rehabilitation Program Gastonia NC	07/24/89	09/30/89	04/30/92
89TS1014	Housing Authority of City and County of Denver Section 8 Moderate Rehabilitation Program Denver CO	09/05/89	09/30/89	04/30/92
90AO0006	Questionable Use of Federal Housing Administration Streamline Refinance Mortgages	06/15/90	09/28/90	07/31/91
90AO0007	HUD's Consolidated Supply Program	07/12/90	02/26/91	08/31/91
90AT1007	U S Shelter Properties Single Family Housing State of South Carolina	02/07/90	Note 2	
90AT1015	Limited Review of Defoors Ferry Manor Apartments Bankrupt Insured Multifamily Development Atlanta GA	07/20/90	Note 3	

REPORT NUMBER	REPORT TITLE (Key for notes is at end of table.)	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
90AT1016	Housing Authority of the City of Atlanta Section 8 Voucher Program Atlanta GA	07/30/90	02/22/91	06/30/91
90AT1018	Wilco Management, Inc. Nashville-Davidson TN	09/10/90	12/05/90	11/30/91
90BO1003	Clipper Associates Mortgagor Operations Quincy MA	11/30/89	03/23/90	Note 1
90BO1012	Farwell Hill Housing Development Grant Lisbon Falls ME	07/23/90	02/01/91	06/30/91
90BO1015	Norwalk Housing Authority Section 8 Program Norwalk CT	09/27/90	03/21/91	05/15/91
90CH0008	Title I Debt Collection Management System	09/21/90	12/04/90	11/19/91
90CH0009	Single Family Property Disposition Program Closing Agent Activities	09/28/90	12/27/90	04/01/91
90CH1006	New Center Hospital Multifamily Mortgagor Operations Detroit MI	01/22/90	06/19/90	06/18/91
90CH1012	Jackson Housing Commission Section 8 Housing Voucher Program Jackson MI	05/22/90	11/26/90	05/27/91
90CH1019	Lincoln Avenue and Crawford Home for the Aged Multifamily Mortgagor Operations Cincinnati OH	08/27/90	01/03/91	12/15/91
90FW0001	Monitoring and Control over Closing Agent Activity Property Disposition Branch	12/18/89	04/17/90	12/01/91
90FW0002	Monitoring of Closing Agent Activity Property Disposition Branch	01/05/90	04/26/90	04/15/91
90FW0005	Monitoring of Closing Agents Property Disposition Branch	09/17/90	11/20/90	04/30/91
90FW0006	Section 8 Existing Housing Program Project-Based Assistance	09/24/90	01/31/91	01/10/92
90FW0802	Closing Agent Fees for Single Family Sales	06/12/90	08/13/90	06/08/91
90FW1004	Regency Place Apartments Multifamily Mortgagor Operations Cedar Hill TX	04/05/90	07/31/90	07/31/91
90FW1006	Tulsa Housing Authority Section 8 Voucher Program Tulsa OK	07/02/90	11/05/90	09/15/91
90FW1009	New Orleans Housing Authority Procurement of Management Contract New Orleans LA	08/30/90	12/28/90	10/01/91

REPORT NUMBER	REPORT TITLE (Key for notes is at end of table.)	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
90KC1004	Rosedale Ridge Apartments Multifamily Mortgagor Operations Kansas City KS	02/16/90	09/07/90	08/16/91
90NY0003	Single Room Occupancy Program New York Regional and Newark Offices	09/19/90	03/15/91	04/26/91
90NY1025	Housing Preservation and Development Section 8 Housing Voucher Program New York NY	06/04/90	03/29/91	07/01/91
90PH0002	Section 8 Moderate Rehabilitation Program for Single Room Occupancy Dwellings	09/28/90	03/21/91	04/30/91
90PH1015	PCI Management, Inc. Multifamily Management Agent Operations Christiansburg VA	07/16/90	01/02/91	08/31/91
90SE0002	Single Room Occupancy Program	06/28/90	09/10/90	06/30/91
90SE1008	Section 8 Loan Guarantee Assistance Program Tacoma WA	07/13/90	11/09/90	08/31/91
90SF0005	Section 8 Project-Based Assistance San Francisco Regional Office	09/19/90	02/08/91	04/30/91
90SF1003	Loren Miller Homes Multifamily Mortgagor Operations San Francisco CA	01/30/90	05/30/90	05/29/91
90SF1011	Cash Banker and Hale, Inc. Area Management Broker Phoenix AZ	06/29/90	11/06/90	09/21/91
90SF1012	Pittsburg Housing Authority Section 8 Housing Voucher Program Pittsburg CA	07/03/90	11/08/90	10/31/91
90SF1016	Desert Realty, Inc. Area Management Broker Las Vegas NV	09/24/90	01/24/91	05/31/91
90TS0002	Multi-Region Audit of the Payment of One-Time Mortgage Insurance Premiums	10/19/89	08/15/90	01/15/92
90TS0004	Multi-Region Audit of the Management of HUD's Assigned Single Family Inventory	10/30/89	03/27/91	06/30/91
90TS0005	Multi-Region Audit of Housing Vouchers (Phase II) Public Housing Agency Compliance with Processing Requirements and Use of Voucher Authority	11/21/89	03/01/90	04/30/92
90TS0006	Public Housing Agency Decontrol Program	02/23/90	06/18/90	09/01/91
90TS0007	Survey of Public Housing Agencies Housing Development Corporations	04/02/90	06/30/90	06/30/91
90TS0008	Multi-Region Audit of the Insured Retirement Service Centers Program	04/06/90	11/19/90	11/01/91
90TS0009	Multi-Region Audit of the Comprehensive Improvement Assistance Program	04/06/90	03/29/91	02/28/92

REPORT NUMBER	REPORT TITLE (Key for notes is at end of table.)	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
90TS0010	HUD's Efforts to Properly Account and Budget for Section 8 Funds	04/24/90	11/26/90	12/31/91
90TS0013	Multi-Region Audit of Insurance Commitments for Title X Land Development Projects	04/27/90	11/02/90	04/30/91
90TS0014	Multi-Region Audit of Monitoring, Servicing, and Disposition of Title X Land Development Projects	04/30/90	07/24/90	04/30/91
90TS0015	Multi-Region Audit of Housing Development Grants	04/30/90	08/06/90	12/31/91
90TS0016	Section 8 Contract Administrator Functions Cincinnati Office	09/13/90	02/25/91	09/30/91
90TS0017	Multi-Region Audit of Mortgagee Physical Inspections of HUD-Insured Projects	09/25/90	03/29/91	09/30/91
90TS1002	Colorado Housing and Finance Authority Section 8 Moderate Rehabilitation Program Denver CO	10/12/89	08/10/90	04/30/92
90TS1003	Columbia Housing Authority Section 8 Moderate Rehabilitation Program Columbia SC	11/16/89	08/10/90	04/30/92
90TS1005	Arlington Housing Authority Section 8 Moderate Rehabilitation Program Arlington TX	01/05/90	08/10/90	04/30/92
90TS1007	Dade County Department of Special Housing Programs Dade County FL	01/19/90	08/10/90	04/30/92
90TS1010	Maryland Community Development Administration Section 8 Moderate Rehabilitation Program Annapolis MD	03/09/90	08/10/90	04/30/92
90TS1013	United Austin Mortgage Company Nonsupervised Mortgagee Austin TX	04/09/90	08/09/90	04/28/91
90TS1015	Heritage Mortgage Company Supervised Mortgagee Chicago IL	06/13/90	03/29/91	04/28/91
90TS1016	National Mortgage Corporation of Indiana Nonsupervised Mortgagee Indianapolis IN	07/24/90	02/25/91	Note 4
90TS1019	Waterfield Financial Corporation Supervised Mortgagee Phoenix AZ	09/28/90	03/29/91	05/04/91
90TS1803	Interim Report Housing Resources Management, Inc. Santa Monica CA	09/14/90	Note 5	
90TS1804	Interim Report on J&B Management Company/Laclede Management Corporation Woodlands TX	09/28/90	03/29/91	09/25/91

REPORT NUMBER	REPORT TITLE (Key for notes is at end of table.)	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
COMMUNITY PLANNING AND DEVELOPMENT				
85BO1011	Community Development Block Grant Program Discretionary Marlborough MA	05/16/85	08/21/85	12/31/91
88NY1006	County of Nassau Community Development Block Grant Program Mineola NY	12/18/87	05/22/89	09/30/91
88SF1013	Urban Development Action Grant Program Compton CA	09/19/88	03/09/89	03/08/92
88TS0013	Review of Economic Development and Public Facility Grants in State Community Development Block Grant Program	08/29/88	11/18/88	09/30/91
89AT1026	Urban Development Action Grant Program Riviera Beach FL	07/03/89	07/03/89	05/02/91
89KC1010	Community Planning and Development Program Underwriting and Rehabilitation of Two Projects Davenport IA	04/19/89	08/11/89	09/30/91
89PH1011	Department of Housing and Community Development Community Development Block Grant Program Subrecipient Monitoring Washington DC	03/31/89	09/20/89	07/15/91
89PH1013	Community Development Block Grant Program Subrecipient Activities Philadelphia PA	07/17/89	01/12/90	07/01/91
90AT1008	Community Development Block Grant Program Use of Program Income Atlanta GA	03/09/90	06/18/90	09/01/91
90CH1004	Community Development Block Grant Program Pontiac MI	12/08/89	05/29/90	04/30/91
90CH1013	Community Development Block Grant Program Benton Harbor MI	06/01/90	09/05/90	05/31/91
90CH1020	Community Development Block Grant Program Lincoln Park MI	09/11/90	01/28/91	02/28/92
90DE0002	Supportive Housing Demonstration Program	06/28/90	09/27/90	06/30/91
90NY0001	Emergency Shelter Grant Programs New York Regional and Newark Offices	09/04/90	01/18/91	05/10/91
90NY1023	Community Development Block Grant Program San Juan PR	02/23/90	10/25/90	10/16/91
90PH1013	Community Development Block Grant Program Wheeling WV	05/09/90	09/13/90	08/01/91
90PH1014	Delaware County Community Development Block Grant Program Partnership for Economic Development and Other Selected Areas Media PA	06/12/90	11/01/90	07/01/91

REPORT NUMBER	REPORT TITLE (Key for notes is at end of table.)	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
90SE1002	Community Development Block Grant Program Program Income Tacoma WA	01/16/90	03/30/90	07/31/91
90SF0003	Supportive Housing Demonstration Program San Francisco Regional Office	07/24/90	11/20/90	04/30/91
90SF0004	Emergency Shelter Grant Program San Francisco Regional Office	08/10/90	12/28/90	05/30/91
90SF0006	Interim Financing Activities Community Development Block Grant Program	09/28/90	Note 6	
90SF1002	Mayor's Office of Community Development Urban Development Action Grant Program San Francisco CA	11/24/89	07/11/90	06/30/91
90SF1017	City of Bellflower Section 108 Loan Guarantee Assistance Bellflower CA	09/25/90	01/22/91	06/30/91
90TS0011	Review of Community Development and Block Grant Program Income and Miscellaneous Revenue	04/30/90	09/25/90	06/30/91
90TS0012	Multi-Region Audit of Community Development Block Grant Program Rehabilitation at Entitlement Grantees	04/26/90	09/21/90	09/17/91
CHIEF FINANCIAL OFFICER				
88AO0801	Survey Report More of HUD's Appropriation Could Be Financed from User Fees	12/01/87	04/04/89	Note 1
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION				
89AO0007	Limited Review of Procurement of Mortgage-Backed Securities Program	04/11/89	03/30/90	04/23/91
90AO0003	Government National Mortgage Association's Office of Asset Management	11/22/89	01/30/90	09/15/91

Notes to Table B:**Audits Excluded:**

14 audits under repayment plans.

17 audits under formal judicial review, investigation or legislative solution.

Notes:

- ¹ Management did not meet target date. Management decision is over 1 year old.
- ² No management decision. Decision expected by 5/31/91.
- ³ No management decision. Decision expected by 5/13/91.
- ⁴ Management did not meet target date. Management decision is under 1 year old.
- ⁵ No management decision. Decision expected by 4/29/91.
- ⁶ No management decision. Decision expected by 5/20/91.

TABLE C:

**INSPECTOR GENERAL ISSUED REPORTS
WITH QUESTIONED AND UNSUPPORTED COSTS
AT 3/31/91**
(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	88	174,460	33,547
A2. For which litigation, legislation or investigation was pending at the commencement of the reporting period	15	15,202	3,814
A3. For which additional costs were added to reports in beginning inventory	-	14,762	502
A4. For which costs were added to non-cost reports	12	1,308	482
B1. Which were issued during the reporting period	81	39,191	17,410
B2. Which were reopened during the reporting period	1	3	3
Subtotals (A+B)	197	244,926	55,758
C. For which a management decision was made during the reporting period	108 ¹	72,482	25,823
(1) Dollar value of disallowed costs:			
• Due HUD	46 ²	12,851	2,787
• Due Program Participants	55	44,465	13,870
(2) Dollar value of costs not disallowed	43 ³	15,166	9,166
D. For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation.	19	24,167	10,964
E. For which no management decision had been made by the end of the reporting period ⁴	70 (217)	148,277 (47,518)	18,971 (18,625)

NOTES TO TABLE C:

- ¹ Fifteen audit reports also contain recommendations that funds be put to better use.
- ² Twelve audit reports also contain recommendations with funds due program participants.
- ³ Twenty-four audit reports also contain recommendations with funds agreed to by management.
- ⁴ The figures in brackets represent data at the recommendation level as compared to the report level. See page 72 for an explanation.

TABLE D:

**INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT
TO BETTER USE AT 3/31/91**
(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	9,378
A2. For which litigation, legislation or investigation was pending at the commencement of the reporting period	5	6,419
A3. For which additional costs were added to reports in beginning inventory	-	158
A4. For which costs were added to non-cost reports	5	21,966
B1. Which were issued during the reporting period	12	4,880
B2. Which were reopened during the reporting period	0	0
Subtotals (A+B)	39	42,801
C. For which a management decision was made during the reporting period	25 ¹	29,632
(1) Dollar value of recommendations that were agreed to by management		
• Due HUD	16 ²	23,765
• Due Program Participants	8	3,196
(2) Dollar value of recommendations that were not agreed to by management	6 ³	2,671
D. For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	4	5,182
E. For which no management decision had been made by the end of the reporting period ⁴	10 (12)	7,987 (6,170)

NOTES TO TABLE D:

- ¹ Fifteen audit reports also contain recommendations with questioned costs.
- ² One audit report also contain recommendations with funds due program participants.
- ³ Four audit reports also contain recommendations with funds agreed to by management.
- ⁴ The figures in brackets represent data at the recommendation level as compared to the report level. See explanation below.

Explanation of Tables C and D

The Inspector General (IG) Act Amendments of 1988 require Inspectors General and agency heads to report cost data on management decisions and final actions on audit reports. The current method of reporting at the "report" level rather than at the individual audit "recommendation" level results in misleading reporting of cost data. Under the Act, an audit "report" does not have a management decision or final action until all questioned cost items or other recommendations have a management decision or final action. Under these circumstances, the use of the "report" based rather than the "recommendation" based method of reporting distorts the actual agency efforts to resolve and complete action on audit recommendations. For example, certain cost items or recommendations could have a management decision and repayment (final action) in a short period of time. Other cost items or nonmonetary recommendation issues in the same audit report may be more complex, requiring a longer period of time for management's decision on final action. Although management may have taken timely action on all but one of many recommendations in an audit report, the current "all or nothing" reporting format does not take recognition of their efforts.

The closing inventory for items with no management decision on Tables C and D (Line E) reflects figures at the report level as well as the recommendation level.

Chapter 4 — Prevention and Other OIG Activities

Byrd Amendment

We submitted our first annual report to Congress on the Department's compliance with Section 1352 of the Department of the Interior and Related Agencies Appropriations Act of 1990 (Act), commonly referred to the Byrd Amendment. The intent of the law is that efforts to influence Federal contracting and financial transactions be fully disclosed. We reported that HUD had substantially complied with the Act, but recommended that oversight controls be strengthened and that employees working closest with recipients have adequate guidance and training to fully implement the Act.

We concluded that because the Act addresses the behavior of certain applicants and recipients of HUD assistance, the Department's ability to monitor compliance with the law depends largely on the voluntary cooperation by covered persons. During the review period, HUD did not receive any reports or allegations of violations of the Act. We believe that in the absence of reports or full on-site audits of recipients affected by the Act, HUD will find it difficult to detect violations. We feel that more definitive criteria are needed to determine whether violations of the Act have occurred. (*First Annual Report on Section 1352 - Byrd Amendment, submitted on January 18, 1991*)

Review of Legislation and Regulations

As required by the Inspector General Act of 1978, the OIG reviews all proposed legislation and regulations affecting HUD programs. By extension we also review directives which communicate Departmental policy, procedures, or guidance to program participants and HUD personnel. Policy directives include handbooks, notices, staff bulletins and transmittals.

We have three review objectives:

- To promote efficient and economical operation of HUD programs;
- To prevent and detect opportunities for fraud and abuse; and
- To ensure that potential risks are identified and that controls are developed to minimize occurrence of such risks.

During this reporting period, significant work was accomplished as a result of the Cranston-Gonzalez National Affordable Housing Act of 1990 (the Act). Specifically, Departmental and Congressional housing initiatives contained in the Act for the HOPE (Housing

Opportunities for People Everywhere) and HOME (Home Investment in Affordable Housing) have been reviewed and cleared. While the OIG played an incidental role in the development of the implementing regulations for these programs, the programs will nonetheless be closely monitored to ensure that intended goals and objectives are achieved, and any potential abuses are identified when the programs are fully funded and carried out.

During the 6-month period, we reviewed 220 directives. This included 144 proposed or final regulatory documents and legislative bills and 76 directives. Outlined below are several significant rules and directives that we reviewed during this reporting period on which we provided comments to effectuate change.

Proposed Rule - Part 17 Administrative Claims

We nonconcur on this proposed rule because it failed to recognize specific provisions contained in the HUD Reform Act governing the granting of waivers to program regulations. We felt that it was the intent of Congress to see that the Reform Act upheld the integrity of HUD programs and activities and to ensure that all HUD decisions, including the granting of waivers or "exceptions" were made fairly and equitably. The proposed rule would establish a policy by which the Secretary could delegate authority to Regional Administrators to grant "exceptions" to program regulations. We believe that deviation from the intent of the Act would impair the Department's efforts to avoid potential mismanagement and abuse of Departmental programs and activities.

Notice - Community Development Block Grant Program Addressing Performance Deficiencies

This HUD directive described the procedures for addressing performance deficiencies through grant conditions and grant reductions under the Entitlement and State Community Development Block Grant Programs. We nonconcur on this directive because it did not address the IG's role for audit-related funding sanctions and concurrence on management decisions related to OIG-controlled findings and recommendations. The Office of Community Planning and Development revised the Notice to incorporate our concerns.

Proposed Rule - Public and Indian Housing Comprehensive Grant Program

This grant program would provide modernization funds on the basis of a formula to public housing agencies (PHAs) and Indian housing authorities (IHAs) that own or operate 500 or more public or Indian housing units. We nonconcur on this rule because it failed to address the prevailing and projected housing market within the PHA/IHA's jurisdiction. We believed that all modernization

proposed should be in terms of the housing market that will be served at least 5 years into the future. We felt also that the proposed rule should require the PHA/IHA to prepare its cost estimates on the basis of net present value using an appropriate discount rate, rather than on the basis of historical dollars. The Office of Public and Indian Housing met with our office and agreed to revise the proposed rule. The proposed rule was then published for public comment.

Proposed Rule - Public Housing Management Assessment Program (PHMAP)

The PHMAP is the successor to the suspended Public Housing Decontrol Program. It implements Section 502(a) of the Cranston-Gonzalez National Affordable Housing Act (Title V Subtitle A). We had numerous comments on this proposed rule. Most of the comments were based on the failure of the Office of Public and Indian Housing (PIH) to complete the Front-End Risk Analysis (FERA) prior to the publication of the proposed rule. We also had concerns related to implementation of the program prior to the issuance of an updated handbook. Through discussions with PIH, our recommendations were incorporated into the proposed rule and we received assurances from the Assistant Secretary for PIH that the FERA process would be completed and receive Departmental clearance concurrently with the final rule. We also were assured that HUD Handbook 7460.7, "Field Office Monitoring of Public Housing Agencies," would be revised to provide sufficient guidance to Field staff prior to implementation of the program.

Notice - Administrative Guidelines on the Limitations on Combining Other Government Assistance with HUD Housing Assistance Notice

This Notice set forth the administrative guidelines to ensure that participants in multifamily projects do not receive excessive HUD subsidies or other unreasonable compensation when combined with HUD assistance, low-income housing tax credits, or with assistance from other Federal or State agencies. Our nonconcurrence focused on the use of unused operating deficit escrows to repay outstanding diversions. We proposed that any excess reserves be used to meet any physical or financial needs outstanding with the project, including the repayment of any loans made or insured by the Federal Government. We also proposed that required cost certifications be audited by independent public accountants. As a result of clearance meeting negotiations held on the subject Notice, appropriate revisions were made.

□ Legislative and Regulatory Initiatives

The OIG is also responsible for developing regulatory and legislative proposals. Such initiatives serve to address unmet administrative and programmatic needs which have been identified through various OIG audits and investigations.

In our last Semiannual Report, we recommended two related legislative proposals that would provide financial incentives to PHAs and owners of subsidized housing to take action on suspected tenant fraud.

The first proposal would permit PHAs administering the Section 8 program to retain a portion of the amounts wrongfully paid as a result of fraud and abuse that they recover as a result of administrative repayment agreements, settlements of litigation, litigation or court-ordered restitution. PHAs may now only retain amounts recovered as a result of court judgments.

The second proposal would permit HUD to make assistance payments under certain circumstances in connection with the eviction of a family that is receiving assistance under the Section 8, Section 236, or Rent Supplement Programs. The objective of this authority is to permit HUD to give an incentive to owners to pursue leads which indicate that tenants may not have provided complete and accurate information on income and family composition.

The Department has reviewed these proposals and has accepted them in principle. We are continuing our cooperative efforts to develop specific language that will be included in the Department's next legislative package.

□ Prevention Activities

Our office has been involved in several other initiatives to prevent and detect fraud and abuse in HUD programs and activities. These initiatives include the following:

Tenant Integrity Program

In November 1990, we gave a Tenant Integrity Program workshop to the New York Regional Office staff. We will soon be issuing a revised version of the guide for Indian Housing Programs. Outside training organizations and industry associations that were trained by OIG have continued to provide this training to PHAs and private management agents. We have continued to support other groups by giving presentations at their various conferences. Our office will focus on providing HUD program staff with training.

Computer Matching

On February 22, 1991, the final rule implementing Section 904 of the Stewart McKinney Act was published. Prior to issuance of this regulation, new computer matching projects had to be suspended. The Act and implementing regulations provide authority for PHAs and HUD to obtain wage and unemployment information about applicants and participants in certain HUD programs from State Wage Information Collection Agencies. Applicants and tenants are required to sign consent forms as a condition of initial or continuing eligibility in certain HUD programs. The HUD-approved consent forms must be obtained from each applicant or participant before wage information can be requested from the State agency.

The Office of Public and Indian Housing has agreed on a consent form that will be used for all their applicable programs. The Office of Housing has a directive in Departmental clearance and expects distribution within the near future. After these consent forms are issued, participants will be required to sign them at initial certification and interim and annual reviews thereafter. It will take 1 year before there is full coverage for all tenants with this form. We will be exploring opportunities to start computer matches with those PHAs that voluntarily may have initiated an appropriately worded form on their own.

We will also be pursuing projects to enable PHAs to obtain wage data directly from their State Unemployment Security Commissions so that verification can be done during the certification or recertification process, i.e., "front-end" matching. There are great advantages to implementing such a program since the information is more timely and more cost effective as a prevention tool.

The legislation that permits access to the State unemployment wage data expires 5 years from enactment, which is on October 1, 1994. The Department will need to seek permanent reauthorization before this date if it intends for the computer matching projects to be able to continue. Our office will support the Department in this effort.

Delaware Project

In an effort to combine our Tenant Integrity Program with this front-end matching concept, we have started a project in Delaware. The goal of this project is for all five PHAs in the State to develop and implement a coordinated effort against tenant fraud. The Delaware Department of Social Services Welfare Fraud Unit is supporting this effort.

Our goal is to establish the Delaware PHAs as a model for tenant fraud prevention across the country. Although many PHAs are doing similar types of things, there is not any coordination and cooperation on a State-wide level.

The Delaware Department of Labor has agreed that PHAs should be allowed to have access to their wage and unemployment data files and eventually each PHA will have on-line computer access to this data. We also met with the Delaware State Prosecutor and he expressed his interest to prosecute fraud cases.

To date, staff from all five PHAs have attended a Tenant Integrity Program Workshop that was presented in January 1991. About 60 staff members were in attendance. Congressman Thomas Carper, a sponsor of this legislation, addressed the workshop on the history of the legislation.

Pilot Program For Post Endorsement Reviews

Fraud can be committed by any of the parties to a mortgage transaction including the borrower, seller, broker, real estate agent, or mortgagee. We have developed a pilot program to review Single Family Direct Endorsement loan originations to identify possible loan origination fraud. The program was developed out of concern that more in-depth review was needed to identify origination problems and program abuses. We have developed a checklist for Field Office staff to use that focuses on indicators of fraud. The Office of Housing has cooperated in this effort by commenting on our draft checklist and will assist us in training HUD staff from several test sites.

While most of the loans originated by Direct Endorsement lenders comply with HUD requirements, our audits have shown some problems. Field Offices currently review about 10 percent of the loans endorsed under the Direct Endorsement Program. This pilot program will identify program violations and possible fraud. Problems identified will be reported to the Direct Endorsement lender for response.

We will instruct staff in identifying questionable items, how to follow up with the mortgagees, and how to use a data base program for the results of their reviews. This will be used to trend the participants that have the most unresolved problems so that monitoring can be targeted where it is most needed. The Office of Housing has indicated that if the project is successful they will implement it nationwide.

Awareness Publications

Recognizing the need to provide basic information to individuals who serve on Boards of Commissioners of PHAs, we planned and developed a Program Integrity Bulletin (PIB) which emphasizes a Commissioner's unique responsibilities associated with a PHA's overall goal to provide decent, safe and sanitary housing. The PIB focuses on a Commissioner's leadership responsibilities and monitoring functions. It also provides specific guidance on ways to identify weaknesses and questionable practices in PHA operations which require the establishment of internal controls to prevent fraud and abuse. The PIB highlights Federal program requirements and provides suggestions for effective and sound management practices. It also discusses how residents can assist PHA Commissioners in overseeing PHA operations.

Secretary Kemp strongly supported this publication and provided an endorsement letter transmitting the PIB, wherein he stressed the importance of Commissioners becoming more involved in the day-to-day operations of public housing agencies.

Monitoring Audit Quality

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

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

Our office conducts desk reviews of single audit reports for which we are the cognizant or the general oversight agency. Other HUD program audits are routinely reviewed by HUD program managers and OIG performs a desk review only if the audit is selected for a quality control review (QCR). A QCR is an extensive on-site review of the non-Federal auditor's supporting audit work. When necessary, clarifications and revisions of audit reports are obtained. In some instances, where the non-Federal audit work is found to be substandard or the non-Federal auditor has previously been advised of similar major inadequacies, the OIG will initiate referrals to regulatory and professional bodies. Referrals have been made to the American Institute of Certified Public Accountants (AICPA) and appropriate State Licensing Boards. In each case, we requested that the AICPA or State Board review the case and take appropriate sanctions. In the more deficient cases, HUD also takes sanctions, such as debarment or suspension. In lieu of debarment, auditors sometimes agree to voluntary exclusion from auditing Federal programs.

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

**Summary Results of IG Reviews of Audits by Non-Federal Auditors
October 1, 1990, to March 31, 1991**

	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	2,233	95	2,328	4	0	4	2,332
Reports Issued without Changes or with Minor Changes							
Based on desk review	2,106	95	2,201	4	0	4	2,205
Based on QCR	4	0	4	0	0	0	4
Total	2,110	95	2,205	4	0	4	2,209
Reports Issued with Major Changes							
Based on desk review	109	0	109	0	0	0	109
Based on QCR	14	0	14	0	0	0	14
Total	123	0	123	0	0	0	123
Reports with Significant Inadequacies							
Based on desk review	0	0	0	0	0	0	0
Based on QCR	8	0	8	1	0	1	9
Total	8	0	8	1	0	1	9
Total Quality Control Reviews Performed including reports not issued ²	10	0	10	63	0	63	73
Number of Auditors Referred to State Boards/AICPA ³	2	0	2	1	0	1	3
Number of Auditors Suspended, Debarred, Voluntarily Excluded	3	0	3	3	0	3	6

See notes on following page.

NOTES TO REVIEWS OF NON-FEDERAL AUDITORS:

- ¹ This does not include Defense Contract Audit Agency and Single Audits for which we are not the cognizant/general oversight agency, or HUD program audits submitted directly to program managers.
 - ² This shows QCRs completed during the period and includes reports received and reviewed by program offices.
 - 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 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 Independent Auditor 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 Certified Public Accountant (CPA) audited three public housing agencies (PHAs) in New Jersey. We conducted quality reviews of each of the audits and found that the CPA did not adhere to certain American Institute of Certified Public Accountants (AICPA) and General Accounting Office (GAO) auditing standards. In one or more of these audits, the CPA did not disclose illegal acts by an officer of the auditee, did not provide adequate follow-up on identified irregularities, did not perform audit field work to support assertions in the auditor's report and did not document his review of internal controls.

We performed an audit of one of the PHAs audited by this CPA and more adequately disclosed a finding concerning excessive employee compensation. As a result of our audit, HUD suspended the auditee's Executive Director, Deputy Executive Director, director of maintenance, and the PHA's attorney. Because of the CPA's

substandard audits, we have referred him to the AICPA and State Board of Accountancy for disciplinary actions. We are also considering the auditor for suspension and debarment.

We conducted a working paper review of five audits of a CPA who has performed over 40 PHA audits over the past 2 years. We found that his work on the five audits did not meet AICPA and GAO auditing standards and the audit requirements of OMB Circular A-128. These audits did not meet the requirements because the CPA, in one or more audits, properly plan the audit, document his study of internal controls, prepare sufficient working papers to evidence work performed or perform compliance testing of selected Federal programs.

We provided the CPA the opportunity to correct his work, which he agreed to do. However, we noted during our follow-up review that he had not attempted to correct the deficiencies disclosed during our previous working paper reviews. Therefore, we referred him to the AICPA and State Board of Accountancy for disciplinary actions. We are also considering the CPA for suspension and debarment.

A CPA audited a HUD-insured multifamily project for 4 successive years. We conducted a working paper review of the fourth-year audit and found that the auditor was not independent in conducting the audit of the project. We noted that the auditor was also a co-trustee of the project's owner and signed the mortgagor's certification as such. In addition we noted other deficiencies during the review related to audit planning, evaluation of the entity as a going concern, and statements unsupported by the working papers. The CPA subsequently provided adequate explanations or documentation to resolve these other deficiencies. We referred him to the AICPA and State Board of Accountancy for disciplinary action due to the independence matter.

Suspensions and Debarments

During the reporting period, two practitioners were debarred for 3 years each, one practitioner was debarred indefinitely due to a second violation, three practitioners agreed to voluntary exclusions of 2 and 3 years, respectively, and one CPA was suspended pending debarment.

As of March 31, 1991, 21 CPAs were currently 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 the reporting period, sanctions were taken against seven CPAs referred to State Boards and two CPAs referred to the AICPA in prior reporting periods.

Penalties assessed by State Boards in these seven cases included monetary fines ranging from \$500 to \$1,500, professional community service, probation, censure and reprimand, supervision of work by another CPA for a period of 2 years, and additional hours of continuing professional education (CPE).

The AICPA expelled one member from the AICPA and the Michigan State Society. In the second case, the CPA was required to attend 96 hours of CPE and submit to a review of a subsequent audit engagement.

Secretary's Committee on Program Integrity

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

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

Evaluation and Resolution System

A working group updated the recommendations of the previous report taking into consideration changes started by the new management team. The report recommended that the Deputy Secretary's Office be responsible for coordinating internal reviews and evaluations of the Department's operations and that Assistant Secretaries assist in developing an annual evaluation plan. The updated report has been provided to the Secretary who has endorsed its recommendation.

Accountability Monitoring

Accountability Monitoring is a concept developed by a previous Departmental Committee in 1980, but not fully implemented by the prior administration. The purpose of the project is to help managers design a monitoring strategy based on the concept of risk management. Managers would revise monitoring handbooks so that high risk participants are selected for review, and high risk activities are more closely examined by monitors instead of technical compliance issues. The Deputy Secretary has expressed strong support for this revision to program participant monitoring. The General Deputy Assistant Secretary for Public and Indian Housing has briefed Principal Staff on this and reported his office's strong endorsement back to the Committee. The Committee will develop a guide for program managers to use in revising their monitoring handbooks.

HUD Hotline

During the past 6 months, 475 complaints were received with 119 complaints tracked by the Hotline and 356 sent to the HUD office having jurisdiction over the area of the complaint. Over one-third of the subjects of the controlled complaints were HUD employees/management. Another third were program administrators.

Complaints closed during the period totalled 104. Of these, 27 percent were found valid and generated corrective actions.

Some examples of closed cases during this reporting period are:

- A mortgagor reimbursed HUD \$4,304 for ineligible Section 235 mortgage loan assistance. The mortgagor reported less income than he actually earned. The reimbursed amount represented a recomputation of all assistance received since the mortgagor lived at the assisted dwelling.
- A Community Development Block Grant subgrantee agreed to correct poor workmanship on a homeowner's residence and to reduce its future allocations from the grantee by \$1,805, the cost of the corrective work. Several work items were deficient such as improperly installed flooring and improperly hung doors.
- A mortgagor's FHA-insured mortgage was called due because the mortgagor falsified the loan application relative to income, place of employment, and intent to occupy.

- A tenant reimbursed the Department \$16,236 for ineligible subsidies received and was removed from the Section 8 program. These actions followed substantiation that the tenant (a Federal employee) failed to report thousands of dollars earned from various other investments through his 10 years of residency at a HUD-assisted dwelling unit.
- Two tenants in separate complaints had their leases cancelled and were removed from a housing assistance program following allegations that they failed to report unauthorized live-ins and their respective incomes.
- Ten Hotline complaints resulted in HUD employees being admonished/counselled for various matters: selling products for personal gain during official working hours; operating a football pool; abusing lunch periods (also resulted in charges to leave); and violating HUD's non-smoking policy.

Chapter 5 — 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 actions taken against HUD employees during this semiannual reporting period.

□ Administrative Actions

- A Field Office Manager was suspended without pay for 30 days for having given preferential treatment to a private organization. The Manager assisted the private organization (a service club) in searching for, identifying, and purchasing a HUD-owned property.
- A Construction Analyst retired from Federal service after being issued a 30-day proposal to suspend which was mitigated to a letter of caution. The Analyst routinely failed to perform work during duty hours for approximately 2 years. The Analyst spent considerable time each day at a bar and restaurant.
- A Supervisory Loan Specialist was given a 1-day suspension for requesting and obtaining the services of a subordinate to assist in responding to an IRS inquiry about a personal business enterprise.
- An Auditor resigned after attempting to obtain official leave under false pretenses and writing numerous checks for insufficient funds.
- A Secretary resigned after making threats of physical abuse to staff members.
- A Loan Specialist received a letter of warning for acting in an unprofessional manner while conducting monitoring reviews. The employee made disparaging remarks concerning other HUD employees as well as people doing business with the Department.
- A Supervisory Management Information Specialist received an official reprimand for failing to take leave when absent and submitting a falsified parking permit.

- An Architectural Chief was verbally admonished for his conduct in using a HUD computer for personal business on government time.
- A Regional Counsel was verbally admonished for pursuing outside legal activity without proper approval and for using government personnel and equipment in connection with the outside activity.
- A Supervisory Loan Specialist was given a letter of reprimand and placed in a nonsupervisory position for incidents reflecting that he made rude, intimidating, and abusive comments to other HUD employees.
- A Supervisory Equal Opportunity Specialist was given an official reprimand for requesting a subordinate to type a personal letter during duty hours with government equipment/supplies.
- A Housing Development Division Director and a Loan Management Property Disposition Branch Chief were given verbal cautions for violations of the Standards of Conduct. The Division Director accepted a set of used golf clubs from the Branch Chief.
- An Equal Opportunity Specialist was required to divest himself of a property he and his wife purchased at a HUD property disposition sale. This divestiture cost the employee approximately \$8,500.

Prosecutive Actions

- A Loan Clerk (Typing) resigned from HUD and was fined \$1,500 after pleading guilty to making a false entry in a HUD file. The employee deleted a property listing from a HUD advertising order and later placed the winning bid for the property at a trustee's sale.

Appendix 1 — Audit Reports Issued

INTERNAL AUDIT REPORTS ISSUED						10/1/90 - 3/31/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE	
			TOTAL	UNSUPPORTED		
HOUSING						
91-AA-122-0001	01/16/91	Access Controls and Operational Efficiencies for the Debt Management and Collection System			822,000	
91-AO-119-0002	02/13/91	Audit of the Single Room Occupancy Program				
91-AT-123-0001	10/12/90	Closing Agent Activities - Property Disposition Branch			200,000	
91-AT-103-0002	10/31/90	Section 8 Project-Based Assistance Program				
91-AT-123-0003	11/21/90	Special Review of Closing Agents Property Disposition Branch **				
91-AT-108-0004	12/12/90	Major Reconstruction of Obsolete Housing Projects Program	46,933			
91-AT-123-0005	03/07/91	Management and Control of Area Management Broker Activities - Property Disposition Branch				
91-CH-112-0003	02/25/91	Servicing of Insured Section 232 Projects Loan Management Branch				
91-CH-123-0004	03/13/91	Monitoring and Control of Area Management Broker Activities - Property Disposition Branch				
91-DE-123-0001	12/14/90	Monitoring and Control over Closing Agents Property Disposition Branch				
91-FW-123-0001	03/27/91	Advertising Agent Contract Property Disposition Branch				
91-PH-123-0002	11/16/90	Special Review of Closing Agents Property Disposition Branch				
91-PH-123-0003	01/18/91	Monitoring and Control of Area Management Broker Activities - Property Disposition Branch				
91-PH-101-0004	03/29/91	Philadelphia Housing Authority Open-End Repair Contracts	108,115	108,115		
91-SE-123-0001	10/31/90	Monitoring of Acquired Properties and Area Management Brokers - Property Disposition Branch			58,096	
91-SF-123-0001	11/30/90	Control over Area Management Brokers Property Disposition Branch				
91-SF-123-0002	03/22/91	Area Management Brokers and Related Service Contractor Activities - Property Disposition Branch	19,442	10,493	385,239	
91-TS-103-0001	10/19/90	Limited Review of HUD's Process for Determining Undue Concentration of Assisted Persons				

INTERNAL AUDIT REPORTS ISSUED					10/1/90 - 3/31/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
91-TS-123-0002	11/09/90	Area Management Brokers Single Family Property Disposition			
91-TS-103-0003	11/20/90	Multi-Region Audit of the Section 8 Project-Based Assistance Program			
91-TS-123-0007	02/27/91	Follow-Up Report on Handling of Proceeds from the Sale of HUD-Owned Single Family Properties			
		9 Audit-Related Memoranda			
COMMUNITY PLANNING AND DEVELOPMENT					
91-AO-156-0001	12/28/90	Multi-Region Audit of the Emergency Shelter Grants Program			
91-CH-156-0001	10/05/90	Supportive Housing Demonstration Program	40,345		
91-CH-141-0002	01/11/91	Community Development Block Grant Program Interim Financing Activities			
91-KC-156-0001	10/09/90	Emergency Shelter Grants Program	76,782	73,182	
91-PH-156-0001	10/19/90	Supportive Housing Demonstration Program			
91-TS-141-0006	01/17/91	Multi-Region Audit of Interim Financing (Floats)			
ADMINISTRATION					
91-KC-166-0002	03/08/91	Survey of Public Housing Operating Subsidy Kansas City Regional Office			
91-SE-166-0002	01/11/91	Title I Debt Management and Collection			
91-TS-166-0004	11/28/90	Multi-Region Audit of the Rapid Housing Payment System	1,717,643	1,717,643	
91-TS-166-0005	11/30/90	Audit of Controls over Microcomputer Hardware and Software Programs			
		5 Audit-Related Memoranda	1,658,520		

EXTERNAL AUDIT REPORTS ISSUED					10/1/90 - 3/31/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
HOUSING					
91-AT-222-1001	10/29/90	Coleman Realty Company Single Family Acquired Properties Atlanta GA			
91-AT-203-1002	11/05/90	Elizabethton Housing and Development Agency, Inc. Section 8 Existing Program Elizabethton TN	7,319		
91-AT-214-1003	11/30/90	Blanco Enterprises, Inc. Management Agent San Juan PR	131,238	102,501	
91-AT-214-1004	12/24/90	C P James Property Management, Inc. Multifamily Management Agent Jacksonville FL	129,827	89,381	
91-AT-212-1006	01/16/91	Williams Apartments - Mortgagor Operations Titusville FL			
91-AT-202-1007	01/24/91	Milton Housing Authority - Safeguarding Assets Milton FL	8,935	8,935	
91-AT-212-1008	01/31/91	Treybrooke Apartments Multifamily Mortgagor Operations Morrisville NC	149,642		60,000
91-AT-212-1009	02/05/91	Palm Place Apartments Multifamily Mortgagor Operations Winter Haven FL	504,033	125,812	
91-AT-202-1010	02/13/91	Salyersville-Magoffin County Joint Housing Authority Safeguarding Cash and other Assets Salyersville KY	37,509	13,751	610
91-AT-202-1011	02/14/91	Mississippi Regional Housing Authority - Weaknesses in Internal Control over Investments and Cash Gulfport MS			
91-AT-212-1012	02/22/91	Hato Rey Psychiatric Hospital - Mortgagor Operations Bayamon PR	5,400,109	2,613,339	1,369,366
91-BO-211-1002	01/10/91	Townsend Elderly Residences, Inc. - Development Cost Audit - Atwood Acres Townsend Town MA	264,646		
91-BO-214-1003	02/06/91	Gatsby Housing Associates Multifamily Management Agent Providence RI	773,427	159,158	

EXTERNAL AUDIT REPORTS ISSUED						10/1/90 - 3/31/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE	
			TOTAL	UNSUPPORTED		
91-BO-214-1006	03/07/91	Housing Services Corporation Multifamily Management Agent Hartford CT				
91-BO-202-1007	03/28/91	Ansonia Housing Authority - Use of Consolidated Supply Program Procurement Method Ansonia CT	335,123			
91-CH-212-1001	10/09/90	Wellesley Townhouses Cooperative Multifamily Mortgagor Operations Romulus MI	3,919	3,919		
91-CH-222-1002	10/25/90	Butcher Real Estate Single Family Property Disposition Program Indianapolis IN				
91-CH-202-1003	11/29/90	Joliet Housing Authority Low-Income Housing Program Joliet IL	6,152			
91-CH-212-1004	12/18/90	Clinton Plaza Apartments and Clinton Plaza Apartments #2 - Multifamily Mortgagor Operations Clinton Township MI	259,481	259,481		
91-CH-222-1007	02/15/91	Pierce and Associates Single Family Mortgage Foreclosure Agent Chicago IL				
91-FW-222-1001	11/19/90	First Title and Mortgage Service Closing Agent Contract Tulsa OK	343,070	210,635		
91-FW-212-1002	02/01/91	EOA Senior House, Inc. Multifamily Mortgagor Operations Little Rock AR	24,557	12,237		
91-FW-211-1003	02/19/91	Ten Oaks Retirement Center Development Cost Certification Lawton OK	505,261	67,594		
91-FW-214-1004	03/21/91	Park Central Management Company, Inc. Management Agent Port Arthur TX	96,642			
91-KC-212-1001	11/09/90	French Village Apartments Multifamily Mortgagor Operations Kansas City MO	2,016,114	214,000		
91-KC-222-1002	11/20/90	John Hicks Real Estate - Area Management Broker St. Louis MO				
91-KC-212-1003	01/04/91	Parkgate Apartments Multifamily Mortgagor Operations Kansas City MO	664,700	157,000		

EXTERNAL AUDIT REPORTS ISSUED						10/1/90 - 3/31/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE	
			TOTAL	UNSUPPORTED		
91-KC-204-1005	03/27/91	Housing Authority of Kansas City Technical Assistance Grants to Resident Management Corporations Kansas City MO				
91-NY-204-1001	12/06/90	Franklin Township Housing Authority Comprehensive Improvement Assistance Program Somerset County NJ			115,167	
91-PH-222-1001	10/22/90	T. J. McCarthy Real Estate Area Management Broker Operations Philadelphia PA	3,581	3,581		
91-PH-211-1003	01/04/91	Regent Street Housing Multifamily Development Cost Philadelphia PA	1,120,398	63,113		
91-PH-202-1004	01/16/91	Altoona Housing Authority - Section 8 Existing and Public Housing Programs Altoona PA	110,171			
91-PH-209-1005	03/21/91	Pittsburgh Housing Authority Comprehensive Improvement Assistance Program Pittsburgh PA	1,739,424	1,146,466		
91-PH-209-1006	03/29/91	Allentown Housing Authority Housing Development Corporation Activities Allentown PA	136,112			
91-SF-229-1002	03/22/91	El Granito Foundation - Property Disposition Porterville CA				
91-SF-222-1003	03/28/91	Mundy Realty - Area Management Broker Phoenix AZ	245,571	128,308		
91-SF-229-1004	03/29/91	Benefact Division, R F Norman Corporation Single Family Mortgage Foreclosure Contractor Laguna Hills CA	22,320			
91-TS-221-1001	12/06/90	Tillman Smith & Company, Inc. Supervised Mortgagee Columbia SC	11,698			
91-TS-221-1002	01/30/91	Horizon Savings Association - Supervised Mortgagee Houston TX				
91-TS-221-1003	02/12/91	Citadel Mortgage Company - Coinsured Mortgagee/Mortgage-Backed Securities Issuer San Antonio TX	355,597			
91-TS-211-1004	02/20/91	Waterford Associates Coinsured Retirement Service Centers Melbourne FL	3,413,321		1,429,300	

EXTERNAL AUDIT REPORTS ISSUED						10/1/90 - 3/31/91	
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE		
			TOTAL	UNSUPPORTED			
		2,050 Reports Prepared by Independent Auditors and Other Federal Agencies	5,874,877	4,090,318			
		9 Audit-Related Memoranda	128,729	936			
COMMUNITY PLANNING AND DEVELOPMENT							
91-AT-241-1005	12/28/90	City of Moss Point - Limited Review of Community Development Block Grant Program Moss Point MS	408,910	405,060			
91-BO-242-1001	11/08/90	Town of Brattleboro Urban Development Action Grant Brattleboro VT					
91-BO-241-1004	02/07/91	City of Waltham Community Development Block Grant Program Waltham MA	45,624				
91-CH-241-1005	02/08/91	City of Taylor Community Development Block Grant Program Taylor MI	76,392	76,392			
91-CH-259-1006	02/13/91	City of Chicago - Rental Rehabilitation Program Chicago IL	2,122,604	75,000			
91-FW-241-1005	03/29/91	Community Development Block Grant Program Control over Program and Subrecipient Activities Dallas TX	1,819,540	1,690,831			
91-KC-241-1004	02/06/91	Community Development Block Grant - Review of Program Income and Miscellaneous Revenues Kansas City MO	724,675				
91-NY-241-1006	02/25/91	Town of Babylon - Community Development Block Grant Program-Administrative Costs Babylon NY	1,232,005	1,185,101	400,000		
91-PH-241-1002	12/27/90	Community Development Block Grant Program Chester PA	1,784,817	1,213,189			
91-SF-249-1001	02/28/91	City of San Diego - Community Development Block Grant Program-Program Income San Diego CA	1,343,582	679,871			
		588 Reports Prepared by Independent Auditors and Other Federal Agencies	540,460	215,460			
		20 Audit-Related Memoranda	2,823				
ADMINISTRATION							
91-AO-262-1001	03/14/91	National Association of Neighborhoods Audit of Cooperative Agreement Washington DC	237,438	144,092			
91-AT-262-1013	03/27/91	Pro-Mark, Inc. - Final Cost Audit Columbus MS	93,086	83,404			

EXTERNAL AUDIT REPORTS ISSUED					10/1/90 - 3/31/91	
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE	
			TOTAL	UNSUPPORTED		
91-DE-263-1001	11/14/90	Hamilton & Sweeney Advertising, Inc. Interim Cost Audit Denver CO	75,071	69,378		
91-NY-262-1002	12/24/90	Northwest Bronx Community Clergy Coalition Advisory Report on Final Costs Submitted New York NY	394	394		
91-NY-262-1003	12/24/90	Lower East Side Catholic Area Conference Advisory Report on Final Costs Submitted New York NY	5,999	5,999		
91-NY-262-1004	02/07/91	Interracial Council for Business Opportunity Advisory Report for Final Costs Submitted New York NY	8,646	8,646		
91-NY-262-1005	02/07/91	52 Association for the Handicapped, Inc. Advisory Report for Final Costs Submitted New York NY	84,456	84,456		
		29 Reports Prepared by Independent Auditors and Other Federal Agencies			40,617	
		1 Audit-Related Memorandum				

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
P-91-1	Public Housing Agency Commissioners

Other: Integrity in Public Service - A Guide to the Standards of Conduct (March 1989)

For Copies Write to:

DIRECTOR, PUBLICATIONS AND AWARENESS DIVISION
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 WASHINGTON, D.C. 20410-4500

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