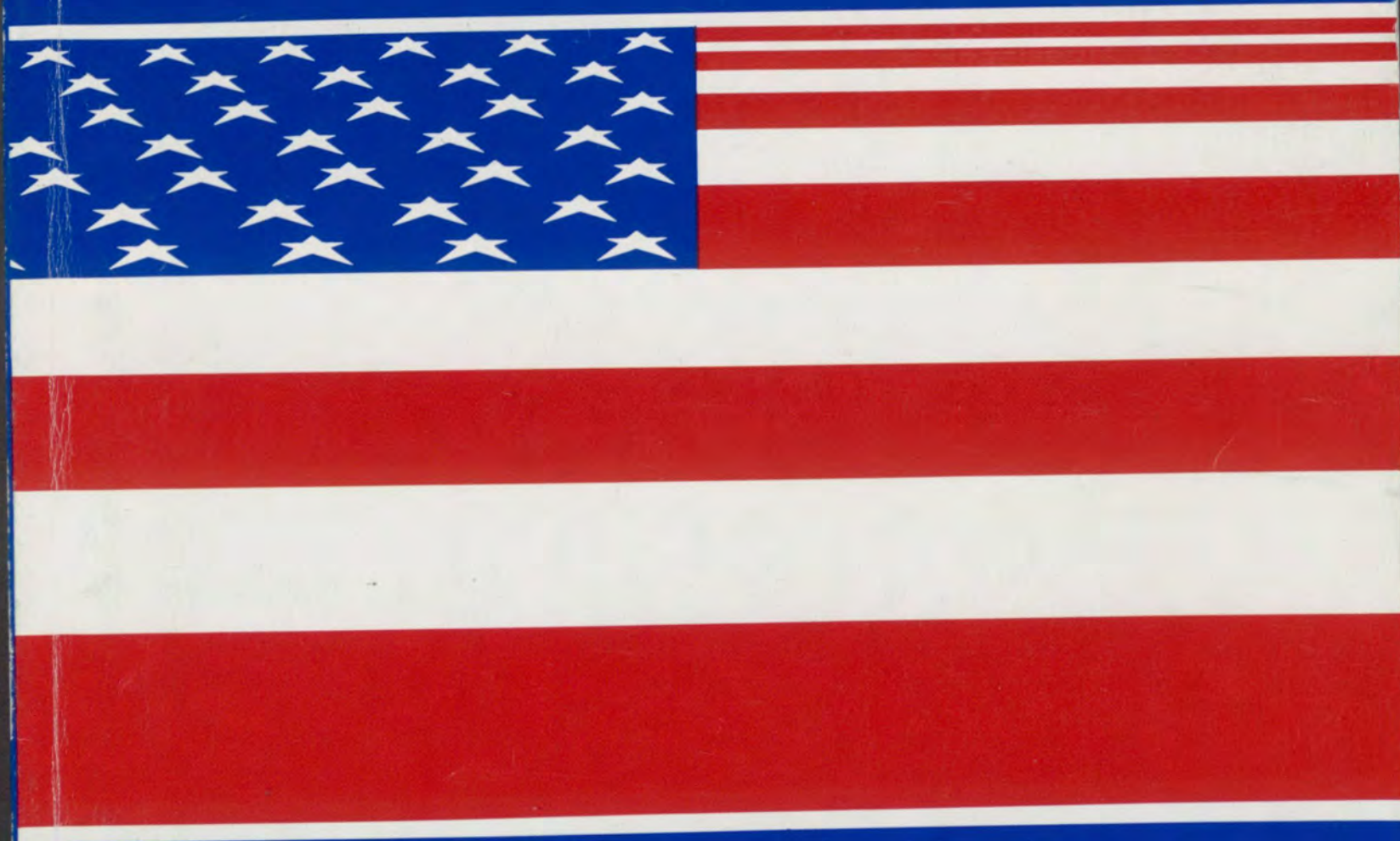


Report No. 26
For the 6-month
Period ending
September 30, 1991

Inspector General's Report to the Congress



PROFILE OF PERFORMANCE

	4/1/91- 9/30/91	FY 1991
Audit and Investigation Activities		
Cash Recoveries/Savings ¹	\$55,957,093	\$113,114,133
Cost Efficiencies Realized ¹	\$2,154,870	\$32,901,794
Commitments to Recover Funds ¹	\$33,621,766	\$85,953,431
Cost Efficiencies Sustained ¹	\$3,235,101	\$29,995,277
Total Fines Levied	\$533,485	\$998,822
Indictments	203	371
Convictions	177	351
Suspensions of Persons/Firms Doing Business with HUD	94	191
Debarments of Persons/Firms Doing Business with HUD	126	248
Voluntary Exclusions of Persons/Firms Doing Business with HUD	0	4
Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board	2	3
Subpoenas Served	106	151
Material Weaknesses Reported	4	9
Personnel Actions Initiated Against HUD Employees	11	29
Program Integrity Activities		
Awareness Publications Issued	0	1
Hotline Complaints Opened	587	1,062
Proposed Legislation and Regulations Reviewed	135	279

Note 1: Includes amounts due to HUD program participants



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

November 27, 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:

Today I am transmitting to Congress the 26th Semiannual Report of the Department of Housing and Urban Development's Inspector General. This report covers the period from April 1, 1991, through September 30, 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.

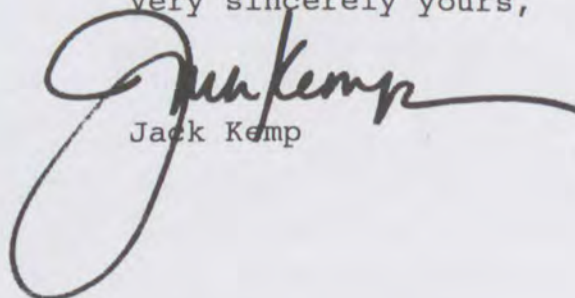
As I read this document, I was particularly struck by the contrast between this Semiannual Report, and the one that was transmitted just two years ago. At that time, the Department was still reeling from the almost simultaneous public disclosures of the HUD scandals that became familiarly known as "Robin HUD," "Mod Rehab," and "Coinsurance." In these 24 months, HUD has made significant strides in its efforts to reform its programs and operations.

On June 12, 1991, I testified before the House Subcommittee on Employment and Housing on the status of the HUD Reform Act of 1989, and the many important reform measures in progress. The Subcommittee gave the Department high marks for these efforts. The ethical environment and rational decision-making process that now exist preclude political favoritism in any form, and offer assurance that there will be "no more Robin HUDs." Yet, as this Semiannual Report chronicles, more remains to be done before problems that have confronted this Department for years are completely resolved. I am confident that the Department will ultimately succeed in this endeavor. However, as Inspector General Adams notes in his report, HUD must be given the significant resources, flexibility and time needed to implement meaningful solutions.

Now, the Department must continue to move forward aggressively to address its basic mission of providing decent, safe, and sanitary housing for millions of Americans. Innovative programs have been designed to accomplish this while providing low-income families opportunities for homeownership and affordable housing never before available. As these new programs come on line, the Office of Inspector General will play a critical role in providing timely assessments of their effectiveness, and ensuring that they are free from fraud and abuse.

I am proud of the progress that HUD has made during the past two years to reform its operations, to restore public confidence in its management, and to revitalize its programs. We will continue to build upon the momentum that has been created. As we go forward to meet the challenges that lie ahead, you have my solemn pledge to faithfully and fairly carry out the responsibilities entrusted to me as Secretary of Housing and Urban Development.

Very sincerely yours,

A handwritten signature in black ink, appearing to read "Jack Kemp", with a large, stylized flourish extending from the bottom left of the signature.

Jack Kemp

Inspector General's Report to the Congress

Report No. 26
For the 6-month period ending September 30, 1991

U.S. Department of Housing and Urban Development

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Inspector General's Message to the Congress

During this semiannual period, HUD realized cash recoveries, savings and cost efficiencies totalling \$58.1 million as the result of our audits and investigations. At the same time, we continued to assess the Department's progress in implementing reforms needed to address the long-standing and pervasive problems that caught both public and Congressional attention in the wake of the "HUD Scandals."

Unquestionably, the Department has instituted major changes in the way policies are developed and programs are administered. Strong measures were taken to address vulnerabilities that came to light in the "Scandals." "Mod Rehab," "Coinsurance," and "Robin HUD" became the symbols for HUD's past mismanagement practices. As a result, the Section 8 discretionary funding mechanism has been revamped to ensure the competitive allocation of housing assistance. The Coinsurance Program was cancelled, and a replacement program is in place. Field Office staff are more closely monitoring property disposition activities and closing agents. A new automated system to assist in this effort became operational nationwide on October 1, 1991.

There also is a more rational and structured approach to doing business. Mechanisms to deal with cross-cutting issues have been established and, more importantly, implemented. Specifically, the Office of the Chief Financial Officer provides an organizational component having responsibility for significant cross-cutting issues relating to financial management activities, management control and accountability. The Information Resource Management Planning Board, composed of senior management officials, allocates scarce systems development monies to Departmental priorities established by the Secretary and Deputy Secretary.

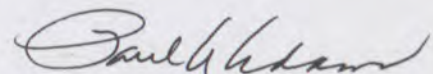
Although significant progress has been made throughout HUD, it is not yet clear to what extent the actions to date have resolved many of the long-standing problems. We have a number of activities ongoing that are designed to help address this question. As required by the Chief Financial Officers Act, our first annual audits of the Department's financial statements are underway for Fiscal Year 1991. Currently we are performing a comprehensive evaluation to determine, among other things, the adequacy of management's actions to incorporate appropriate controls into new programs and systems. Also, we have verified the status of several material weaknesses reported by the Department as corrected in its December 31, 1990 Assurance Statement submitted in compliance with the Federal Managers' Financial Integrity Act. More verifications are

planned for Fiscal Year 1992. Once we have completed all of these activities, we will be in a better position to provide a comprehensive assessment of the HUD reforms and problem areas we have previously identified.

If HUD is to build upon its management endeavors and ultimately succeed in its uphill struggle to overcome the years of inattention to and inaction on many very serious problems, Congress must provide adequate resources. In previous Semiannual Reports as well as in Congressional hearings, I have expressed my concerns about the inadequacy of Departmental staffing.

Congress seems to be sending the Department mixed signals. On the one hand, there is a clear message that HUD must reform those policies and practices that led to the scandals of 1989. Indeed, Congress moved quickly to unanimously approve a package of wide sweeping reform measures known as the HUD Reform Act of 1989. Also, in late 1990, Congress passed the Chief Financial Officers Act to instill a greater measure of accountability throughout government programs and operations. On the other hand, the recent Congressional actions on the Department's Fiscal Year 1992 budget appear to run counter to these positive actions. Budgetary restrictions on reprogramming funds, and reduced resources for monitoring, could seriously erode the Department's ability to manage and effectively administer its programs as the public and Congress have demanded. While I am pleased that the Congress has provided an appropriate funding level for my Office, I believe that without sufficient Departmental staffing, my audit and investigative resources will be strained as we are called upon to fill the gap between monitoring needs and resources. At this critical juncture in the Department's efforts to clean up, revitalize, and move forward, a familiar axiom comes to mind: "You get what you pay for."

Since becoming Inspector General in 1985, I have seen many changes in HUD's programs, operations, environment, and culture. However, it is only over the past 24 months that I have witnessed dynamic changes in systems and managerial accountability that I believe will form a sound foundation for HUD to carry out its mission more effectively through the 1990's. Be assured that my Office will continue to work with Secretary Kemp and the Congress to overcome the problems that have plagued the Department for far too long.



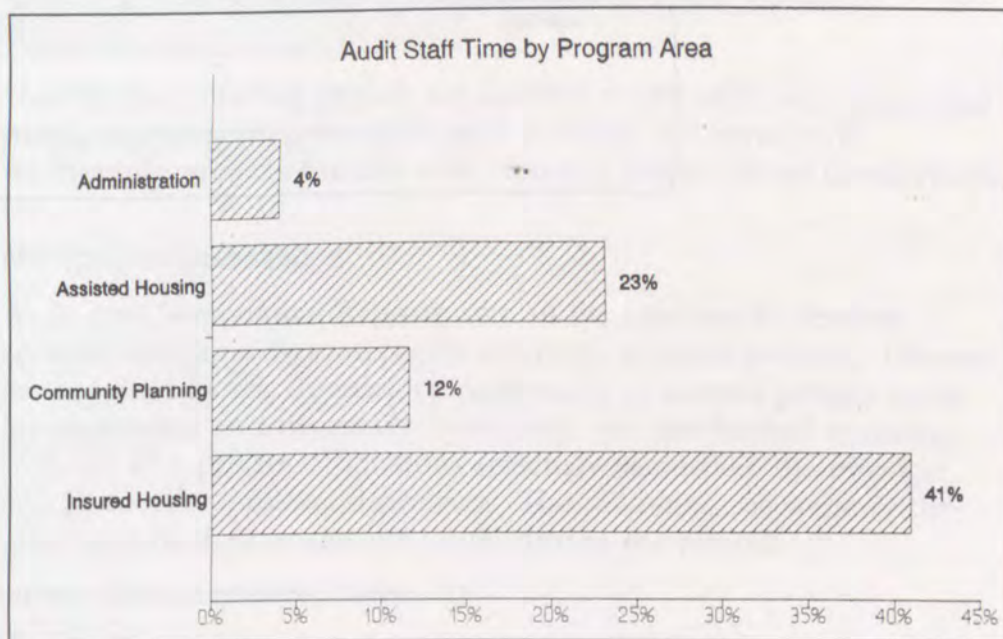
Paul A. Adams
Inspector General

Chapter 1 — Audit

This Chapter highlights significant problems and deficiencies found in our audits over the past 6 months. In cases where actions have been initiated or completed on our audit recommendations, we have included these actions. In other cases, a formal management decision has not been made and is not yet due.

During this period, we issued 17 reports on internal HUD operations and 84 external audit reports on grantees and program participants. The chart below shows the distribution of reports by program area.

A large proportion of audit resources was devoted to insured housing, taking 40 percent of the total available hours.

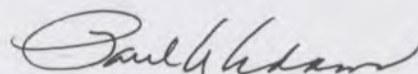


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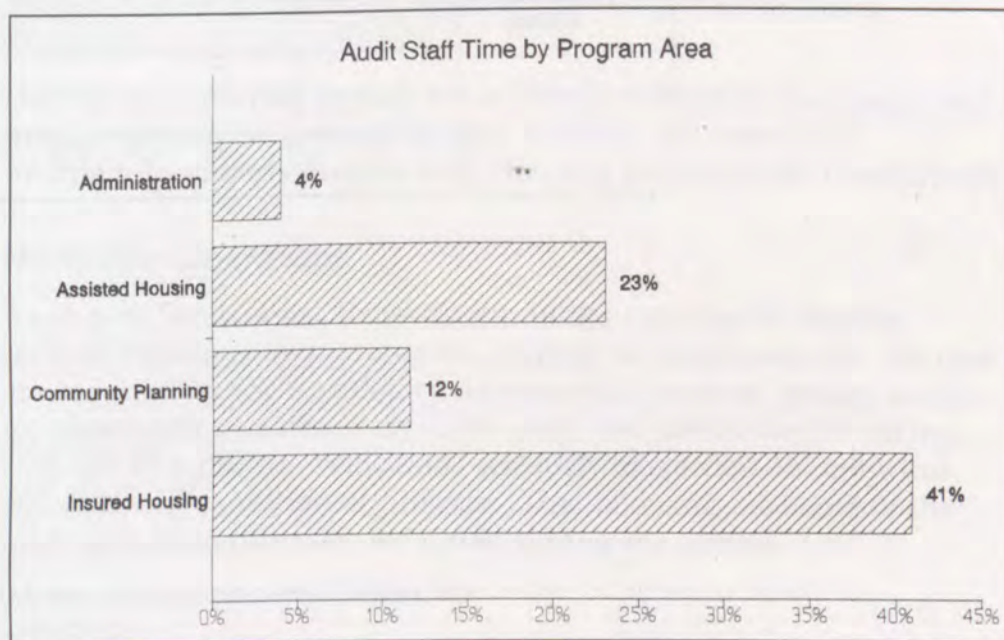
Paul A. Adams
Inspector General

Chapter 1 — Audit

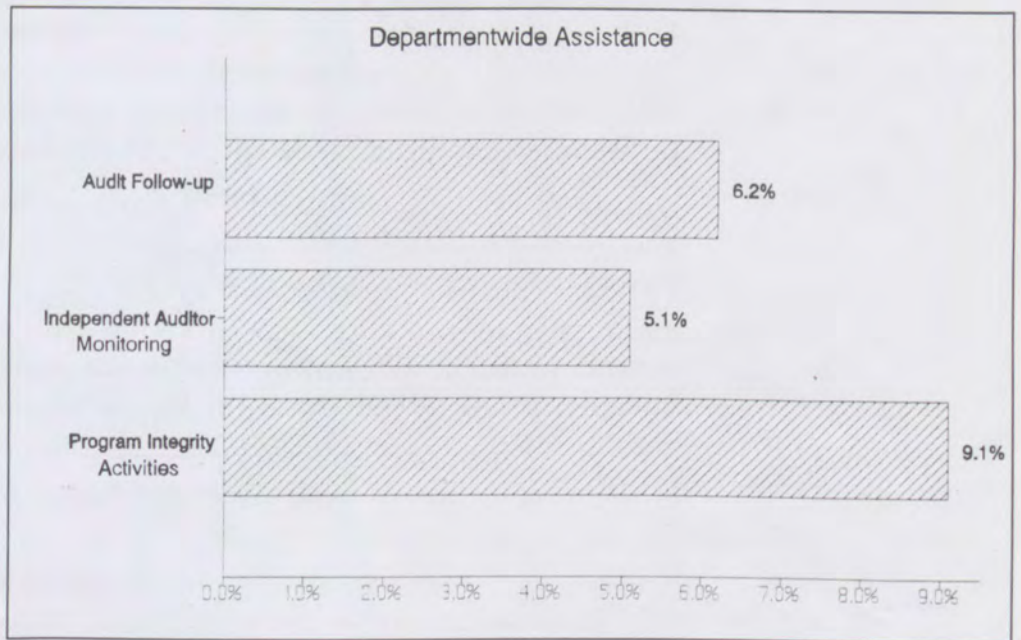
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Departmentwide assistance also used a significant portion of audit resources, as shown below.



□ Multifamily Housing Programs

HUD administers several mortgage insurance programs that provide insurance to lenders to encourage them to make loans to developers and builders who construct or rehabilitate multifamily housing projects. Under these programs, HUD insures financial institutions (mortgagees) against loss on a mortgage if a borrower (mortgagor) defaults during the life of the mortgage loan. If a mortgagor defaults, the mortgagee can assign the mortgage to HUD, making HUD the mortgagee responsible for servicing. HUD can also take legal action to take possession of a property and become owner. In some cases, HUD subsidizes the rents for eligible low-income households living in HUD-insured multifamily projects through the Section 8, Rent Supplement, and Rental Assistance Payments Programs.

During the reporting period, we audited multifamily mortgagor and management agent operations; and grantees and owners of multifamily projects funded with Housing Development Grant funds.

Mortgagor Operations

As in past Semiannual Reports, our audits continue to disclose serious violations by mortgagors (owners) of HUD projects. Owners are required by the Regulatory Agreement to expend project funds for reasonable and necessary items only, and are limited in taking cash out of a project. Violations seriously jeopardize the physical and financial condition of projects. The following are some of the more serious deficiencies we found during the period.

Hunters Glen Apartments, Delran, NJ

Our audit, conducted at the request of the Director, HUD Office of Multifamily Housing Management, found that the owner of Hunters Glen Apartments stopped making mortgage payments as of January 1989 because it believed that escrow funds held by the mortgage servicer were due the project. This resulted in a default of the mortgage; payment of a mortgage insurance claim of over \$29 million; and pending foreclosure action. The project was improperly charged for legal fees and costs pertaining to: (1) an attempt by the owner to refinance the mortgage; (2) a lawsuit instituted by the owner against the Government National Mortgage Association and its mortgage servicer; and (3) unnecessary services obtained by the owner.

We recommended that HUD consider administrative sanctions against the owner; direct the owner to bring the mortgage current.

and reimburse the project for all ineligible costs. (*Report No. 91-TS-212-1008*)

Burton Towers and Varick Homes, Newburgh, NY

These audits were conducted pursuant to a Congressional inquiry and a request by the Acting Regional Director of Housing. The owner and/or agent of Burton Towers made unauthorized withdrawals of \$322,827 from project accounts, and transferred these funds to another HUD-insured project known as Varick Homes. A total of \$261,097 of these withdrawals remains unpaid. At the time of the withdrawals, there was an identity-of-interest between the agent and the president of Varick Homes. The owner and/or agent also failed to control and monitor project costs, resulting in ineligible or unsupported costs of \$190,820, and the owner paid management fees of \$142,860 to the agent for inadequate management services. We recommended that all ineligible costs be repaid to the project and that debarment action against the agent be considered. The New York Regional Office disallowed the unauthorized withdrawals and ineligible/unsupported project costs. The management fees were allowed. The New York Regional Office is also taking action to recover the disallowed costs, and Headquarters has instituted debarment action against the agent. (*Report No. 91-NY-212-1008*)

The owner of Varick Homes disregarded HUD directives contained in a limited denial of participation wherein HUD denied the owner's president from participation in HUD programs. The president continued to be involved with project administration and management activities. We also questioned \$58,928 in management fees and found other ineligible costs totalling \$110,642. We recommended that HUD consider additional sanctions including debarment of the owner's president and repayment of ineligible costs. The New York Regional Office disallowed the ineligible project costs and allowed the management fees. The office is taking action to recover the disallowed costs. Headquarters has initiated debarment action against the owner's president. (*Report No. 91-NY-212-1009*)

**Parklane Apartments, Ltd., and Scott County Apartments, Ltd.,
Danville/Waldron, AR**

Based on the results of our audit of Parklane Apartments, Ltd., conducted at the request of the HUD Little Rock Office Manager, we expanded our review to include Scott County Apartments, Ltd. Both projects are managed by the same general partner, who made \$438,272 in ineligible disbursements from both projects to himself and others, and was unable to demonstrate that \$266,973 of disbursements were for necessary project expenses.

We recommended that the improper payments be recovered and that the partner be terminated from managing the projects. A limited denial of participation was imposed on the partner and the partner repaid \$304,500 to the projects' operating accounts. The limited partners of Parklane Apartments filed suit against the partner for inappropriate use of project revenues. In addition, the general partner filed a petition for bankruptcy. HUD placed the two projects under professional management and filed a motion to allow HUD to pursue recovery of improperly used operating funds. (*Report No. 91-FW-212-1006*)

Cathay Manor, Los Angeles, CA

The owner of C.C.O.A. Housing Corporation, doing business as Cathay Manor, mishandled \$1.3 million of project reserve funds by not depositing them in accounts under the control of HUD, and not investing them in fully insured accounts. As a result, funds intended for future project replacement items have been diverted or used for ineligible items. While the owner understood the requirement for placing funds in fully insured accounts, it disregarded the requirement because it felt it was too time consuming.

We recommended that HUD require the owner to place all project reserve funds into restricted bank accounts, and invest all reserve funds into either Treasury securities, securities issued by a Federal agency or accounts which are fully insured by the Federal Government. (*Report No. 91-SF-212-1006*)

Hill Manor Apartments, Newark, NJ

Our audit of Hill Manor Apartments, conducted at the request of the HUD Newark Office Manager, disclosed that the owner did not make its final contribution to the project in accordance with a provisional workout arrangement. Since the funds were to be used to make needed repairs, the physical condition of the project was adversely affected. Other deficiencies included lack of documentation for nearly \$355,000 in project costs, costs charged to the project that should have been absorbed by the management agent, and excessive management agent fees.

We recommended that HUD take necessary legal action to obtain the balance of the owner's contribution, and that any costs deemed ineligible and any excess fees be reimbursed by the management agent. (*Report No. 91-NY-211-1011*)

Management Agents

Past Semiannual Reports have disclosed serious problems with management agents' operating of multifamily projects, causing both physical and financial problems for the projects involved. In our last Semiannual Report, we reported on our multiregional audit which found that the approval and monitoring of management agents needs to be improved because management agent violations were not being detected during HUD monitoring (Report No. 91-TS-111-0014). While HUD is taking steps to remedy the situation, the problems persist. Following are examples of management agent audits performed during the last 6 months.

First Hartford Realty Corporation, Manchester, CT

At the request of the Director of Housing Management in the HUD Hartford Office, we audited First Hartford Realty Corporation, an identity-of-interest management agent for nine HUD-insured projects, and found the agent diverted over \$2 million in project assets; incurred unreasonable and unsupported costs of \$476,777; and improperly used \$275,618 of tenant security deposits. The agent's internal control system was inadequate, and its accounting system did not adequately document that cash transfers from project fund accounts to identity-of-interest affiliated companies were limited to necessary and reasonable expenses.

We recommended that the agent be removed from control of the projects, that administrative sanctions be taken to assure that the diversions are repaid, and that sanctions be imposed to prevent the agent from future participation in HUD programs. On October 8, 1991, a request was submitted to Headquarters that the agent be suspended or debarred. The Field Office has advised the agent to repay the diverted project assets to the project's operating account. (Report No. 91-BO-214-1021)

Phoenix Management Services, Raleigh, NC

We reviewed four test projects of Phoenix Management Services, management agent for 80 HUD-insured or HUD-held projects, and found that Phoenix made ineligible cash distributions of \$1.2 million, failed to maintain its projects in good repair and condition, and did not comply with its procurement requirements for 56 of 61 test procurements involving purchases of \$1.7 million. Significant improvements also need to be made in complying with HUD's occupancy requirements relating to tenant recertifications and eligibility.

We recommended that Phoenix improve its management procedures, reimburse ineligible and unsupported costs, and repay ineligible

distributions of surplus cash, and that HUD consider taking appropriate administrative sanctions. The Assistant Secretary for Housing-Federal Housing Commissioner has instructed Philadelphia and Atlanta Regional officials to take corrective actions to implement our recommendations. (*Report No. 91-TS-214-1005*)

Florida Servicing and Management Corporation, San Juan, PR

At the request of the HUD Caribbean Office Manager, we audited Florida Servicing and Management Corporation. We found that the owner and agent charged \$1.8 million of excessive costs to two HUD-insured projects for services provided by undisclosed identity-of-interest firms between 1985 and 1990. According to HUD's 1990 physical inspection reports, the projects were not adequately maintained. The agent made unauthorized distributions to the owner and itself amounting to \$195,236.

We recommended that HUD replace the management agent, require the agent or owner to reimburse the projects for excessive charges, evaluate the justification of procuring*so many services from identity-of-interest firms, and advise against distributing cash to owners before determining the surplus cash available. (*Report No. 91-AT-214-1020*)

HEDCO, Ltd., Central Falls, RI

HEDCO, Ltd., an identity-of-interest management agent managing five HUD-insured projects, did not comply with the Regulatory Agreement, management certifications, or HUD regulations. HEDCO failed to substantiate \$874,351 of project operating expenses; encumbered the projects with \$1 million of questionable accounts payable; charged excess management fees; and failed to establish an adequate financial management system.

We recommended that HUD require HEDCO to substantiate or remove all questioned costs and accounts payable, repay excess management fees, and establish an adequate financial management system. HUD management is in the process of implementing our recommendations and has requested advice and guidance from Headquarters and Regional Counsel. (*Report No. 91-BO-212-1022*)

Royce Enterprises, Ltd., Campbell, CA

Royce Enterprises, Ltd., agent for the Florin Meadows Apartments I and II, spent over \$1.2 million for ineligible and unsupported costs during a 2-year period. Most of the ineligible costs personally benefitted the owners or the agent. The agent could not support an additional \$469,205 in expenditures. The project owners, without approval, encumbered the projects with a second mortgage of \$1.5 million. Since only \$727,586 of that amount was used for project

expenses, the remaining \$772,414 represents an unauthorized reduction in the owners' equity in the projects.

We recommended that HUD require the agent and the owners to cease using project funds for invalid expenses, and that all ineligible and unsupported costs be repaid. We also recommended that administrative sanctions be taken against the owner and/or the agent where appropriate. (*Report No. 91-SF-214-1007*)

Sunjay and Company, Kansas City, MO

Owner/management agent Sunjay and Company improperly withdrew \$253,000 from four project accounts, and did not properly maintain two projects, manage tenant security deposits, or support nearly \$200,000 of expenditures. One project's mortgage was in default and another foreclosed. The foreclosed project has asbestos contamination that the owner was aware of at the time he filed a coinsurance application but did not report; it will cost about \$80,000 to correct.

We recommended that the Department find new management for the projects, determine responsibility for the asbestos hazard and take appropriate civil action to recover losses. (*Report No. 91-KC-214-1008*)

Community Management Corporation of Maryland, Rockville, MD

Our audit, conducted at the request of the HUD Richmond Office, found that Community Management Corporation, an identity-of-interest management agent/owner, disregarded or intentionally deviated from HUD regulations and requirements resulting in \$564,712 of ineligible costs and \$1.1 million of unsupported costs. The corporation failed to repair two projects as instructed by HUD, received excess utility payments from tenants when HUD was providing utility allowances, and received excessive management fees for several projects.

We recommended repayment of ineligible and unsupported costs and reimbursement of tenants for excess utility costs paid. (*Report No. 91-PH-214-1009*)

Housing Development Grants

Grantees were not monitoring owner performance and owners were not complying with Housing Development Grant (HDG) Program requirements. As a result, grant funds were misused and the physical condition of projects jeopardized.

The HDG Program is intended to increase the availability of rental housing for lower-income people in areas where there is a severe shortage of such housing. Development grants are used to help

private developers construct or substantially rehabilitate rental housing in those areas. All projects assisted by development grants must reserve at least 20 percent of the units for families with incomes at or below 80 percent of the median income of the area. Owners must agree to keep the assisted units available for occupancy by lower-income tenants for 20 years and must agree not to convert the units to condominiums during the 20-year period.

Following are deficiencies we found at three HDG projects we audited during the reporting period.

Plantation Oaks Apartments, Savannah, GA

The partners of Plantation Oaks used various schemes, including the manipulation of Federal funds, to avoid making their equity contribution and to convert project funds for personal use. The partners: (1) encumbered the project with \$1.2 million in unauthorized debt; (2) claimed their unauthorized debt was their equity contribution; (3) misappropriated \$644,255 in Federal grant funds to pay themselves and the contractor for advances and ineligible costs; (4) used an identity-of-interest contractor to convert \$365,734 of development funds to their private use; and (5) sold a limited interest in the project for \$309,375 without complying with contractual equity requirements.

We recommended that all excess payments and ineligible costs be repaid, that the partners be debarred and that HUD consider not closing the loan. We also suggested that if the loan is closed, all project debt should be removed and the partners contribute their required equity. The Regional Administrator decided to close the loan, issue limited denials of participation to the partners and require that \$100,241 be reimbursed to the project. Final decisions on debt removal and equity contributions remain to be made. (*Report No. 91-AT-216/211-1018*)

Davison Square Apartments, Pittsburgh, PA

In auditing costs claimed by the general contractor and owner of Davison Square Apartments, we found \$1.4 million in ineligible costs. The owner contributed only \$55,528 of the required equity of \$577,938 and borrowed \$239,400 of additional funds, secured by liens against the project, to pay for costs beyond those financed by the HDG-funded loan and the FHA-insured mortgage. The owner also contributed no equity toward HDG-eligible projects costs. As a result, the grantee drew down \$606,544 more in HDG funds than was appropriate.

The grantee did not effectively monitor the owner's performance. The owner, in turn, did not comply with HDG occupancy

requirements. There is no assurance that tenants selected for HDG units were eligible. The owner also failed to disclose an identity-of-interest with the masonry and plumbing subcontractors. The \$842,468 charged to project costs for the masonry and plumbing work may include ineligible costs and/or excessive profits, which would inflate the HUD-insured mortgage.

We recommended that the grantee reimburse HUD \$606,522, and develop procedures to ensure both grantee and owner comply with program requirements. The owner should pay the grantee \$577,938 and reimburse the project \$239,400, representing the equity requirement and unnecessary additional project debt financing. The grantee should also obtain cost certifications from the identity-of-interest subcontractors and reimburse any profits determined unallowable. *(Report No. 91-PH-219-1014)*

South Meadow Development, City of Burlington, VT

The project owners' certification claimed \$333,123 in expenses classified as a developer's fee. The grantee accepted these costs and included them in the grant amount, contrary to HUD program requirements. The owners also made a \$161,000 distribution from their equity prior to project completion. Contrary to the Grant Agreement, the grantee used nearly \$70,000 in interest earned on grant funds during project construction for administrative costs and public service activities.

We recommended that HUD instruct the grantee to document the developer's fee; determine the fee's eligibility; and determine the final grant amount based on eligible costs and the owners' equity requirements. The Regional Office has obtained the developer's documentation and is working with Headquarters to resolve several issues. *(Report No. 91-BO-211-1014)*

□ Public and Indian Housing

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

Indian Housing Programs provide aid to Indian housing authorities for housing and related facilities for lower-income Indian and Alaskan natives. Indian housing authorities develop and operate

rental and homeownership opportunity projects. HUD provides technical as well as financial assistance.

Our audit work during the last 6 months focused on application processing in the Public Housing Drug Elimination Program; Resident Management Technical Assistance Grants; lead-based paint abatement insurance; Indian housing activities in Minnesota and New Mexico, and public housing agency activities.

Drug Elimination Program

Grant Application Processing

Our audit was performed at HUD Headquarters and the San Francisco Region and covered PHDEP application processing for Fiscal Year 1990. We found that the overall system for processing and funding PHDEP applications is generally adequate. However, some aspects of the system can be improved in order to ensure that PHDEP funds will be provided to applicants timely and appropriately.

Various aspects of the Public Housing Drug Elimination Program (PHDEP) application and funding process need to be improved. HUD also needs to improve its control and monitoring of public housing agencies' and Indian housing authorities' (PHAs') use of multiple funding sources for funding drug elimination activities.

The PHDEP was authorized under the Anti-Drug Abuse Act of 1988. The Act authorizes HUD to make grants to PHAs for use in eliminating drug-related crime in targeted housing projects. The PHAs may use the grants for such items as employment of security personnel; physical improvements which are specifically designed to enhance security; employment of individuals to investigate drug-related crime and provide evidence relating to any such crime in administrative or judicial proceedings; the provision of training, communications equipment, and other related equipment for use in cooperation with local law enforcement officials; and programs designed to reduce the use of drugs in and around PHA projects.

HUD can improve the process by revising the procedures for third reviews (when Regional and Field Office scores in rating and ranking program applications differ by more than 20 points); providing guidelines for processing applications that exceed maximum allowable amounts; and making grant award limits for the largest PHAs equitable with smaller PHAs. In addition, HUD needs to provide PHDEP funds more timely to PHAs.

HUD also needs to improve its control and monitoring of PHAs' use of multiple program sources for funding drug elimination activities. In addition to the PHDEP, PHAs may use other HUD and non-HUD program sources for drug elimination activities. Although our audit did not encompass any review to determine the existence of duplicate funding, we nevertheless believe that the use of multiple funding sources increases the potential for duplicate, overlapping, and generally inefficient funding. Both the PHDEP and the Comprehensive Improvement Assistance Program overlap in their approach to funding drug elimination activities.

We recommended that the Office of the Assistant Secretary for Public and Indian Housing:

- revise application rating procedures;
- establish guidelines for processing and ranking PHA applications that exceed maximum allowable amounts;
- revise maximum award amounts of the largest PHAs to ensure their funding is equitable relative to smaller PHAs;
- revise funding and reporting procedures to ensure funds are provided within a specified minimum timeframe; and
- either confine all public housing drug elimination funding to the PHDEP or take measures to ensure that all programs providing such funding are more complementary.

The Assistant Secretary expressed general agreement with most of our recommendations and indicated that his office would initiate, or currently is initiating, appropriate corrective actions. (*Report No. 92-TS-101-0003*)

Resident Management Corporations

Technical Assistance Grants

HUD, through its Office of Resident Initiatives, processed and awarded resident management technical assistance grants (TAGs) for Fiscal Year 1990 in a satisfactory manner. However, HUD could improve its oversight and control over the TAG application scoring and selection process and increase public housing agencies' (PHAs') involvement in the TAG process.

The Housing and Community Development Act of 1987 established a new Public Housing Resident Management Program. The program's intent is to encourage increased resident management of public housing projects to improve tenants' living conditions. To

participate in the program, residents must formally organize by establishing an elected resident council (RC). Before executing a resident management contract with a PHA, the RC must approve the establishment of a nonprofit resident management corporation (RMC). The Secretary of HUD is authorized to provide financial aid for RCs/RMCs to obtain technical assistance. This assistance may be used for developing resident management entities, developing management capability, and identifying and obtaining social support needs for residents of public housing projects.

We found that the Headquarters evaluation panel's final ranking scores for 13 of the 25 TAG applications that we reviewed were not made according to established procedures in that the final scores were not based on an average of the two required ratings. Also, due to clerical errors, two applications were selected for funding that had rating scores slightly below other applications that were not funded. The Office of Public and Indian Housing, however, considered the applications acceptable for funding.

Additionally, under current TAG procedures, PHAs are encouraged but not required to participate in the application preparation process. Because PHAs having management contracts with RC/RMCs are responsible for overseeing and working closely with such groups, we believe that PHA input during the application preparation process could improve controls over grantee applications in such situations.

We also found that the Department lacks adequate controls and procedures for preventing RCs/RMCs from obtaining duplicate/overlapping funding of their technical assistance activities. At the present time, RCs/RMCs may fund their technical assistance activities through TAG awards and the Comprehensive Improvement Assistance Program as well as other funding sources. Although our audit did not encompass any review to determine the existence of duplicate funding between these programs, we nonetheless believe that HUD needs to establish a data base covering all sources of funding and establish appropriate controls to ensure TAGs do not duplicate or overlap other funding sources. There has been no known instance of duplicate or overlapping funding of activities performed by HUD grantees, i.e., there was no finding on this point.

We recommended that the Office of the Assistant Secretary for Public and Indian Housing:

- develop procedures to increase HUD's oversight of the TAG rating process;
- direct the Office of Resident Initiatives to review ratings to verify that application scores are verified and supported;

- amend current procedures to include PHA participation in the application preparation process;
- issue procedures for monitoring RC/RMC consultant contracting activities and compensation;
- issue guidance and controls for reviewing multiple source funding; and
- develop a data base for all sources of funding.

The Assistant Secretary generally agreed with the need for corrective actions and stated that his office has already begun several initiatives to improve program controls and that other corrective actions are planned. (*Report No. 92-TS-109-0002*)

Lead-Based Paint Abatement

Liability Insurance for Testing and Abatement of Lead-Based Paint in Public Housing

This review was requested by members of the Senate Subcommittee on VA, HUD, and Independent Agencies. In procuring a master liability insurance policy for the testing and abatement of lead-based paint in public housing, through its agent housing authority (Housing Authority of the City of High Point, North Carolina), HUD's Office of Public and Indian Housing (OPIH) did not implement adequate management controls and procedures to justify and support its procurement decisions and actions. For example, we concluded that management decisions relating to procurement were not documented adequately, management oversight and control of the procurement process were lacking, and other potential alternatives to the master policy were not documented and evaluated sufficiently. Also, our review did not disclose any cost/benefit analysis of the master policy alternative.

As a result of these conditions, we believe that OPIH has not provided adequate assurance that public and Indian housing authorities (PHAs) are procuring liability insurance that is necessary and reasonable in terms of its costs and coverage. OPIH originally estimated that \$20.2 million of Comprehensive Improvement Assistance Program funds would be needed by PHAs to procure insurance for liability arising from lead-based paint testing and abatement over the 3-year period of the master policy. However, only about \$740,000 in premiums had actually been paid by PHAs during the first year of the master policy.

In our report, we expressed concern regarding the uncertainty of the coverage under the master policy, which was underwritten by the

American Empire Surplus Lines Insurance Company, the successful bidder. Based on our review and a review by an independent legal authority, we concluded that the extent of coverage under the master policy is unclear in some areas, and potentially unfavorable to the insured parties in others. Consequently, we believe that the extent of American Empire's coverage will depend on its financial exposure, as evidenced by the nature, extent, and potential cost of claims. Our concern is that the resolution of claims and the coverage ultimately provided under the master policy may be dependent on litigation.

OPIH indicated that an extremely high priority was being given to getting lead-based paint testing and abatement work underway on a large scale. OPIH contends that PHAs and their contractors were unable to procure liability insurance for lead-based paint testing and abatement work, and that in order to get such work underway, it was necessary to have liability insurance in place as expeditiously as possible.

Although OPIH furnished us a legal opinion prepared for the Macon, Georgia Housing Authority which concluded that the master policy coverage is adequate, OPIH nevertheless acknowledged the need for clarification of the master policy's coverage. On August 22, 1991, OPIH requested HUD's Office of General Counsel (OGC) to provide an opinion on this matter. OGC has not yet issued its opinion.

As a result of our audit, language was included in the Conference Report on H.R. 2519, the appropriations bill for VA, HUD and independent agencies. This language stated that until HUD addresses the master insurance policy deficiencies identified in our audit and adopts final regulations regarding lead-based paint insurance requirements, PHAs should be permitted to seek more adequate and effective insurance coverage. PHAs must use competitive procedures and certify to HUD that policies are adequate to meet potential liability and serve to limit risk by providing for more effective quality assurance and project management. (*Report No. 91-TS-108-0016*)

Indian Housing Activities

In conjunction with a multiregional review of the Indian Housing Program, we audited selected Indian housing authorities (IHAs) to determine if they are operating efficiently and economically and in accordance with HUD regulations. We are reviewing several IHAs and plan to review HUD's administration of the program and issue a comprehensive report on the Indian Housing Program to the Assistant Secretary.

Summaries of two IHA audit reports issued during the past 6 months follow.

Leech Lake Reservation Housing Authority, Cass Lake, MN

The Leech Lake Reservation Housing Authority did not administer its housing programs effectively or in compliance with HUD requirements. Of the units we inspected, 69 percent did not meet HUD's minimum Housing Quality Standards. Although the Authority conducted annual inspections of its housing units, it did not complete needed repairs identified during the inspections. The Authority's staff said the Authority lacked sufficient staffing and funds to perform the necessary repairs.

The Indian Housing Authority lacked adequate internal management and accounting controls over cash and other monetary assets and did not adhere to its rent collection policy. The Authority's Executive Director stated that the Authority lacked the professional staff needed to operate HUD programs.

We recommended that HUD consider contracting with a management firm to manage the Authority's programs. If private management is not feasible, the Authority's staff should obtain training and technical assistance to more effectively operate its programs. (*Report No. 91-CH-202-1015*)

All Indian Pueblo Housing Authority, Albuquerque, NM

The All Indian Pueblo Housing Authority (AIPHA) was not operating efficiently and effectively. AIPHA was extremely lax in its efforts to collect \$544,216, some of which has been due for 20 years, in required monthly payments from participants. Failure to collect these funds adversely affected AIPHA's financial position and caused an increase in the monthly administrative fee. AIPHA's financial activities and accounting procedures were seriously deficient. AIPHA overfunded mutual help participants' monthly equity payment account by \$325,900 and improperly recorded or failed to record \$109,750 due from participants. AIPHA failed to maintain fire and extended insurance coverage on at least 124 mutual help units and did not ensure participants properly maintained their homes. Participants who were delinquent on their monthly payments were allowed to sublease their units, and AIPHA did not evict delinquent sublessees.

We recommended that AIPHA enforce its payment collection and eviction policies; obtain assistance from Federal, State, tribal and local governments in collecting monies due from participants; provide financial and accounting training to its staff; insure all units for which it holds title; and implement a system to ensure that all

units are inspected annually and necessary repairs are completed. As a result of our audit, the Authority's Board reviewed the Executive Director's performance and subsequently dismissed her. (Report No. 91-SF-202-1008)

Public Housing Agencies

Housing Authority of New Orleans, LA

The Housing Authority of New Orleans (HANO) will need \$3.4 million for Fiscal Years 1990 and 1991 for additional operating subsidy to pay for tenants' excess electricity consumption. This is due to HANO's disregard of both HUD regulations and HANO's former General Counsel's 1989 opinion concerning billing of tenants for electricity. The General Counsel stated that HANO's system of using checkmeters to assess charges to tenants using excess electricity is a resale of utilities, and therefore a violation of local law and the agreement between the local supplier and HANO. The opinion also suggested that HANO conduct a benefit/cost analysis to determine the feasibility of converting to direct billing by the supplier as an alternative to checkmeters. No analysis was done. In response to the legal opinion, HANO stopped collecting excess electricity costs from tenants in nine of its ten conventional projects while continuing to supply electricity to tenants. HANO also began reimbursing tenants \$1.4 million for excess electricity paid in Fiscal Year 1989 and has requested approximately \$1.7 million each for 1990 and 1991 of additional operating subsidy to pay for tenants' excess electricity consumption.

We recommended that HUD either reduce future eligibility for subsidy or recapture any of the approximately \$3.4 million in additional subsidy that may be ineligible. HANO also should be required to conduct the necessary benefit/cost analyses. HANO is proceeding in efforts to have the City exempt it from the prohibition on resale of utilities and has indicated that it would immediately initiate efforts to obtain cost/benefit analyses of the feasibility of direct utility billings to tenants. (Report No. 91-FW-201-1008)

Housing Authority of the Birmingham District, Birmingham, AL

We conducted this audit at the request of the Manager of the HUD Birmingham Office. The lack of sound financial management and controls over costs caused a deterioration in the financial condition of the Housing Authority of the Birmingham District (HABD). HABD's conventional program operating reserve decreased from \$4.7 million at June 30, 1987, to \$1.2 million at June 30, 1990. Primarily

because of the low operating reserves, HUD has classified HABD as a troubled housing authority.

For the year ending June 30, 1990, the HABD's uncontrolled spending resulted in budget overruns of over \$1 million. It expended \$1.2 million for Comprehensive Improvement Assistance Program (CIAP) activities from sources other than CIAP funds, but could not identify the source of these funds. HABD also failed to follow procurement procedures and incurred ineligible costs of \$143,735 and unsupported costs exceeding \$2 million.

Certain HABD actions related to its identity-of-interest Birmingham Housing Development Corporation (BHDC) violated HUD regulations. This corporation's purpose is to promote housing by being a repository for housing donations and to issue tax exempt bonds to fund construction and rehabilitation. HABD Commissioners were also members of the BHDC Board, thus creating an identity-of-interest. HABD also became contingently liable for notes on property owned by a profit-motivated partnership, also an identity-of-interest.

We recommended that HABD be required to implement existing HUD policies and practices, repay ineligible costs and document or repay unsupported costs, and sever any relationships that may create or appear to be an identity-of-interest. (*Report No. 91-AT-201-1022*)

Cooperation Agreements

As part of an audit of selected aspects of Cooperation Agreements between public housing agencies and local governments, we reviewed operations at the Housing Authorities of the County and the City of Los Angeles, as follows:

Housing Authority of the County of Los Angeles, CA

The Housing Authority of the County of Los Angeles spent over \$4.3 million between 1985 and 1991 for protective services that should have been provided by the local police at no cost under the Authority's Cooperation Agreements with the County of Los Angeles and the City of Long Beach. Of the \$4.3 million, the Authority paid \$2.9 million to the Los Angeles County Sheriff Department and \$1.4 million to the Long Beach Police Department for essentially basic law enforcement. In our opinion, the Authority did not adequately plan for security; obtain all local government services that it is entitled to receive; or evaluate the most efficient use of funds for security. The Authority could have used the \$4.3 million for other expenditures more critical to its needs and those of its tenants.

We recommended that the Authority reimburse its operating account for the \$4.3 million improperly spent and seek reimbursement of payments made to the County of Los Angeles and the City of Long Beach. (*Report No. 91-SF-201-1009*)

Housing Authority of the City of Los Angeles, CA

The Housing Authority of the City of Los Angeles is spending about \$78,000 annually for trash collection services that it could obtain at no cost from the City under its Cooperation Agreement. Information on the Authority's 21 low-rent and 44 turnkey projects/sites showed that 21 projects were using private trash collection firms. Project workers claimed that excessive scattered trash required the use of private firms to provide larger trash bins unavailable from the City. Although excess trash has been a pervasive problem at projects managed by the Authority, some projects have effectively minimized the problem by using private firms to supplement, rather than replace, the City's collection service. ..

We recommended that the Authority assess its needs to provide adequate trash maintenance to its tenants and maximize its use of services the City can provide at no cost. The Authority generally agreed with our finding, and stated it will take the appropriate actions to terminate the unnecessary private trash pick-up at the audited sites. (*Report No. 91-SF-201-1010*)

□ Section 202 Management

Loan Servicing for Elderly Housing Projects - Seattle, WA and Portland, OR Offices

As part of a multiregional audit of the Department's loan servicing of Section 202 elderly housing projects, we audited the Seattle and Portland Multifamily Loan Management Branches (LMBs). The LMBs had poor internal controls over management of Section 202 projects. The LMBs approved excess rent increases which resulted in excess housing assistance payments of \$150,380 annually and may total about \$1.5 million over the remaining term of the housing assistance payments contracts. Also, \$448,770 in ineligible withdrawals from the reserve for replacement account were not identified by loan servicers. We attributed this to the Field Offices not assigning a high priority to monitoring this function.

Loan servicers do not normally evaluate the adequacy of Federal Deposit Insurance Corporation (FDIC) coverage during financial statement reviews. We identified 11 projects that had deposits totalling \$1.2 million in excess of FDIC insurance coverage. Twelve

other projects could not be evaluated because their financial statements did not provide necessary information.

The LMBs had inadequate controls to assure that nonprofit projects receive available exemptions from property taxes and that sponsors make property tax payments from nonproject funds as guaranteed during project development.

We made several recommendations to the Regional Administrator to correct the deficiencies found including ensuring that rent increases are properly documented; reserve for replacement accounts are evaluated; and residual receipts are not improperly commingled with reserve for replacement accounts. (*Report No. 91-SE-112-0004*)

□ Section 8 Programs

Section 8 Programs assist low- and very low-income families in obtaining decent, safe, and sanitary housing through subsidies that are provided to owners. During this reporting period, we audited compliance with certificate rent reasonableness requirements in the Atlanta Region; year-end settlements in the Boston Region; and the Project-Based Certificate Program.

Certificate Rent Reasonableness Requirements

PHAs' Compliance - Greensboro, NC and Columbia, SC Offices

Public housing agencies (PHAs) did not perform required rent reasonableness reviews or performed incomplete reviews for the Section 8 Existing Housing Program. In addition, HUD monitoring of PHAs' compliance with rent reasonableness requirements was ineffective. HUD guidelines for performing the reviews also need to be improved.

We reviewed the HUD Columbia and Greensboro Offices along with four PHAs under their jurisdiction. These four PHAs together received \$7.4 million of Section 8 assistance during Fiscal Year 1991. Our review of 45 test cases disclosed that for 23 cases, or 52 percent, PHAs either did not perform the required reviews (13 cases) or performed incomplete reviews (10 cases). When performed, the reviews were unreliable because the PHAs did not obtain complete and accurate data for comparable units. For 42, or 94 percent, of the 45 test cases, the PHAs did not maintain documentation concerning their determinations as to whether the rents owners charged for assisted units were no more than rents for unassisted units. In six cases, market survey data on comparable unassisted units indicated that the rents for assisted units were excessive.

In our opinion, the lack of reviews or incomplete reviews occurred because PHAs were not trained in performing such reviews; HUD's guidelines were inadequate; and HUD did not effectively monitor and enforce PHAs' compliance with rent reasonableness requirements. Although our small sample cannot be reliably projected to the universe of Section 8 Existing Housing Program units, we believe this finding, along with a similar finding in our 1987 audit report (Report No. 87-TS-103-0005) for which corrective actions were ineffective, demonstrates a program weakness which HUD needs to address on a nationwide basis. The significance of the problem is illustrated by HUD's Fiscal Year 1991 budget authority for the Section 8 Certificate Program which included \$4.2 billion for contract renewals, \$965.3 million for new units, and \$786.1 million for cost amendments. Because of the magnitude of the program, potential savings can be realized by ensuring that program rents are reasonable.

We recommended that the Office of the Assistant Secretary for Public and Indian Housing assist PHAs in obtaining adequate training on rent reasonableness requirements; revise or supplement guidance to PHAs; require Field offices to examine the quality and accuracy of PHAs' rent reasonableness reviews during monitoring reviews; and increase efforts to resolve outstanding promised actions on audit recommendations relating to PHAs' compliance with rent reasonableness requirements. The Assistant Secretary generally agreed with our findings and outlined actions already taken or planned to resolve the recommendations. (*Report No. 92-TS-103-0001*)

Year-End Settlements

Boston Region

The Boston Management Division (MD) and the Hartford and Providence Assisted Housing Management Branches (AHMBs) did not assure follow-up of late Section 8 year-end settlements, although most settlements were received on time.

In the Boston Region, the MD and the AHMBs are responsible for processing year-end settlements. Public housing agencies (PHAs) must submit year-end settlements for certificate and voucher programs to the MD and AHMBs within 45 days after the close of the PHA's fiscal year. At the same time, PHAs must send a copy of the settlement statement, if there is an overpayment due HUD, to the Regional Accounting Division (RAD) with a check in the amount of the overpayment.

The MD and AHMBs did not assure that timely written notices were sent to PHAs for year-end settlements, or that administrative fees were withheld from non-responsive PHAs. The Boston MD did not review 52 percent of the sampled settlements within established time frames. Untimely receipt and review resulted in delayed settlements and, in some cases, the collection of overpayments due HUD.

The RAD did not assure timely settlements and did not follow established procedures to collect outstanding overpayments due HUD. Their records show a backlog of prior year settlements. On November 30, 1990, there were 348 unsettled certificate and voucher year-end settlements for Fiscal Years 1983 through 1989 with unliquidated balances totalling \$51.4 million. In spite of a recent HUD directive, controls were inadequate and a low priority was assigned to year-end settlements.

We recommended that controls over settlements be strengthened and that established settlement and collection procedures be followed. The Regional Offices of Public Housing and Administration officials generally agreed with our findings and recommendations, but cited a lack of staff resources as contributing to the deficiencies found in our audit. The MD has established December 31, 1991, as the target date for implementation of corrective action. The RAD has established interim procedures which are currently being tested. A target date of July 31, 1992, has been established to eliminate the backlogs of unsettled prior year-end settlements. *(Report No. 91-BO-103-0001)*

Project-Based Certificate Program

Public housing agencies (PHAs) are not complying with the regulations and requirements of the Section 8 Project-Based Certificate Program. This has resulted in ineligible tenants and units participating in the program, payment of excess rents, and nonperformance of required rehabilitation work.

The purpose of the Project-Based Certificate Program is to induce property owners to construct standard, or upgrade substandard, rental housing stock and make it available to lower-income families. Section 8 certificate assistance is usually tenant-based, but the program differs from the usual form of Section 8 assistance because the certificate is tied to a specified dwelling unit.

Following are three audits we conducted in the past 6 months:

Westmoreland County Housing Authority, Greensburg, PA

Forty-two of 49 units selected for participation in the program by the Westmoreland County Housing Authority were ineligible because the minimum amount of rehabilitation work was not done. The Authority's misinterpretation of HUD regulations resulted in the attachment of Section 8 project-based certificate assistance to ineligible units. The Authority also paid excess initial Section 8 contract rents and maintained weak controls over program administration.

We recommended that the Authority terminate the project-based contracts, implement procedures to comply with HUD requirements, and repay to HUD ineligible costs for excessive initial rents. (*Report No. 91-PH-203-1011*)

Miami Beach Housing Authority, Miami Beach, FL

The Miami Beach Housing Authority violated HUD regulations in the selection of program participants. Specifically, the Authority did not determine if occupants were eligible for assistance before selecting units; assure that tenants were not permanently displaced; control unit inspections; and determine if properties met all regulatory requirements. Also, the sizes of units selected did not agree with the sizes approved for funding in the Annual Contributions Contract.

We recommended cancelling Housing Assistance Payments contracts with unit owners where tenant eligibility was not determined before unit selection; awarding contracts for approved unit sizes only; requiring property owners to correct Housing Quality Standards violations; and improving procedures to ensure compliance with HUD requirements. The HUD Jacksonville Office has directed the PHA to cancel contracts, award contracts properly, correct housing quality violations, and submit revised unit selection procedures. The target completion date is January 31, 1992. (*Report No. 91-AT-203-1016*)

Philadelphia Housing Authority, Philadelphia, PA

The Authority's administrative controls over the program need improvement to ensure compliance with HUD requirements regarding contract administration. The Authority did not carry out its responsibility for monitoring property rehabilitation, but relied on other City agencies to perform interim inspections. As a result, the Authority cannot be sure that all work was completed according to contract specifications and laborers were paid prevailing wages required by the Davis-Bacon Act. The Authority also made housing assistance payments (HAPs) before a HAP contract was executed

with the owner because tenants were already living at the property, and made errors in calculating HAP subsidy amounts.

We recommended that the Authority inspect all rehabilitation work, verify that Davis-Bacon wages were paid, ensure that HAP contracts are executed before making rental assistance payments, and correct erroneous HAP payments. (*Report No. 91-PH-203-1013*)

□ 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 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 raises serious questions about the integrity of HUD's Single Family Mortgage Insurance Programs. During this 6-month period, we focused our efforts on the resolution of issues related to our audit of Title I debt management and collection; actions taken by the Mortgagee Review Board involving firms that have violated HUD requirements; property disposition activities; and the Housing Counseling Program.

Title I Debt Management and Collection System

Administrative Controls and Compliance

We conducted a review of the facts concerning conditions reported in previous audits of the Title I debt management and collection system to determine the extent that Departmental officials fulfilled their responsibility for ensuring that administrative controls exist, work, and provide reasonable assurance that Title I debt collection activities complied with prescribed requirements.

We concluded that Departmental officials at Headquarters and in the Seattle Regional Office failed to fulfill their responsibilities to ensure that Title I debt collection activities complied with prescribed requirements. We found that the Director of the Seattle Service Center:

- Exceeded the bounds of delegated authority to compromise debts and forgave \$42 million in accrued interest owed to the Department;
- Departed from Departmental standards when writing off approximately \$23 million in debts not determined to be uncollectible; and
- Temporarily manipulated debt balances of about \$10 million to influence Seattle Service Center performance evaluations.

We recommended that a determination be made whether administrative action is warranted against the Director of the Seattle Service Center. We also recommended that additional specific procedures be established to ensure that if similar problems are detected in the future, corrective and remedial actions be taken in a timely manner.

In response to our recommendations, the Department implemented management controls that will help assure compliance with Departmental requirements. In addition, the responsible individual was downgraded and reassigned to another position. The Seattle Director position was reclassified to a GM-14 position, making it consistent with other Regional Service Centers.

Based on the actions taken and the documentation provided, we agreed to close each of our recommendations and advised the Assistant Secretary for Housing-Federal Housing Commissioner that no further action was needed. (*Report No. 91-TS-122-0804*)

Mortgagee Review Board Actions

The Mortgagee Review Board (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.

During this reporting period, we submitted two audit reports to the MRB involving firms that violated HUD requirements and recommended that the Board impose certain administrative sanctions.

Unity Mortgage Corporation, Atlanta, GA

We found that Unity Mortgage Company originated five loans under the Direct Endorsement Program that did not meet HUD requirements for insurance. The five loans were all foreclosed with HUD paying insurance claims totalling \$331,341. Three of the five

homes foreclosed were subsequently sold resulting in a net loss to HUD of \$77,351.

The primary deficiency was inadequate analyses to determine if mortgagors were creditworthy. The deficiencies occurred because of a poor quality control system which allowed Unity Mortgage Company representatives to abuse HUD requirements and not comply with prudent lending practices.

We recommended that the MRB recover HUD losses of \$77,351 that were sustained for three loans and obtain indemnification for potential losses on two additional loans. (*Report No. 91-TS-221-1007*)

Colonial Mortgage Corporation of D.C., Annandale, VA

We found that the mortgagee failed to originate single family loans in accordance with HUD requirements and regulations, resulting in insurance claims of \$204,206 for three loans. Also, eight other loans currently in foreclosure or delinquent have potential minimum loss values of \$401,400 and \$228,650, respectively.

Deficient origination practices occurred because mortgagee management did not provide the necessary oversight to enforce minimal underwriting standards. The mortgagee also failed to submit its audited financial statements to HUD within the required time frame as a result of management's negligence. Lastly, the mortgagee allowed excessive fees for title insurance, FHA appraisal and underwriting review to be charged to buyers and sellers at settlements.

We recommended that the mortgagee's approval to participate in HUD programs be withdrawn and that appropriate action be taken to recover actual losses and protect HUD from potential losses for improperly originated loans. (*Report No. 91-TS-221-1009*)

During this reporting period, the MRB imposed sanctions or entered into settlement agreements with the following mortgagee firms based on OIG audits:

Company	Status
Waterfield Financial Corporation Phoenix, AZ	HUD is currently involved in settlement negotiations seeking recovery for claim losses.
Horizon Savings Association Austin, TX	Suspension and proposed withdrawal of HUD mortgagee approval.
Citadel Mortgage Company San Antonio, TX	Suspension and proposed withdrawal of HUD mortgagee approval, and collection action to recover misappropriated funds.

Property Disposition Activities

Washington, DC Field Office

We found inadequate controls over and noncompliance with HUD requirements by the Washington, D.C. Field Office. Specifically, the Property Disposition Branch (PDB) in that office failed to employ adequate controls for:

- Monitoring area management brokers (AMBs);
- Approving purchases and contracting for services;
- Listing acquired properties for sale timely; and
- Following up with mortgagees who conveyed damaged or occupied properties.

During the last 3 years, the PDB was cited by Headquarters and the Philadelphia Regional Office for deficient performance. Based on our audit, the PDB is still deficient in the areas noted above.

We provided 15 recommendations to improve procedures. Management agreed with our recommendations, took timely action on three of them and targeted December 31, 1991, as the date for implementing the other 12 recommendations. (*Report No. 91-PH-123-0005*)

Indianapolis, IN Field Office

We initiated a review of HUD's reporting of information to the IRS on certain forms such as Form 1099-MISC, "Statements for Receipts of Miscellaneous Income," HUD-1, "HUD Settlement Statement," and HUD-9589, "Transmittal of Closing Information." The review was conducted after the Department's reporting procedures were criticized in a February 27, 1991 Denver, Colorado newspaper article,

and a formal complaint was filed by an Indianapolis Area Management Broker. The basis for the article and the complaint was that HUD was providing the IRS duplicate income information, thereby creating tax problems for the HUD agents.

Based on our review, we concluded there was no duplicate reporting of income. However, in view of the problems that were observed, we performed additional testing in 10 Field Offices to see if the information taken off the Settlement Statement (HUD-1) was accurately placed on the HUD-9589, which is used to report income and tax information to the IRS on the Form 1099-MISC. Although no duplicate reporting was found, our review disclosed that there was a high incidence of errors and careless reporting.

We recommended that the Assistant Secretary for Housing-Federal Housing Commissioner:

- Notify Field Office Property Disposition Branches of the importance of accurate reporting of HUD-9589 information and timely reporting that will assure all closings near year-end are reported in the proper calendar year;
- Establish a quality control program to periodically test the accuracy of information submitted;
- Make appropriate changes to the Form 1099-MISC process to assure that address information is taken from the last Form HUD-9589 filed for the broker or agent. (*Report No. 91-AO-129-0805*)

Housing Counseling Program

We concluded that HUD has not been diligent in carrying out its management responsibilities with the implementation of the Housing Counseling Assistance Program. Our review identified serious weaknesses involving:

- Targeting funds to areas which have high homeowner distress and which lack adequate homeownership counseling organizations;
- Using goals and standards to measure program effectiveness;
- Balancing staff workloads to assure effective monitoring;
- Identifying and addressing training needs of counseling agencies and HUD staff;
- Prescribing monitoring procedures which promptly identify and correct deficient performance; and

- Establishing the propriety of the compensation for counseling agencies.

We concluded that management's primary focus in administering the program was on the distribution of funds to participating counseling agencies rather than to ensure that the funds are distributed to areas where they are needed most, that agencies receive needed training, or that the funds are used effectively for intended purposes. As a result, there is little assurance that the program's objectives are accomplished or that sufficient emphasis is placed on counseling delinquent mortgagors or providing training to counseling agencies to facilitate compliance with authorizing legislation. We recommended that HUD establish a management system that ensures the proper operation of the program.

Pursuant to the Federal Managers' Financial Integrity Act, we recommended these conditions be considered a material weakness and that they be reported as such to the President and Congress.
(Report No. 92-TS-129-0004)

□ GNMA Subservicers

The National Housing Act, as amended, authorizes the Government National Mortgage Association (GNMA) to administer the Mortgage-Backed Securities (MBS) Program. GNMA guarantees securities backed by pools of Federally insured single family and multifamily mortgages. GNMA enters into a Guaranty Agreement with private mortgage institutions (GNMA issuers). These issuers then service the loans, collect the monthly mortgage payments, and pay the principal and interest due the investors. If the issuer does not make timely payments to investors, GNMA may declare the issuer in default and assumes responsibility for paying investors and servicing the mortgages. GNMA contracts with master subservicers to service mortgage pools when a GNMA issuer defaults on its Guaranty Agreement.

York Associates, Inc., Bethesda, MD

At the request of the Assistant Secretary for Housing-Federal Housing Commissioner, we reviewed records at York Associates, Inc., a coinsurance lender. We found that while the lender disbursed mortgage escrows properly, reported loan defaults timely, and paid mortgage insurance premiums when due, it did not implement adequate internal controls to ensure that its loan management activities consistently met all HUD requirements for servicing troubled projects. Our review included eight recently defaulted loans serviced by the lender. Four loans were originated by the

lender and four were originated by DRG Funding Corporation and serviced by the lender for GNMA.

The lender did not consistently follow up with owners to correct adverse conditions disclosed in site review reports and financial statement reviews; determine cause for delinquency and default and evaluate the likelihood of reinstatement; notify HUD of significant Regulatory Agreement violations and indicators of possible fraud; and undertake enforcement actions against project owners or managing agents. As a result, HUD's interests were not always adequately protected and tenant living conditions were sometimes adversely affected because some owners did not correct maintenance or operating problems. In addition, the lender did not properly justify its course of action regarding loans in default, notify HUD of owner noncompliance with regulatory requirements, or seek enforcement action provided for by the Regulatory Agreement.

We recommended that HUD take appropriate administrative sanctions against the lender to prohibit participation in government programs. (*Report No. 91-TS-219-1006*)

Mellon Financial Services Corporation #9, Cleveland, OH

Mellon Financial Services Corporation, a GNMA contract servicer of coinsured multifamily loan portfolios of defaulted issuers, consistently requested larger principal and interest advances from GNMA than needed to pay investors of GNMA mortgage-backed securities. As a result, between March 1990 and January 1991, GNMA lost the opportunity to earn interest on funds advanced for two multifamily portfolios. The earnings opportunities were lost because GNMA funds, invested in U.S. Treasury securities, had to be used for the principal and interest advances.

Also, Mellon did not promptly deposit reserve for replacement funds in interest bearing accounts or ensure full Federal Deposit Insurance Corporation (FDIC) coverage of invested funds. These funds did not earn the maximum interest obtainable and account balances greater than \$100,000 were unnecessarily exposed to risk of loss.

We recommended that GNMA instruct Mellon to change its current method of estimating mortgagor receipts, implement changes that reduce the risk of excess advances, monitor Mellon's compliance, require Mellon to account for reserve for replacement accounts, and assure FDIC insurance coverage is in effect for all accounts. Although Mellon Financial Services Corporation disagreed, GNMA concurred with our findings and recommendations. GNMA initiated procedural changes to reduce the risk of excessive advances, require

prompt deposit of reserve for replacement funds in interest bearing accounts, and provide full FDIC insurance protection. (*Report No. 92-TS-279-1001*)

□ Community Planning and Development

The Office of Community Planning and Development (CPD) is responsible for administering a number of HUD programs and activities. Its primary program is the Community Development Block Grant (CDBG) Program. The CDBG Program provides grants to States and local governments to aid in developing and revitalizing neighborhood communities. During this reporting period, we concentrated our efforts on the administration and use of funds in the Economic Development Grant Program and the Small Cities Block Grant Program. In addition to the CDBG Program, CPD 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.

Economic Development Grants

Atlanta Region

During our review of 25 Special Economic Development projects involving \$10.5 million of CDBG funds, we found that grantees are not adequately performing the required financial analyses and not documenting their determination of a qualifying public benefit. As a result, grantees have loaned funds to private for-profit businesses who did not demonstrate a need for the funds or to individuals who had little chance of success. The economic impact involving the number of jobs being introduced into the area was not adequately documented. We also found that monitoring by HUD Field Offices was untimely and ineffective. We recommended to the Regional Administrator actions needed to correct these deficiencies and prevent their recurrence. (*Report No. 91-AT-141-0006*)

Seattle Region

As part of a multiregional audit, we completed two external audits of economic development loans in the Seattle jurisdiction and an internal audit of HUD's monitoring of the program. The external audits include the City of Seattle and Pierce County (Tacoma), Washington.

Of the 42 economic development loans made by the City of Seattle, 37 cannot support meeting the national objective concerning jobs for

low- and moderate-income persons. Forty-nine percent of the loans either did not result in or lacked evidence that the businesses receiving the loans created or retained the intended jobs. Also, no standards on failure rates or timeliness of achieving national objectives have been established. We recommended that the Regional Office require the City to provide evidence of achieving the national objective, to ensure that required documentation is obtained for all future business loans, and to consider appropriate actions for the City's failure to take corrective action. *(Report No. 91-SE-241-1004)*

In the Pierce County audit, we found a lack of evidence that a \$1.1 million float loan achieved the intended national objective. Also, the County failed to report the loan on its Annual Grantee Performance Report to HUD. We recommended that the Regional Office require the County to either document the national objectives or refund \$180,900 in interest expense. *(Report No. 91-SE-241-1005)*

In the HUD Seattle Field Office audit we found ineffective monitoring of economic development loans. We recommended that HUD staff obtain documentation or perform site visits to assure grantees implement the necessary corrective actions; take more aggressive action to resolve significant program deficiencies; and encourage grantees to establish standards on failure rates. *(Report No. 91-SE-141-0003)*

Anderson County, SC

A \$350,000 economic development grant was not properly approved or administered. The purpose of the grant was to allow one company to buy another to keep it from being moved out of the County. In addition to inadequate documentation to support the public benefit to be derived from the project, the County did not obtain the required collateral from the borrowers and there was a conflict-of-interest involving the borrower and the County grant administrator. We recommended that the State reimburse the \$350,000 of CDBG funds. We also recommended that the State strictly enforce conflict-of-interest restrictions in the grant agreement and implement adequate loan underwriting procedures to ensure that job retention benefits are supported and that required collateral is obtained. As a result of our audit, the State of South Carolina developed a more defined policy and rule on conflict-of-interest, and made improvements in its underwriting procedures. *(Report No. 91-AT-243-1804)*

Other Community Planning and Development Activities

Bluefield, WV

Our audit of the Bluefield, West Virginia Small Cities Block Grant Program showed that the City did not comply with the terms of its agreement with the State on grants awarded in 1986 and 1987. Substandard work and excessive contract payments on a 1986 grant project resulted in \$67,048 in ineligible costs, \$74,857 in unspent funds, and \$32,805 in unsupported costs. Delays in project construction work resulted in no housing being acquired or rehabilitated with the \$176,000 awarded in 1987. In addition, other problems concerning ineligible costs, compliance with Federal Labor Standards, inadequate documentation on cost estimates, and participant eligibility were found. We recommended that the Field Office: recover the ineligible costs; reprogram unspent and unused funds; require the City to ensure repayments to workers and implement Federal labor standards; assure required State approval when necessary; and require the City to justify the unsupported costs. (Report No. 91-PH-245-1010)

St. Louis, MO (Conflicts-of-Interest)

We reviewed several St. Louis CDBG subrecipients for possible conflicts-of-interest in response to citizens' complaints. The complaints involved bonuses received by the St. Louis Land Reutilization Authority (LRA) and Operation Impact (OI) employees from the sale of OI and privately owned properties. As a marketing service, the LRA created a for-profit private real estate corporation. The real estate company was staffed by LRA and OI employees. Approximately \$50,000 was inappropriately paid from CDBG funds for commissions to these employees. We recommended that the Field Office: assure the LRA ceases funding LRA Real Estate, Inc., and that the conflict-of-interest situations cease; require the City to reimburse the CDBG account for commission and ineligible expenditures; and reiterate regulations to City officials, prohibit conflicts-of-interest and require the City to set up procedures to prevent recurrence of the problems. (Report NO. 91-KC-241-1802)

St. Louis, MO

In an audit of the St. Louis Community Development Agency (CDA), we found that the Agency's expenditures fell \$3.7 million short for achieving the statutorily required percentage of benefit for low- and moderate-income (LMI) persons. The CDA included six CDBG activities in its computation of benefit to LMI persons which we concluded did not qualify because jobs for LMI persons were not created or retained, no LMI tenants benefitted, claimed LMI benefits

were either ineligible or unsupported, and the land use plan did not benefit LMI persons. Exclusion of these six activities means the CDA failed to provide the required percentage. The applicable percentages were 51 percent for 1987 and 60 percent in 1998 and 1989.

In addition, a promotional program developed by CDA did not comply with CDBG guidelines as an eligible planning and administration activity. As a result CDA incurred ineligible expenses of \$746,500. The CDA also spent \$150,000 to implement an economic development plan. CDBG regulations specifically exclude plan implementation from eligible costs.

We recommended that the Field Office require the CDA to deposit \$3.7 million (the amount required to be provided based on the above percentages) into the CDBG Program account and use it on activities to benefit LMI persons; and that the CDA reimburse its CDBG Program for all ineligible costs. (*Report No. 91-KC-241-1009*)

Detroit, MI

Over \$1.2 million in technical assistance costs were found to be questionable during our audit of the City of Detroit's CDBG Program. These costs represent unsupported payroll and vehicle costs and costs that were charged to the CDBG Program after they were disallowed by another Federal grant program. We recommended that the City be instructed to comply with the administrative and planning costs limitation, provide documentation for the questionable costs, and repay those costs that cannot be adequately supported. (*Report No. 91-CH-245-1017*)

□ Other Significant Audit Activities

This section discusses HUD's progress in correcting material internal control weaknesses as reported in the Department's Annual Assurance Statement under the Federal Managers' Financial Integrity Act, as well as the results of our office's material weakness correction verification reviews completed on a number of these weaknesses. It also discusses the Chief Financial Officers Act of 1990 and OIG's role in implementing it.

Material Weaknesses

During his tenure at HUD, Secretary Kemp has demonstrated a strong commitment to resolving complex and long-standing problems. Such problems demand creative and meaningful solutions which often take significant resources and time to implement. HUD management reported a total of 29 material internal control

weaknesses needing correction in its December, 31, 1990 Assurance Statement under the Federal Managers' Financial Integrity Act (FMFIA). Another 17 material weaknesses were reported as corrected, pending verification of the effectiveness of the corrective actions. Our office has agreed to assist HUD management in determining whether the corrective actions were effective.

Our verification reviews are coordinated with HUD's Chief Financial Officer (CFO), as the responsible official for HUD's FMFIA Program. We have agreed with the CFO to perform 16 verification reviews. Eight were completed during this reporting period and an additional eight reviews are scheduled, the results of which will be provided in future Semiannual Reports.

In addition, we are currently reviewing HUD's overall FMFIA Program to determine the adequacy of management's actions to: (1) build controls into new programs and systems; (2) evaluate existing internal control and financial management systems; (3) plan, implement and verify corrective actions on any material weaknesses identified; and (4) accurately report the status and results of evaluation and improvement efforts.

Material Weakness Verifications

Our eight verification reviews found that management had initiated and completed substantive corrective actions in all cases. We determined that corrective actions were in place and effectively operating for Community Development Block Grant Subrecipient Monitoring, the Section 8 Loan Management Set-Aside Program and Multifamily Claims Processing, and consider these three material weaknesses corrected. Although not all actions had been fully implemented in a fourth case, Monitoring Community Housing Resource Board Grants, we concurred in management's decision that this area no longer met the threshold to be classified as a material weakness.

For the remaining four material weaknesses, we reported that corrective actions had not progressed to the point that we consider them corrected. In the case of Government National Mortgage Association (GNMA) Asset Management, program management agreed with us. The responsible program managers disagreed with us on Multifamily Housing Rent Delinquencies and Use of Multifamily Project Assets and Income. In their opinion, all possible measures within their control have been taken. For the Hospital Insurance Program, we believe program management needs to address additional concerns which came to their attention as a result of corrective actions taken.

The following captioned sections provide details on the results of all eight of our material weakness correction verification reviews:

CDBG Subgrantee Monitoring

In 1989, HUD management agreed with an OIG audit report disclosing material control weaknesses with respect to monitoring subgrantee activities under the CDBG entitlement grant program. To address these problems, HUD management proposed four major corrective actions:

- Issue revised regulations requiring that written agreements with subgrantees contain a budget with sufficient detail to provide a sound basis for performance monitoring.
- Incorporate various notices on subgrantee monitoring into CDBG program handbooks and regulations.
- Develop and issue directions to Field Offices on sanction actions to take against grantees who fail to adequately monitor subgrantees.
- Develop a technical assistance bulletin providing examples of effective systems of monitoring subgrantees.

Responsible HUD program management reported these actions as completed, effective August 1990. Our verification review disclosed that all but part of action Number 4 had been completed and were effectively in use to warrant reporting this area as corrected. With regard to action Number 4, a technical assistance/training bulletin was issued to grantees but it did not include examples of effective subgrantee monitoring systems. The issued bulletin promised the examples at a future date.

Monitoring Community Housing Resource Board Grants

As a result of a March 1989 OIG audit report, HUD management acknowledged its monitoring of Community Housing Resource Board (CHRB) Grants as a material internal control weakness area. HUD management's planned corrective actions generally consisted of:

- Develop and issue comprehensive program requirements for both CHRB and HUD staff.
- Provide training to enable CHRBs and HUD staff to better understand and fulfill their respective responsibilities.

Management reported all actions as completed effective June 30, 1990. However, our verification review determined that, while management had taken many steps to improve controls in this area,

several corrective actions had not been fully implemented. We found that new HUD program guidance was not received and in use by the CHRBs we visited; training was not provided to members of CHRBs; and the training of HUD staff was limited both in terms of personnel and subject matter.

Although some additional actions are necessary to fully resolve these issues, we agreed with management's determination that this area no longer meets the threshold of materiality pursuant to the Office of Management and Budget's August 1991 guidance on material weaknesses. Accordingly, this item will not be reported as a material weakness in HUD's Fiscal Year 1991 FMFIA Assurance Statement. However, the Department will continue to track the matters to assure full implementation.

Section 8 Discretionary Loan Management Set-Aside (LMSA) Program

HUD's previous administration of the discretionary component of the LMSA Program lent itself to favoritism and abuse. Units were often awarded in a manner which was inappropriate, arbitrary and unsupported as to program merit. HUD Field Offices were sometimes unaware of or opposed to awards made from Headquarters. To correct this material weakness, HUD management proposed legislative reforms through the HUD Reform Act of 1989, and followed up with regulations and procedures requiring open and competitive funding decisions on the basis of objective program based criteria.

Our verification review was performed in conjunction with an ongoing audit of the revised LMSA Program. Although we found a need to improve the quality of Field Office documentation, we concluded that HUD management had effectively implemented adequate controls over the discretionary program.

Multifamily Housing Insurance Claims Processing

In 1989, HUD management recognized material weaknesses in its controls over the processing of multifamily claims, as a result of a General Accounting Office (GAO) financial audit and a contracted internal control review. HUD paid out over one half billion dollars on multifamily insurance claims that year. Management's planned corrective actions included:

- Hire additional staff to reduce claim backlogs and resultant increased interest expense.
- Shift staff responsibilities to provide an adequate separation of duties.

- Develop new claims review procedures and hire a contractor to review claim data on an ongoing basis at both HUD and mortgagees.
- Develop and implement a microcomputer based Multifamily Claims Tracking and Accounting System which improves claims processing and financial accounting operations.

Management reported these corrective actions as completed effective December 1990. Our review confirmed management's reported actions as completed and effective.

Hospital Insurance Program

HUD's Hospital Mortgage Insurance Program has an inherently high risk because of the large dollar value of the loans and the shared program responsibility with the Department of Health and Human Services (HHS). As a result of a 1988 GAO financial audit of the FHA fund, HUD's lack of hospital program expertise, and ineffective oversight of underwriting and management functions delegated to HHS, was cited as a material weakness. HUD's planned corrective actions consisted of hiring a senior hospital finance expert, and preparing a briefing paper for Deputy Secretary discussions with HHS to develop options for improving the management and structure of the hospital insurance program.

A hospital insurance advisor was hired in January 1990, and the briefing paper was completed in November 1990. Effective that date, HUD program management expressed its belief that the material weakness was corrected.

Our review confirmed that HUD management had accomplished its plans to correct the weakness. However, from our perspective the development of a briefing paper was largely a means to identify other necessary program improvements, rather than a final fix in and of itself. In preparing the briefing paper, program staff identified five additional management initiatives which are still underway to further define weaknesses and actions to improve controls over the Hospital Program.

In our opinion, these additional HUD management initiatives should be completed, with any significant additional improvement actions effectively implemented, before HUD management should consider this material weakness area as corrected. Both the Assistant Secretary for Housing and the CFO believe that sufficient steps have been taken and will recommend to the Secretary that the Hospital Insurance Program not be included as a material weakness in HUD's Fiscal Year 1991 FMFIA Assurance Statement.

HUD-Owned Multifamily Housing Rental Payment Collections

As a result of OIG audit work reported in our Semiannual Report for the period ending March 31, 1984, HUD management acknowledged this area as a material weakness which has led to excessive rental payment delinquencies in HUD-owned properties. The weakness was described as poor quality management information systems for monitoring property managers to ensure they meet their performance and financial obligations to HUD. HUD's planned corrective action was to implement a central computerized Property Management System (PMS) as a basis for tracking and acting on delinquent rental payments. HUD management reported the new system fully implemented in December 1990.

Our verification review found that the implementation of PMS has not been an effective control for monitoring delinquent tenant accounts and property manager performance. In the three HUD Field Offices we reviewed, the PMS was not used as intended because both property managers and HUD staff believed the PMS tenant account balance information was inaccurate and therefore not useful as an effective management control. Until the PMS becomes the effective control it was intended to be, this area should continue to be reported as a material weakness. Although HUD program management disagreed with our position, the CFO will recommend to the Secretary that this be reported as a material weakness until corrective action is effectively implemented.

Use of Multifamily Project Assets and Income

Multifamily project owners divert project assets in violation of their HUD regulatory agreements, leading to increased mortgage defaults and physical project deterioration. This has a significant impact on HUD in terms of increased insurance claims, subsidy payments, and maintenance and replacement costs. It also adversely impacts the quality of housing for the public served by this program. As a result of OIG audit work, HUD management acknowledged this as a material weakness in 1987 and planned a series of major corrective actions to address this problem:

- Implement a nationwide system to automate analysis of project financial data to flag possible violators.
- Enforce existing remedies and implement new civil monetary penalties against violators.
- Issue a revised handbook, guidance and directives to Field Offices with policies and procedures to enhance compliance reviews.

- Complete a survey of staff level needs for loan servicing and property management in the field.

As of May 22, 1991, HUD program management reported all necessary corrective actions as completed. Our verification review found that many improvements had been made, but that inadequate systems and staffing support continued to exist as a barrier to effectively correcting this material weakness area. Specifically, we found that insufficient training and data integrity problems hampered the effective implementation of automated project financial analysis through the Multifamily Information Processing System (MIPS). We also found that the planned survey of staff level needs was not conducted. Although additional staffing was budgeted for this area, increased workload in the Field Offices has precluded achievement of realistic project-to-staff ratios. In addition, our related April 1991 audit report on HUD's Approval and Monitoring of Management Agents of Multifamily Projects (Report No. 91-TS-111-0014) disclosed weaknesses in the Field Office staff's disclosure, tracking and action on project violations.

We recommended that this area continue to be reported as a material weakness until actions are effectively implemented to provide necessary monitoring systems and staffing, and the enforcement of proper sanctions. Although HUD program management disagreed with our position, the CFO will recommend to the Secretary that this be reported as a material weakness until corrective action is effectively implemented.

GNMA Asset Management

GNMA guarantees mortgage-backed securities issued by approved "issuers." When issuers default, GNMA assumes issuer responsibilities, such as making collections on mortgage loans, paying security holders, and filing claims on assigned and foreclosed mortgages. GNMA's total servicing portfolio exceeded \$15 billion at the close of Fiscal Year 1990, and billions more in defaults are anticipated over the next several years. GNMA contracts out its servicing responsibilities to "subservicers." As a result of a November 1989 OIG audit report, GNMA's award, monitoring and supervision of its subservicer contracts was identified as a material weakness area. Under the circumstances, GNMA had little assurance that critical program functions were properly performed and that subservicer claims for services and costs were valid.

GNMA management planned specific actions to improve their subservicer selection process, subservicer performance requirements, and subservicer monitoring. GNMA reported all planned actions as completed as of March 4, 1991. Our verification review found that

GNMA had completed all of the actions they had established in the "Secretary's Management Report on Material Weaknesses" to improve controls over the selection, supervision and monitoring of subservicers. We agree that these actions have improved the subservicer selection process, as well as strengthened subservicer performance requirements. However, we believe that GNMA actions to improve subservicer monitoring have not progressed far enough to warrant the reporting of the material weakness as corrected.

GNMA planned to hire a contractor to monitor the subservicers. A monitoring contractor was selected on September 30, 1991. GNMA held meetings with the contractor in late October, and plans to fully execute the contract in the beginning of November 1991. Thus, we believe that GNMA should continue to report this area as a material weakness until actual subservicer monitoring has been performed and the effectiveness of the monitoring evaluated. GNMA management agreed with our position and the CFO will recommend to the Secretary that this be reported as a material weakness until the effectiveness of the contracted monitoring has been evaluated.

Financial Statement Audits

The Chief Financial Officers (CFO) Act of 1990 requires the Department to produce audited financial statements, beginning with Fiscal Year 1991. The CFO Act requires that the Inspector General, or an external auditor as determined by the Inspector General, conduct the annual audit of HUD's agency-wide financial statements and those of HUD's government corporations, the Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA). To fulfill this responsibility, we have contracted with an independent public accounting firm to provide the necessary audit and related advisory services to perform the consolidated audit. With respect to FHA and GNMA, these entities were audited prior to the passage of the CFO Act under contracts that were awarded by FHA and GNMA. Beginning with the Fiscal Year 1991 audits, responsibility for administering these contracts was transferred to the OIG.

With the passage of the CFO Act, we increased our oversight role with respect to the work that was then underway to audit the Fiscal Year 1990 financial statements of FHA and GNMA. We assisted FHA and GNMA in their administration of the audit contracts, and performed some limited reviews of the independent public accounting firm's work, primarily to prepare ourselves for our oversight role on the Fiscal Year 1991 audits. In addition, we provided input on the preparation of FHA's and GNMA's annual reports.

The audits of the Fiscal Year 1991 financial statements have begun, as required by the CFO Act. The FHA and GNMA audits are to be completed by March 31, 1992, and the HUD agency-wide audit is to be completed by June 30, 1992. In addition to overseeing the work of the public accounting firm, we are working closely with agency staff to ensure that the various activities necessary to prepare for this first time effort are completed in a timely manner.

We have established a staff whose primary responsibility is to ensure that the OIG and the rest of the Department meet their responsibilities under the CFO Act. As part of the administration of the contracts to perform the financial statement audits, this staff will be reviewing the accounting firm's work as the audits progress to provide a quality control over the firm's work and ensure compliance with Government Auditing Standards. In addition, the staff is working with the Department's Chief Financial Officer and the Council of Comptrollers on financial matters.

Audit Statistics

	4/1/91-9/30/91	FY 1991
Cash Recoveries ¹	\$39,787,584	\$82,553,205
Cost Efficiencies Realized ¹	\$2,143,998	\$28,986,563
Commitments to Recover Funds ¹	\$33,360,133	\$85,451,661
Cost Efficiencies Sustained ¹	\$3,235,101	\$29,995,277
Suspensions of Persons/Firms Doing Business with HUD	6	8
Debarments of Persons/Firms Doing Business with HUD	25	31
Voluntary Exclusions of Persons/Firms Doing Business with HUD	0	4
Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board	** 2	3
Subpoenas Served	1	13
Material Weaknesses Reported ²	4	9
Reports Issued:		
• Internal Audit Reports	17	48
• External Audit Reports	84	143
• Audit-Related Memoranda Issued	38	82
• Non-Federal and other Agency Reports Accepted	1,791	4,458

Notes:

¹ Includes amounts due to HUD program participants

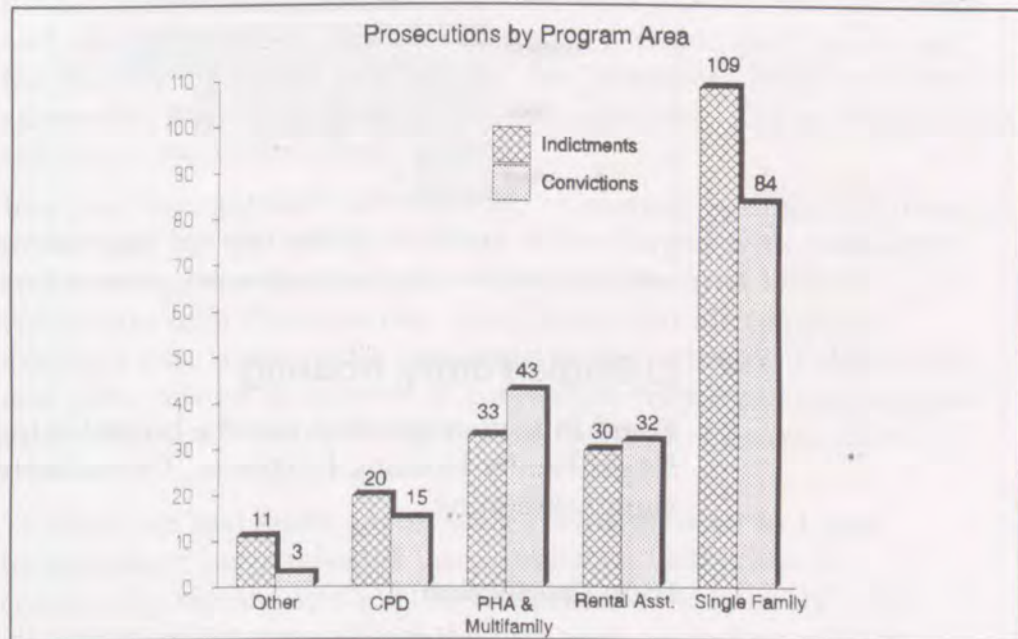
² These were discussed in our previous Semiannual Report

Chapter 2 — Investigation

Investigations in Single Family Housing Programs continued to dominate our caseload.

Task force efforts continued as the Office of Inspector General cooperated with other agencies such as the Federal Bureau of Investigation (FBI) and the Internal Revenue Service (IRS) in addressing fraud in Single Family Housing Programs. These efforts included locations in New York; Washington, D.C.; Tampa, Florida; Oklahoma City, Oklahoma; and Denver, Colorado. Our initiatives, including task force operations, resulted in 109 indictments and 84 convictions.

Overall, we had 203 indictments and 177 convictions during the past 6 months.

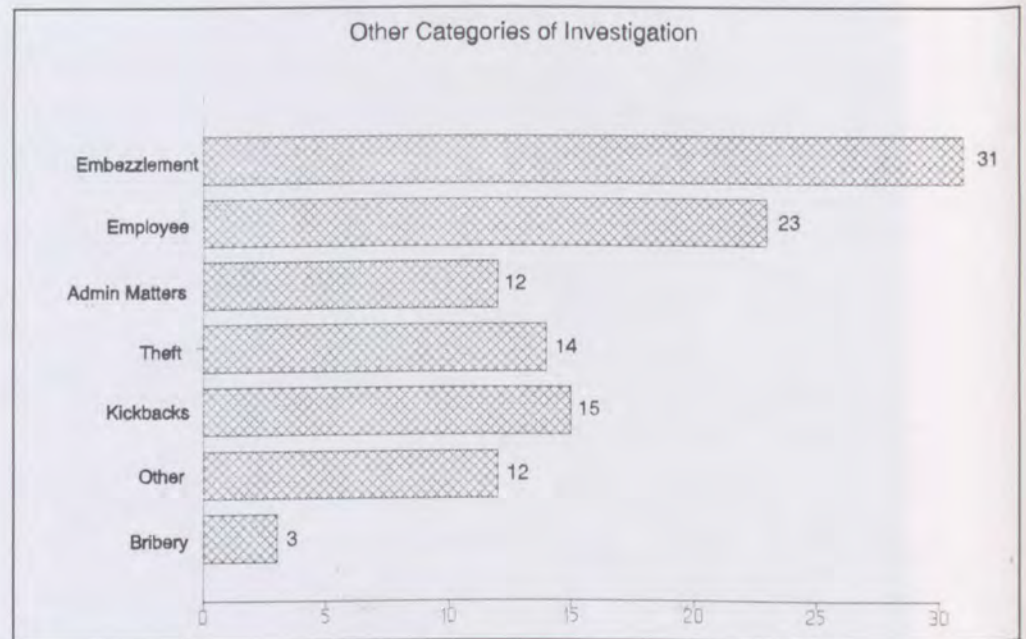


Sentences as a result of our investigations totalled 163 years of prison terms and fines of \$553,485. Administrative sanctions included 88 suspensions of individuals or firms from doing business with HUD and 101 debarments. We closed 191 investigations during the period and had 1,559 investigations pending at the end of the period.

We opened 367 investigations during the last 6 months, 257 involving false statements. Approximately 51 percent of our investigative time was spent on single family cases, representing 53 percent of our total investigations. Approximately 78 percent of the false statement cases opened concerned fraud in the Single Family

and Rental Assistance Programs. The remaining cases opened were divided among the areas of Multifamily Housing, Community Planning and Development, and Public and Indian housing.

Other categories of investigations are broken out on the following chart:



□ Single Family Housing

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

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 involve false statements regarding eligibility criteria. Losses to HUD occur when the defective loans are foreclosed and HUD must pay the claim. The cases below illustrate these types of situations:

The owner of a Long Island title company pled guilty in the largest real estate fraud case ever prosecuted in New York State. He attempted to defraud 400 investors out of more than \$20 million. The scheme involved \$250,000 in kickbacks to real estate agents, attorneys, mortgage company officials and others from 1985 to 1989, in violation of the Real Estate Settlement Procedures Act. In a plea

agreement, he will forfeit \$3 million. (*U.S. vs. Hyman J. Gaines, Eastern District of New York and New York State Supreme Court*)

A mortgage company and title service owner and four others were indicted for falsifying records and misuse of escrow funds. As a result of a HUD-OIG audit, a joint investigation with the Cuyahoga County (Ohio) prosecutor was undertaken and showed the company falsified its net worth requirements. The fraudulent act made the company ineligible to originate FHA loans. Proceeds from escrow fund investments were used for expenses of the title service. The owner, along with three relatives (wife, brother and father) and an employee, were charged with racketeering, grand theft, forgery and tampering with records. (*State of Ohio vs. Roger D. Kassouf, et al.*)

A Chicago real estate firm gained \$200,000 in commissions on sales when it falsified information on credit history, employment and down payments for unqualified buyers from 1987 to 1989. The broker and his administrative assistant were indicted for mail fraud and false statements. The administrative assistant pled guilty, and the trial for the broker is scheduled for December. Both have been suspended from participation in HUD programs. (*U.S. vs. Roosevelt Stacy and Laverne Low, Northern District of Illinois*)

In a joint investigation with the FBI, a Colorado Springs, Colorado broker and his real estate company were charged with conspiracy and making false statements to obtain FHA-insured loans in connection with 23 properties. The broker and his company executed false leases, FHA loan applications, settlement statements, and other related documents in connection with loans totalling over \$1.4 million. (*U.S. vs. Daniel Robertson and The Robertson Company, District of Colorado*)

Two Denver real estate agents were each sentenced to 1 year incarceration (suspended), 4 years probation, 200 hours of community service, and \$10,000 restitution. The joint OIG/FBI investigation determined that the two agents, together with an owner/agent, participated in a fraudulent loan origination scheme to defraud HUD. (*U.S. vs. Norman Keith Weber and Allen C. Gasper, District of Colorado*). In a second case, a part owner and agent for the same company was sentenced to 18 months confinement, \$37,892 in restitution and a \$50 assessment for his participation in the same fraudulent loan origination scheme. He was also debarred by the Department. (*U.S. vs. Richard Jorgensen, et al., District of Colorado*)

A developer was charged with mail fraud relative to a single family loan origination fraud scheme at a condominium complex. The developer routinely falsified documents relative to the payment of earnest money in the condominium transactions. Although the

developer certified that the borrowers were making the down payments, they were actually being made by the developer. The developer has been debarred by the Department. Losses at the project are estimated to be close to \$1 million. (*U.S. vs. Peter Kanelos, Northern District of Illinois*)

Other loan origination cases:

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN. SANCTIONS	OTHER AGENCY
			PRISON	PROB.	FINE	REST.		
U.S. vs. Melvin S. Shoul, District of Colorado	Sentenced	Investor signed false verifications of employment to qualify borrowers on 93 FHA loans.	1 yr					
U.S. vs. Kenneth P. Capezuto, Middle District of Florida	Sentenced	Mortgagor conspired to defraud HUD to obtain an FHA-insured mortgage.		3 yrs	\$10,000			FBI
U.S. vs. John Rico, Middle District of Florida	Sentenced	Investor pled guilty to conspiracy and bank fraud in task force case.	180 days (halfway house)	5 yrs	\$100	\$12,000	Suspended	FBI
U.S. vs. Francis S. Snoots, Middle District of Florida	Sentenced	Mortgagor made false statements to obtain 10 single family insured mortgages totalling \$345,000.		18 mos				FBI
U.S. vs. James Klim, Northern District of New York	Sentenced	Speculator falsified loan application packages on 12 properties. Defaulted loans totalled \$500,000.	6 mos	3 yrs		\$386,000		FBI
U.S. vs. George Panagos and Basil Gogos, District of Columbia	Sentenced	Two speculators assisted purchaser in falsifying documents to obtain HUD mortgage insurance and bid rigging.	6 mos 1 mo (home monitoring)	3 yrs 3 yrs	\$20,050 \$20,050		Both Suspended	FBI
U.S. vs. Patrick Rahill and Patrick Erwin, Middle District of Florida	Sentenced	Two priests formed a company to fraudulently purchase properties.		3 yrs		\$238,000	Debarred	FBI
U.S. vs. Douglas Pautsche, Northern District of Illinois	Sentenced	A principal of an Illinois firm used false employment and asset information on behalf of borrowers to obtain 5 HUD-insured loans.	6 mos (work release)	5 yrs		\$48,000	Suspended	

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN. SANCTIONS	OTHER AGENCY
			PRISON	PROB.	FINE	REST.		
U.S. vs. Barry Deane Walker and Deborah Cardwell Walter, Middle District of North Carolina	Sentenced	A Madison, NC couple falsely claimed to be owner/occupants.	10 hrs (comm. service) each	2 yrs each	\$3,025 each		Both Debarred	

Strawbuying

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 agent, real estate company, or investor to participate in the scheme. When the mortgage is foreclosed, HUD must pay off the insured loan. The cases below illustrate these types of situations:

A real estate agent in Denver, Colorado, falsified credit reports to enable strawbuyers to assume 10 insured loans. He was sentenced to 15 months in jail and 3 years probation. In a separate action in this case, a real estate salesperson pled guilty to wire fraud and was sentenced to 18 months in prison and 3 years probation. (*U.S. vs. James Crall and George Vandermeulen, District of Colorado*)

Following an OIG investigation, two real estate investors pled guilty to making false statements in a scheme where they purchased, and resold on the same day, properties financed with FHA-insured loans obtained by strawbuyers. One investor has agreed to make restitution. Both were suspended from participation in HUD programs. (*U.S. vs. Cheryl Ann Purcell and Donna Lynn Stephensen, Eastern District of California*)

A Federal Grand Jury indicted 13 individuals for their participation in a complex quick-profit real estate scheme. This scheme entailed purchasing numerous condominium properties, dividing them into single family dwellings to purchase them at greatly inflated prices using strawbuyers, processing false mortgage loan applications for HUD-insured mortgages, and not making any mortgage payments. The properties went into foreclosure. The named defendant is suspended from participation in HUD programs. This was a joint effort with the FBI, the Internal Revenue Service and the U.S. Postal Service. (*U.S. vs. Donald Austin, et al., District of Colorado*)

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. The cases below illustrate this type of situation:

A real estate speculator in Austin, Texas, was sentenced to 71 months in jail and ordered to make restitution of \$230,000 for assuming mortgages on rental properties and then skimming the rents. He was also fined \$60,000 and suspended from participation in HUD programs. The mortgages were insured by HUD and the Department of Veterans Affairs (DVA). The investigation was conducted jointly with the FBI and the DVA-OIG. (*U.S. vs. Carlie MacKenzie Davis, Western District of Texas*)

The President of a Minneapolis real estate firm was charged for his role in skimming rental funds from properties having FHA-insured mortgages. He acted as an investor and routinely collected rents from tenants without making mortgage payments on the defaulted loans totalling almost \$500,000. He is suspended from participation in HUD programs. Losses amounted to \$200,000. (*U.S. vs. Richard I. Salzer, District of Minnesota*)

Five speculators purchased 101 properties in Syracuse, New York, in an attempt to "push up" property values and derive rental income. In order to obtain HUD financing, false statements were made on applications for 47 of the properties. The landlord for these properties admitted that she engaged in equity skimming and agreed to make restitution. Also, when the City of Syracuse Housing Code was changed so that the properties could no longer be rental properties, rental income ceased and the mortgages were defaulted. The defaulted mortgages total over \$2 million. Three of the speculators pled guilty and were suspended from participation in HUD programs. One was sentenced. He received 6 months in prison, 2 years probation and restitution of \$26,496. (*U.S. vs John Kiggins, Diane Johnson, Jonathan Chandler, et al., Northern District of New York*)

Other equity skimming cases:

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN. SANCTIONS	OTHER AGENCY
			PRISON	PROB.	FINE	REST.		
U.S. vs. Michael Kondrat, Northern District of Texas	Sentenced	A Dallas investor assumed HUD-insured mortgages, rented properties and failed to make mortgage payments.		5 yrs		\$4,000	Debarred	FBI
U.S. vs. Gilbert McDonald, Middle District of Florida	Sentenced	Investor signed plea agreement involving 7 properties with a loss of \$143,000 to the government.	15 mos	3 yrs			Suspended	FBI
U.S. vs. Paul Mullins, Southern District of West Virginia	Sentenced	Mortgagor obtained \$60,000 through equity skimming while retaining ownership.	37 mos		\$15,000	\$27,751	Suspended	USPS, Charleston Police Dept.

□ Multifamily Housing

HUD insures mortgages to finance construction or rehabilitation of multifamily housing projects. Areas of fraud and mismanagement include contracting improprieties, embezzlement, bribery, and extortion by HUD employees, local officials, landowners, investors, and construction contractors. The cases below illustrate these types of situations:

After a 1-week trial, a former HUD Manager in Charleston, West Virginia, was convicted of accepting \$50,000 in bribes from a contractor in exchange for ensuring that the contractor obtained the construction contract for the HUD-assisted Lemma Village Apartments. By allowing construction costs to be inflated, the contractor was able to reimburse himself for the cost of the bribes. He was sentenced to 54 months incarceration, 3 years probation, a \$5,000 fine, and \$60,000 restitution. The contractor has not yet been sentenced. He was, however, suspended from participation in HUD programs. (*U.S. vs. Carl Smith, Southern District of West Virginia*)

The former Mayor of Miami, Florida, was sentenced to 10 years imprisonment. He had previously been found guilty of extorting nearly \$1 million from developers seeking zoning changes. He is also suspended from participation in HUD programs. This case resulted from an ongoing joint investigation with the FBI involving unauthorized costs charged against HUD programs by developers and public officials. (*U.S. vs. Raul Martinez, Southern District of Florida*)

□ Public Housing

Local public housing agencies and Indian housing authorities develop, own, and operate public housing projects. HUD furnishes technical assistance in planning, developing, and managing the projects and gives three kinds of financial assistance: funding for development costs, annual contributions for operating subsidy, and modernization funds. The cases below illustrate fraud that can occur in these situations:

The security chief of the Cincinnati Metropolitan Housing Authority was sentenced to 18 months in jail for embezzling \$370,000 by forging payroll checks based on false vouchers for security service between 1986 and 1991. A second 5- to 15-year sentence was suspended on the condition that he make restitution in the amount of \$200,000. He is suspended from participation in HUD programs. The FBI and local police participated in the investigation. (*State of Ohio vs. William Bihl*)

A public housing project manager in Hartford, Connecticut, was sentenced to 6 months in a halfway house and 3 years probation for taking bribes from prospective Section 8 tenants. The project manager is suspended from participation in HUD programs. (*U.S. vs. Enrique Ormaechea, District of Connecticut*)

The Executive Director of the Junction City, Kansas Housing Authority was sentenced to 12 months confinement, 3 years supervised probation, a \$500 special assessment, and \$33,899 restitution. The Executive Director converted over \$30,000 of Housing Authority monies for his own personal use by listing units as vacant when they were occupied. He is debarred from participation in HUD programs. (*U.S. vs. Donald C. Mellella, District of Kansas*)

Other public housing cases:

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN. SANCTIONS	OTHER AGENCY
			PRISON	PROB.	FINE	REST.		
Superior Court vs. Richard P. Kiernan, New Jersey	Sentenced	An Executive Director of Long Branch Housing Authority embezzled \$545,000.	5 yrs		\$7,500		Suspended	NJ Attorney General's Office
U.S. vs. James Wayne Hubble, Western District of Texas	Sentenced	An Assistant Executive Director of the Housing Authority of Odessa diverted building materials, labor and travel funds for his own use.		5 yrs		\$5,000	Suspended	FBI

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN. SANCTIONS	OTHER AGENCY
			PRISON	PROB.	FINE	REST.		
State of Indiana vs. Deanna Callison	Sentenced	A Linton, IN Housing Authority bookkeeper converted \$3,000 in PHA funds to her own use.	1 yr (suspended)	1 yr		\$500	Suspended	
U.S. vs. Paul Marguglio, District of New Jersey	Sentenced	Former Director, Passaic Housing Authority, sentenced for his role in the corruption of the Authority.	57 mos		\$50,000	\$395,000	Debarred	FBI, IRS
U.S. vs. Vienna June Meadows, Northern District of Georgia	Sentenced	Former employee of Atlanta Housing Authority embezzled \$37,061 from the Authority.	6 mos (in-home detention) 300 hrs (comm. service)			\$37,061 + 7% int.	Suspended	
State of North Carolina vs. Karen Chavis Graham	Sentenced	Forgery by a Housing Authority employee.	5 yrs (suspended) 100 hrs (comm. service)	2 yrs	\$512			Lumberton Police Department

Rental Assistance

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 focused our efforts on the most serious cases; results included 30 indictments and 32 convictions. The cases below illustrate these types of situations:

Operation Welcheat is a combined Federal/State multiagency task force designed to investigate welfare fraud and fraud against the government in central Illinois. It is a continuing investigation and since it began 2 years ago, 146 defendants have been charged with bilking the State and Federal welfare systems out of \$1.1 million.

Eleven tenants were indicted in Chicago for rent subsidy fraud as part of a government integrity investigation. One defendant was a Section 8 tenant who failed to report income from her spouse, the U.S. Department of State, two stores and unemployment compensation. She unfairly obtained \$17,000 in rent subsidies as a result. (*U.S. vs. Gwendolyn S. Lang, Northern District of Illinois*)

Other rental assistance cases:

CASE	STATUS	DESCRIPTION	SENTENCING				ADMIN. SANCTIONS	OTHER AGENCY
			PRISON	PROB.	FINE	REST.		
U.S. vs. Tina Watson, Southern District of West Virginia	Sentenced	A Charleston, WV public housing tenant failed to report income from employment at the Housing Authority. Received \$18,000 in ineligible assistance.		5 yrs		\$11,192		
U.S. vs. Becky Curry, Central District of Illinois	Sentenced	Section 8 tenant failed to report employment income to HUD and IL Dept. of Public Aid and received overpayment of \$20,000 in benefits.	30 days home confinement	5 yrs		\$6,000		IDPA
U.S. vs. Jeannie J. Reynozo, Northern District of California	Sentenced	Section 8 tenant failed to report employment on her Sec. 8 certificates, receiving \$22,925 in ineligible assistance.		3 yrs	\$2,000	\$22,925		

Community Planning and Development

Community Development Block Grants (CDBG) are used carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved community facilities and services.

As a result of an investigation with the FBI, a West Palm Beach, Florida developer and his associates were charged in two separate indictments. The first involved seven counts of bribery concerning payments to a former HUD employee. The second charged them with 16 counts involving fraud relating to Urban Development Action Grants and CDBG funds received for electrical contracts for Wedgewood Plaza, a HUD project. The developer was suspended from participation in HUD programs. (*U.S. vs. Leonard Briscoe, Loy Gunter, and Maurice David Steier, Southern District of Florida*)

A CDBG participant in Alexandria, Louisiana, was found guilty of making false statements, mail fraud, and embezzlement. In concert with the Executive Director of a planning commission, the participant obtained grants through the CDBG Program as well as a State block grant program to pay personal debts and also submitted false invoices in order to withdraw grant funds. The Executive Director is scheduled for trial later this year. (*U.S. vs. Lloyd A. Gillespie, dba: Mid-Gulf Forest Industries, Inc., Western District of Louisiana*)

□ Government National Mortgage Association

The Government National Mortgage Association (GNMA) provides a means of channeling funds from the securities market into the residential mortgage market.

The president of a mortgage company pled guilty to mail fraud, conversion of Federal funds, and making false statements. The charges stemmed from the embezzlement of \$11.4 million in Federally insured mortgages. He is suspended from participation in HUD programs. The charges resulted from our investigation with the FBI, with extensive assistance from our Audit staff. This is the largest dollar amount for a GNMA fraud case ever prosecuted in Puerto Rico. (*U.S. vs. Julio Caesar Paden-Torres, District of Puerto Rico*)

The president of a savings and loan and a mortgage company was sentenced to 90 months incarceration, 3 years supervised probation, \$10,298,590 restitution, and a \$900 special assessment for his conviction on several charges, including embezzlement of \$2,540,567 of GNMA funds. (*U.S. vs. Gary B. Hobbs, Northern District of Oklahoma*)

□ Prosecutions and Recoveries

As a result of our investigations, both those done jointly with other Federal, State and local agencies, and those done by HUD-OIG alone, monies are recovered and individuals and firms are prosecuted. The following two tables summarize the results achieved through our investigations.

Joint Investigations for April 1 through September 30, 1991			
	OIG/Joint Cases	Others Alone	Total
Cash Recoveries	\$15,493,141	\$676,368	\$16,169,509
Total Fines	\$532,375	\$21,110	\$553,485
Persons/Firms Indicted	153	50	203
Persons/Firms Convicted (Including pre-trial diversions)	129	48	177
Total Years Prison Sentences	132	31	163
Total Years Suspended/Probated Sentences	416	171	587

**Overall Results of Investigations
for April 1 through September 30, 1991**

	04/01/91- 09/30/91	Fiscal Year 1991
Cash Recoveries/Savings	\$16,169,509	\$30,560,928
Commitments to Recover Funds	\$261,633	\$501,771
Cost Efficiencies	\$10,872	\$3,915,231
Total Fines Levied	\$553,485	\$1,018,822
Indictments	203	371
Convictions	177	351
Investigations Closed	191	486
Referred for Prosecution		
FBI (Prima Facie-OIG Investigation)	7	26
FBI (No OIG Investigation)	3	6
Department of Justice	92	139
Other	6	13
Total Referrals	108	184
Total Years of Prison Sentences	163	310
Suspensions of Persons/Firms Doing Business with HUD	88	185
Debarments of Persons/Firms Doing Business with HUD	101	217
Personnel Actions Initiated Against HUD Employees	11	29
Subpoenas Served	105	138

Investigations Pending as of 9/30/91		
OIG	811	
FBI/Other	523	
U.S. Attorney	225	
Total Investigations Pending	1,559	

Chapter 3 — Audit Follow-up

□ Introduction

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; Accounting and Budgeting for Section 8 Funds; Payment of One-Time Mortgage Insurance Premiums; the Title I Insured Loan Program; Management of HUD's Assigned Single Family Inventory; the Housing Voucher Program - Phase II; and State Housing Agencies.

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

This report was discussed in this Chapter of our last Semiannual Report. We reported that within months of our April 1989 multiregional audit report, which discussed widespread abuse in all phases of the program, the Department initiated several measures to reform the program. The only corrective action not completed was the recovery of overpaid assistance to project owners.

During this reporting period, additional steps were taken. For non-coinsured projects, reviews were completed for 52 projects, \$4.6 million was recovered from public housing agencies and/or owners, and another \$23.5 million will be recovered through offsets against future subsidy payments to owners. Ten project reviews remain to be completed.

For coinsured projects, 18 of 63 project reviews were completed and the Department will begin pursuing recovery of the overpaid assistance for those projects. The Department will complete the remaining 45 project reviews and commence appropriate recovery actions as soon as practicable. (Report No. 89-TS-103-0005)

□ Accounting and Budgeting for Section 8 Funds

This matter was discussed in this Chapter of our last Semiannual Report. We reported that the Department continues to face a significant weakness in accounting and budgeting for Section 8 housing assistance payments and that the Secretary accepted the recommendations of a major accounting firm to implement a comprehensive plan to correct past weaknesses.

During this reporting period, several significant steps were taken to begin to develop, design, and install the needed financial management systems. Under the overall direction of the Deputy Secretary and the Chief Financial Officer, personnel from all affected HUD disciplines have worked cooperatively to outline system needs and to commence gathering needed data. Using a multilevel task force approach, the efforts are intended to produce two systems that will provide managers and budget forecasters with needed data on both a contract/project basis (Contract Financial System) and a tenant basis (Tenant Rental Assistance Control System).

This project is both resource intensive and long-term in nature. As a result, many of the specific recommendations included in our April 1990 audit report have yet to be implemented. We plan to continue to participate in, and to monitor the progress toward achieving the project's long-term goals. As part of that process, we and the program managers will reevaluate our recommendations to determine their applicability in conjunction with the overall Section 8 system enhancements. (*Report No. 90-TS-103-0010*)

□ Payment of One-Time Mortgage Insurance Premiums

This matter was discussed in this Chapter of our last Semiannual Report. We reported that final action was delayed on five of nine recommendations included in our October 19, 1989 report. During this period, two of the five recommendations were implemented. However, our recommendations regarding mortgagee fidelity bond coverage, stricter controls over mortgage insurance certificates, and increasing lender net worth still need to be implemented.

Implementation of the first two of these recommendations requires publication of new lender reform regulations. A proposed rule was placed in Departmental clearance on December 8, 1990. The proposed rule is being processed as part of the FHA reform package and is currently scheduled for publication in January 1992.

However, several delays in clearing the rule make meeting this target date improbable.

In July 1991, the Assistant Secretary requested an extension of the original February 1990 target date to December 31, 1991, for the third remaining recommendation: stricter controls over mortgage insurance certificates. Although the Office of Housing took corrective actions to improve control over mortgage insurance certificates, additional time was needed to incorporate instructions into the appropriate HUD handbook addressing controls over mortgage insurance certificates. The handbook revision was delayed and placed into Departmental clearance on October 10, 1991, rather than on July 31, 1991, as scheduled. (*Report No. 90-TS-121-0002*)

Title I Insured Loan Program

This matter was discussed in this Chapter of our last Semiannual Report. We reported that final actions had been significantly delayed on our February 1986 review of the dealer-originated portion of the Title I Property Improvement Loan Program and our August 1988 report on the Title I Manufactured Home Loan Program. Proposed regulations to correct weaknesses associated with both programs were provided to the Office of Management and Budget (OMB) on September 27, 1990, but were not cleared by OMB until January 11, 1991. Regulations were Published on January 29, 1991. Public comment was due by April 1, 1991.

During this reporting period, the Assistant Secretary requested three extensions, on three separate occasions, to final action target dates because of delays in putting the final rule in Departmental clearance and an extended clearance process. The final rule was cleared within the Department and sent to OMB for final approval on August 13, 1991. OMB approved the final rule on October 9, 1991, and it was published in the Federal Register on October 18, 1991. Final action is now complete. (*Report Nos. 86-TS-122-0010 and 88-TS-122-0012*)

Management of HUD's Assigned Single Family Inventory

Our September 30, 1989 Semiannual Report discussed our multiregional review of the Management of HUD's Assigned Single Family Inventory. Our report pointed out that Field Offices were unacceptably lax in developing loan repayment plans, initiating prompt collection and foreclosure actions, and ensuring mortgagors

obtained hazard insurance coverage. HUD's policies for establishing payment plans were defective in that they did not assure the satisfaction of debts by the end of the mortgage term. The Department also lacked a mechanism to provide mortgagors relief from declining property values and high interest rates. Moreover, management did not properly staff the servicing function or assure proper supervision and control over the activities of loan servicers.

The report included 18 recommendations, 16 of which have been implemented. Several of the actions implemented were important to the Secretary's goal of providing affordable housing. For example, on June 6, 1991, the Office of Housing implemented our recommendation to reduce interest rates to market levels in order to prevent foreclosure on certain Secretary-held single family mortgages.

The two remaining recommendations pertain to procedures to monitor Field Office performance to track loans on the Single Family Mortgage Notes System (SFMNS). The original target date of July 15, 1990, has been extended four times. Progress has been slow because of the complexities of the SFMNS. The current target date for completion is February 28, 1992. (*Report No. 90-TS-121-0004*)

□ Housing Voucher Program - Phase II

Our report, issued on November 21, 1989, noted several program areas needing improvement to assist public housing agencies (PHAs) in adjusting payment standards, verifying household eligibility status, managing budget authority and alleviating the negative impacts of the portability feature. Our report contained 13 specific recommendations to achieve these improvements. Five recommendations with an original target date of September 30, 1990, remain open. For one recommendation, two time extensions were granted, while for the remaining four no extensions were requested.

Two recommendations require the issuance of instructions addressing participant qualification and certification issues. A guidebook and a handbook are being developed by a contractor and are scheduled to be published in December 1991 and February 1992, respectively. A recommendation dealing with administrative sanctions against PHAs with repeated deficiencies in participant assistance payments will be addressed in upcoming training. For the recommendation requiring the collection of nationwide data on the program's portability feature, the Assistant Secretary is seeking an extension to September 1992, to allow time to hire staff to complete analysis of this data. The fifth recommendation requires issuance of

regulatory revisions to the portability feature in the Voucher Program. The original completion date of September 30, 1990, was extended twice and the current date is April 30, 1992. (*Report No. 90-TS-103-0005*)

State Housing Agencies

Previous Semiannual Reports have discussed significant problems relating to HUD's monitoring of State housing agencies' (SHAs') administration of Federal funds as follows:

Section 8 New Construction/Substantial Rehabilitation

Our March 1988 Semiannual Report discussed our multiregional review of the Section 8 New Construction and Substantial Rehabilitation Program and other related activities of SHAs. The audit report disclosed that SHAs were setting excessive rents and utility allowances. Factors contributing to these problems included noncompliance by SHAs with program requirements, inadequate HUD instructions for establishing annual rent adjustments and utility allowances, and inadequate HUD monitoring of SHAs' administration of the Section 8 Programs. We made eight recommendations, seven of which have been implemented.

The last open and, perhaps, most important recommendation requires HUD to revise the monitoring process to ensure more effective HUD oversight of SHA activities. On April 10, 1989, the Office of Housing promised to revise the appropriate HUD handbook to improve monitoring. Although the original target date was September 1989, the handbook is still being drafted. The Assistant Secretary has requested two extensions with a revised target date of February 25, 1992, for completion. (*Report No. 88-TS-103-0007*)

Flexible Subsidy Program

Our September 26, 1989 audit report disclosed problems with monitoring of SHAs relating to uninsured projects with flexible subsidy loans. We made eight recommendations and the Office of Housing agreed to implement each recommendation through the revision of the flexible subsidy handbook by February 29, 1990. The target date was extended three times for various reasons including the impact of H.R. 1 on funding policies. Most recently, the Assistant Secretary advised us that a contractor will revise the handbook with a target date of May 30, 1992, for final completion. (*Report No. 89-TS-111-0008*)

TABLE A **Audit Reports Issued Prior to Start of Period
with No Management Decision at 9/30/91**

Report Number	Report Title	Issue Date	Reason for Lack of Management Decision	Target Date for Management Decision
* 90AT1008	Community Development Block Grant Program Use of Program Income Atlanta GA	03/09/90	Management decisions made on 8 of 12 recommendations. Legal opinion affecting 4 remaining recommendations requested from OGC on May 1, 1991. Legal opinion received September 5. OIG is currently reviewing opinion and results will form basis for management decision.	10/25/91
* 90SF0006	Community Development Block Grant Program Interim Financing Activities San Francisco Regional Office	09/28/90	Management decisions made on 28 of 31 recommendations. Three remaining recommendations were referred to Headquarters for a decision. A Comptroller General decision has been requested. This opinion will be the basis of the management decision.	01/31/92
* 91TS1001	Tillman Smith & Company, Inc. Supervised Mortgagee Columbia SC	12/06/90	Discussions between OIG and Housing have identified a satisfactory course of action. However, the Office of General Counsel must provide implementation dates for final actions.	10/31/91
* 91TS1004	Waterford Associates Coinsured Retirement Service Center Melbourne FL	02/20/91	Offices of Housing and OGC currently reviewing proposals for corrective action.	10/31/91
* 91AT1012	Hato Rey Psychiatric Hospital Mortgagor Operations Bayamon PR	02/22/91	Discussions between the Caribbean Office and the auditee have not led to an acceptable corrective action plan with implementation dates. Management is working to develop a plan.	12/31/91
91TS1802	Highland Park Townhouses Multifamily Project Operations Kansas City KS	03/20/91	Discussions between OIG and Housing have identified a satisfactory course of action. However, Housing must provide implementation dates for final actions.	10/31/91

Note to Table A:

- * 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 9/30/91**

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
83CH1051	Detroit Housing Department Public Housing Agency Activities Detroit MI	08/26/83	11/15/84	03/01/94
85BO1011	Community Development Block Grant Discretionary Marlborough MA	05/16/85	08/21/85	12/31/91
85AT1018	Elizabethton Housing and Development Agency, Inc. Section 8 Moderate Rehabilitation Program Elizabethton TN	06/05/85	09/13/85	06/15/92
85CH1017	Promex Midwest Management Corporation Multifamily Mortgage Insurance Program Des Plaines IL	09/19/85	12/04/85	12/31/91
86SE1003	Seattle Housing Authority Tenant Utility Allowances Seattle WA	02/21/86	02/19/91	11/15/91
86TS0010	Title I Property Improvement Loan Insurance Program (Dealer Loans)	02/28/86	09/18/89	10/30/91
86KC1008	St. Louis Community Development Agency Jobs Bill St. Louis MO	04/24/86	02/04/88	04/30/92
87NY1014	Dayton Operating Company Management Agent New York NY	11/20/86	02/11/87	12/31/91
87PH1002	Maryland Community Development Administration Section 8 New Construction and Substantial Rehabilitation Annapolis MD	12/22/86	03/17/89	12/31/91
87SF1009	G and K Management Company Multifamily Management Agent Culver City CA	06/25/87	10/02/87	Note 1
87SE1007	Cook Inlet Housing Authority Low-Rent Housing and Mutual Help Programs Anchorage City and Borough AK	09/29/87	09/30/89	11/30/91*
88PH1006	Philadelphia Housing Authority Procurement Activities Philadelphia PA	03/25/88	09/20/89	03/31/93
88TS0007	Section 8 New Construction and Substantial Rehabilitation Program and Other Related Activities of State Housing Finance Agencies	03/29/88	04/10/89	02/25/92
88TS0012	Review of the Title I Manufactured Home Loan Program	08/29/88	05/23/89	10/30/91
88TS0013	Review of Economic Development and Public Facility Grants in State Community Development Block Grant Program	08/29/88	11/18/88	12/20/91

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
88SF1013	Urban Development Action Grant Program Compton CA	09/19/88	03/09/89	03/08/92
88SF1016	San Diego Housing Commission Section 8 Moderate Rehabilitation Program San Diego CA	09/30/88	09/30/89	04/30/92
89BO1005	Housing Innovations, Inc. Mortgagor Operations Boston MA	12/20/88	03/10/89	Note 1
89AO1801	Misuse of Consolidated Supply Contracts in Public Housing Agency Overcharges Office of Procurement and Contracts	** 11/23/88	07/18/89	12/31/91
89AT1010	Cumberland Cove Apartments Multifamily Mortgagor Operations Raleigh NC	01/13/89	06/16/89	03/31/92
89SF1004	Las Vegas Housing Authority Low-Income Housing Program Las Vegas NV	01/20/89	06/26/89	06/15/92
89PH1011	Community Development Block Grant Program Subrecipient Monitoring Washington DC	03/31/89	09/20/89	04/30/92
89AT1026	Urban Development Action Grant Program Riviera Beach FL	07/03/89	07/03/89	05/09/92
89TS1007	Housing Authority of Tulsa Section 8 Moderate Rehabilitation Program Tulsa OK	07/11/89	09/30/89	04/30/92
89PH1013	Community Development Block Grant Program Subrecipient Activities Philadelphia PA	07/17/89	01/12/90	12/31/91
89TS1009	Gastonia Housing Authority Section 8 Moderate Rehabilitation Program Gastonia NC	07/24/89	09/30/89	04/30/92
89TS0006	Handling of Proceeds from the Sale of Single Family Properties	08/25/89	03/27/90	03/15/92
89FW1009	Crowley Housing Authority Comprehensive Improvement Assistance Program Crowley LA	08/29/89	12/28/89	11/15/91
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
89PH1017	Dickey Hill Forest Apartments Housing Development Fund Baltimore MD	09/29/89	05/04/90	01/15/92
90TS1002	Colorado Housing and Finance Authority Section 8 Moderate Rehabilitation Program Denver CO	10/12/89	08/10/90	04/30/92
90TS0002	Multiregion Audit of One-Time Mortgage Insurance Premiums	10/19/89	10/19/89	01/15/92

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
90TS1003	Columbia Housing Authority Section 8 Moderate Rehabilitation Program Columbia SC	11/16/89	08/10/90	04/30/92
90TS0005	Multiregion Audit of Housing Vouchers (Phase II) Public Housing Agency Compliance with Processing Requirements and Use of Voucher Authority	11/21/89	03/01/90	Note 1
90AO0003	Government National Mortgage Association's Office of Asset Management	11/22/89	01/30/90	10/31/91
90SF1002	Mayor's Office of Community Development Urban Development Action Grant Program San Francisco CA	11/24/89	07/11/90	10/31/92
90BO1003	Clipper Associates Mortgagor Operations Quincy MA	11/30/89	03/23/90	12/31/91
90FW0001	Monitoring and Control over Closing Agent Activity Property Disposition Branch	12/18/89	04/17/90	03/31/92
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
90CF11006	New Center Hospital Multifamily Mortgagor Operations Detroit MI	01/22/90	06/19/90	07/01/93
90AT1007	U.S. Shelter Properties Single Family Housing State of South Carolina	02/07/90	09/18/91	04/30/92
90KC1004	Rosedale Ridge Apartments Multifamily Mortgagor Operations Kansas City KS	02/16/90	09/07/90	Note 1
90NY1023	Community Development Block Grant Program San Juan PR	02/23/90	10/16/90	10/16/91
90AT1008	Community Development Block Grant Program Use of Program Income Atlanta GA	03/09/90	Note 3	
90TS1010	Maryland Community Development Administration Section 8 Moderate Rehabilitation Program Annapolis MD	03/09/90	08/10/90	04/30/92
90FW1004	Regency Place Apartments Multifamily Mortgagor Operations Cedar Hill TX	04/05/90	07/31/90	07/31/92
90TS0009	Multiregion Audit of the Comprehensive Improvement Assistance Program	04/06/90	03/29/91	02/28/92

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
90TS1013	United Austin Mortgage Company Nonsupervised Mortgagee Austin TX	04/09/90	08/09/90	03/15/92
90TS0010	HUD's Efforts to Properly Account and Budget for Section 8 Funds	04/24/90	11/26/90	12/31/91
90TS0012	Multiregion Audit of Community Development Block Grant Rehabilitation at Entitlement Grantees	04/26/90	09/21/90	04/30/92
90TS0014	Multiregion Audit of Monitoring, Servicing, and Disposition of Title X Land Development Projects	04/30/90	07/24/90	Note 1
90TS0015	Multiregion Audit of Housing Development Grants	04/30/90	08/06/90	12/31/91
90CH1012	Jackson Housing Commission Section 8 Housing Voucher Program Jackson MI	05/22/90 **	11/26/90	11/25/91
90CH1013	Community Development Block Grant Program Benton Harbor MI	06/01/90	09/05/90	11/01/91
90NY1025	Housing Preservation and Development Section 8 Housing Voucher Program New York NY	06/04/90	03/29/91	11/15/91
90PH1014	Delaware County Community Development Block Grant Program Partnership for Economic Development and Other Selected Areas Media PA	06/12/90	11/01/90	10/27/91
90TS1015	Heritage Mortgage Company Supervised Mortgagee Chicago IL	06/13/90	03/29/91	09/16/92
90AO0006	Questionable Use of Federal Housing Administration Streamline Refinance Mortgages	06/15/90	09/28/90	11/01/91
90SF1012	Pittsburg Housing Authority Section 8 Housing Voucher Program Pittsburg CA	07/03/90	11/08/90	10/31/91
90AO0007	HUD's Consolidated Supply Program	07/12/90	02/26/91	10/15/91
90SE1008	Section 8 Loan Guarantee Assistance Program Tacoma WA	07/13/90	11/09/90	10/15/91
90PH1015	PCI Management, Inc. Multifamily Management Agent Operations Christiansburg VA	07/16/90	01/02/91	12/01/91
90BO1012	Farwell Hill Housing Development Grant Lisbon Falls ME	07/23/90**	02/01/91	01/31/92
90SF0003	Supportive Housing Demonstration Program San Francisco Regional Office	07/24/90	11/21/90	10/31/91
90TS1016	National Mortgage Corporation of Indiana Nonsupervised Mortgagee Indianapolis IN	07/24/90	02/25/91	Note 2 **

Report Number	Report Title	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	12/30/91
90CH1019	Lincoln Avenue and Crawford Home for the Aged Multifamily Mortgagor Operations Cincinnati OH	08/27/90	01/03/91	12/15/91
90FW1009	New Orleans Housing Authority Procurement of Management Contract New Orleans LA	08/30/90	12/28/90	03/01/92
90AT1018	Wilco Management, Inc. Nashville-Davidson TN	09/10/90	12/05/90	11/30/91
90CH1020	Community Development Block Grant Program Lincoln Park MI	09/11/90	01/28/91	02/28/92
90TS0016	Section 8 Contract Administrator Functions Cincinnati Office	09/13/90	02/25/91	02/25/92
90CH0008	Title I Debt Collection Management System	09/21/90	11/28/90	11/19/91
90FW0006	Section 8 Existing Housing Program Project-Based Assistance	09/24/90	01/31/91	01/10/92
90SF0006	Interim Financing Activities Community Development Block Grant Program	09/28/90	02/01/91	01/15/92
90TS1019	Waterfield Financial Corporation Supervised Mortgagee Phoenix AZ	09/28/90	03/29/91	01/30/92
91KC0001	Emergency Shelter Grants Program	10/09/90	09/30/91	06/30/92
91TS0001	Limited Review of HUD's Process for Determining Undue Concentration of Assisted Persons	10/19/90	09/30/91	06/30/92
91KC1001	French Village Apartments Multifamily Mortgagor Operations Kansas City MO	11/09/90	09/30/91	12/31/91
91TS0003	Multiregion Audit of the Section 8 Project-Based Assistance Program	11/20/90	03/27/91	Note 2
91TS0004	Multiregion Audit of the Rapid Housing Payment System	11/28/90	09/30/91	06/30/92
91TS0005	Audit of Controls over Microcomputer Hardware and Software Programs	11/30/90	08/30/91	11/15/91
91TS1001	Tillman Smith & Company, Inc. Supervised Mortgagee Columbia SC	12/06/90	Note 4	
91CH1004	Clinton Plaza Apartments and Clinton Plaza Apartments #2 Multifamily Mortgagor Operations Clinton Township MI	12/18/90	05/02/91	04/17/92
91PH1002	Community Development Block Grant Program Chester PA	12/27/90	06/12/91	12/13/91
91AO0001	Multiregion Audit of the Emergency Shelter Grants Program	12/28/90	06/03/91	04/15/92

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
91KC1003	Parkgate Apartments Multifamily Mortgagor Operations Kansas City MO	01/04/91	04/02/91	02/01/92
91AA0001	Access Controls and Operational Efficiencies for the Debt Management and Collection System	01/16/91	08/05/91	12/30/91
91TS0006	Multiregion Audit of Interim Financing (Floats)	01/17/91	06/07/91	09/30/92
91BO0801	Limited Survey of Personnel and Related Administrative Practices of Selected Public Housing Authorities	01/30/91	03/28/91	12/31/91
91TS1002	Horizon Savings Association Supervised Mortgagee Houston TX	01/30/91	03/21/91	03/20/92
91AT1008	Treybrooke Apartments Multifamily Mortgagor Operations Morrisville NC	**01/31/91	06/03/91	10/31/91
91BO1003	Gatsby Housing Associates Multifamily Management Agent Providence RI	02/06/91	06/04/91	10/31/91
91KC1004	Community Development Block Grant Program Review of Program Income and Miscellaneous Revenues Kansas City MO	02/06/91	07/24/91	10/30/91
91TS1003	Citadel Mortgage Company Coinsured Mortgagee/Mortgage-Backed Securities Issuer San Antonio TX	02/12/91	09/30/91	12/31/91
91CH1006	City of Chicago Rental Rehabilitation Program Chicago IL	02/13/91	06/14/91	05/19/92
91TS1004	Waterford Associates Coinsured Retirement Service Centers Melbourne FL	02/20/91	Note 4	
91AT1012	Hato Rey Psychiatric Hospital Mortgagor Operations Bayamon PR	02/22/91	Note 5	
91SF1001	City of San Diego Community Development Block Grant Program Program Income San Diego CA	02/28/91	06/18/91	12/31/91
91BO1006	Housing Services Corporation Multifamily Management Agent Hartford CT	03/07/91**	09/04/91	08/30/94
91PH1005	Pittsburgh Housing Authority Comprehensive Improvement Assistance Program Pittsburgh PA	03/21/91	09/20/91	01/31/92
91SF1003	Mundy Realty Area Management Broker Phoenix AZ	03/28/91	07/12/91	12/31/91

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
91FW1005	Community Development Block Grant Program Control over Program and Subrecipient Activities Dallas TX	03/29/91	07/16/91	04/30/92
91PH0004	Philadelphia Housing Authority Open-End Repair Contracts	03/29/91	09/03/91	01/31/92
91TS0009	Multiregion Audit of the Title I Debt Management and Collection System	04/30/91	09/30/91	07/31/92
91TS0010	Multiregion Audit of the Supportive Housing Demonstration Program	04/26/91	07/03/91	12/31/91
91TS0011	Review of Management Controls over Single Family Foreclosure Contractors	04/26/91	Note 3	
91TS0012	Major Reconstruction of Obsolete Projects Program	04/29/91	09/30/91	01/15/92
91TS0014	Multiregion Audit of the Approval and Monitoring of Management Agents of Multifamily Projects	04/30/91	09/30/91	09/20/92
91TS0015	Review of Accelerated Sales Initiative for Turnkey III Development	04/30/91	09/30/91	12/01/91

NOTES TO TABLE B:

Audits Excluded:

13 audits under repayment plans

18 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 Management did not meet target date. Management decision is under 1 year old.

3 No Management Decision. Decision expected by 10/25/91.

4 No Management Decision. Decision expected by 10/31/91.

5 No Management Decision. Decision expected by 12/31/91.

Table C:

**Inspector General Issued Reports
with Questioned and Unsupported Costs
at 9/30/91**

(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	70	148,277	18,971
A2. For which litigation, legislation or investigation was pending at the commencement of the reporting period	19	24,167	10,964
A3. For which additional costs were added to reports in beginning inventory	0	1,693	1,206
A4. For which costs were added to non-cost reports	8	5,405	648
B1. Which were issued during the reporting period	73	49,610	31,464
B2. Which were reopened during the reporting period	0	0	0
Subtotals (A+B)	170	229,152	63,253
C. For which a management decision was made during the reporting period	90 ¹	44,135	19,940
(1) Dollar value of disallowed costs:			
• Due HUD	38 ²	19,005	6,100
• Due Program Participants	55	17,594	8,797
(2) Dollar value of costs not disallowed	33 ³	7,536	5,043
D. For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	23	25,386	11,561
E. For which no management decision had been made by the end of the reporting period	57 (175) ⁴	159,631 (59,503)	31,752 (31,383)

NOTES TO TABLE C:

- 1 7 audit reports also contain recommendations that funds be put to better use.
- 2 13 audit reports also contain recommendations with funds due program participants.
- 3 23 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 77 for an explanation.

Table D:

**Inspector General Issued Reports
with Recommendations that Funds Be Put
To Better Use at 9/30/91**
(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	10	7,987
A2. For which litigation, legislation or investigation was pending at the commencement of the reporting period	4	5,182
A3. For which additional costs were added to reports in beginning inventory	0	0
A4. For which costs were added to non-cost reports	2	480
B1. Which were issued during the reporting period	11	1,738
B2. Which were reopened during the reporting period	0	0
Subtotals (A+B)	27	15,387
C. For which a management decision was made during the reporting period	11 ¹	6,236
(1) Dollar value of recommendations that were agreed to by management:		
• Due HUD	8 ²	3,480
• Due Program Participants	2	55
(2) Dollar value of recommendations that were not agreed to by management	2 ³	2,701
D. For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	5	5,228
E. For which no management decision had been made by the end of the reporting period	11 (18) ⁴	3,923 (3,028)

NOTES TO TABLE D:

- 1 7 audit reports also contain recommendations with questioned costs.
 - 2 0 audit reports also contain recommendations with funds due program participants.
 - 3 1 audit report also contains 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) 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

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

- Review of Legislation Regulations
- Review of Directives
- Front End Risk Analysis
- Prevention Activities
 - Computer Matching
 - Secretary's Committee on Program Integrity
 - Pilot Program for Post Endorsement Reviews
 - Monitoring Audit Quality
 - HUD Hotline
- Other - OIG Budget for FY 1992

Review of Legislation and Regulations

Based on the results of various OIG audits, investigations and actions required by new statutes and Congressional mandates, we developed and recommended revisions to legislative and regulatory proposals that addressed unmet administrative, operational and programmatic needs.

Legislative Comments

During this reporting period, we commented on various legislative proposals and also recommended that certain Congressional Committees and Subcommittees introduce, repeal and/or reintroduce legislation to achieve maximum effectiveness in HUD programs and operations.

Graham Bill

This bill was introduced to establish Federal Government performance standards and to amend the Inspector General Act to impose additional investigative and reporting responsibilities. The bill would require HUD to include in the Secretary's Semiannual

Report to Congress: (1) a statement of goals; (2) the effectiveness in achieving the stated goals; and (3) an assessment of the actions taken to achieve stated goals. We commented that the bill oversimplified the sound concept of accountability through performance measurement. In our view, such objective, quantifiable measures are not readily available. Moreover, the underlying performance and cost systems are not in place. Lastly, we were concerned that the bill introduces other matters which affect the independence of the Inspector General. The bill appeared to seek to have IG's assume an operational role rather than remain as an oversight entity. HUD submitted its comments, in coordination with our office, to the Office of Management and Budget (OMB).

Byrd Amendment

The Byrd Amendment prohibits the use of "appropriated funds" to pay any person to influence an employee in the Executive Branch with respect to certain Federal actions. During this reporting period, testimony was submitted to the Employment and Housing Subcommittee on HUD Reform. Questions were raised on how Byrd Amendment requirements regarding consultant registration could be strengthened.

In a letter to the Chairman of the Employment and Housing Subcommittee, we provided the following suggestions on how the amendment could be more responsive to the need for limiting lobbying activities.

One suggestion dealt with the Act's reporting requirements. Since the Byrd Amendment only applies to the applicant or recipient of Federal funds, we believe the legislation would be more effective if the statutory reporting requirements applied to both the person paying for the lobbying services as well as the person receiving the payment. Enforcement of this statute would be further enhanced by including specific recordkeeping requirements. The statute is now silent in this regard.

We also indicated that we were concerned about the lack of clear definitions. At a minimum, it would be useful to include within the statute a more precise definition of covered conduct, as well as specific examples of conduct that is not covered. In that regard, clearer definitions of words and terms used in the statute, e.g., "lobbying," "professional," and "technical services" would be helpful. On the other hand, if some terms such as "technical requirements" are a matter of legal interpretation, then submission to an agency's General Counsel would seem appropriate.

In summary, the absence of reporting requirements for the party providing lobbying services, as well as the general absence of any recordkeeping provisions, and the lack of clear definitions along with specific examples, impact on the law's effectiveness. Moreover, this situation is further compounded since present statutory exceptions are subject to broad and varying interpretations. We feel that appropriate amendments to the law would enhance agency monitoring and enforcement.

Other Legislative Proposals

We provided copies of legislative proposals on various matters to the Chairman of the Committee on Banking, Finance, and Urban Affairs.

Financial Incentives

The first two proposals would establish financial incentives for public housing agencies (PHAs) and owners of subsidized projects that would encourage them to administratively pursue cases of tenant fraud and misrepresentation. The first proposal would permit the Department to pay an owner for rent lost in connection with the eviction of a tenant. HUD could make such payments where the owner found that the tenant failed to provide complete and accurate information on income or family composition, resulting in the tenant's receiving excessive assistance. The second proposal would expand the scope of situations where a PHA can retain a portion of the monies it recovers in connection with litigation and administrative repayment agreements. In connection with its review of HUD's draft FY 1992 bill, OMB turned down these two proposals commenting that a "bounty" to owners or PHAs should not be offered or expended for the enforcement of existing regulations. We have recommended an appeal of OMB's rejection of these two proposals. We do not believe that these proposals unduly reward owners and PHAs for taking extraordinary actions beyond the scope of what is now required by existing regulations. These proposals should help ensure that only eligible families are housed in HUD-assisted housing and that they are paying the correct rents. The Department has reintroduced them in the FY 1993 legislative package.

Bankruptcy Code Revision

We suggested a revision to the Bankruptcy Code to overcome situations where multifamily mortgagors use the bankruptcy code to forestall the foreclosure of their projects for the primary purpose of protecting tax benefits. The Secretary submitted this proposal on June 14, 1991.

Dealer and Loan Broker Origination

We proposed the prohibition of dealer and loan broker participation in the origination of Property Improvement Loans under Title I. An inherent conflict-of-interest exists when the same firm that sells the product also qualifies the borrower. We have repeatedly reported widespread abuses. We recommended that this section be reintroduced. It is being proposed for resubmission in the FY 1993 bill.

Repeal of a Provision Enabling Direct Contracting With Appraisers

We have also recommended that a proposal be repealed that permits Direct Endorsement lenders to contract directly with appraisers of their choice. Such an arrangement would result in the end of HUD's rotational assignment of appraisers. Without this rotational assignment, there is little protection of the government interest, and the Department of Veterans Affairs could no longer accept HUD value determination for converting loans for VA financing. This matter was brought to our attention by the Secretary of the Department of Veterans Affairs. We recommend that this proposal be repealed to protect the government's interests.

□ Review of Directives

As required by the Inspector General Act of 1978, the OIG reviews all proposed legislation and regulations affecting HUD programs and operations. 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.

During this reporting period, significant work was devoted to reviewing numerous Departmental programmatic and operational policies, guidelines and regulations which have resulted from the HUD Reform Act. Our work has concentrated on reviews of proposed and final regulations, reviews and analyses of various policy directives, and audits of operational systems.

During this reporting period, we reviewed a total of 145 proposed or final regulatory documents, legislative bills, and policy directives, nonconcurring on 19. Outlined below are several significant items that we reviewed and commented on.

Report to Congress: Maximum Title I Loan Amounts

This report was developed to urge Congress to support increasing the maximum loan amounts for HUD-insured property improvement loans. We nonconcurred because the report was overly positive on the "health" of the Title I Property Improvement Program. The report also failed to recognize previous IG audits which identified systemic problems with the program. We believed the report tended to suggest that there would be no effect on claim rates even though there was evidence that HUD's exposure to an increased level of claims would result from increasing the maximum loan amount. We met with representatives from the Office of Housing and certain modifications to the report were made. We lifted the nonconcurrency and the report was published and transmitted to Congress.

Proposed Notice: Multifamily Early Warning System

Our nonconcurrency on this proposed notice was based on an OIG audit (Report No. 91-TS-111-0014) which disclosed significant violations of HUD policy by management agents which contributed to both the physical deterioration and financial instability of multifamily projects. The proposed notice did not address many of the concerns that were included in the audit report, so we made several recommendations including the need to implement better tracking systems and procedures. While we supported the need for the Early Warning System, the proposed directive did not have sufficient information on the identification and implementation of the proposed system. We were particularly concerned that each Field Office would be given latitude for establishing its own process for assuring that data input controls were developed to assure the integrity of the information. We recommended that certain controls and a personal computer application be developed for maintaining this information. The Office of Housing addressed each of our concerns and modified the notice accordingly. They also indicated that a personal computer application was presently being tested. Based on these actions we lifted our nonconcurrency and the notice was issued.

Proposed Notice: Delegation of Authority To Foreclose Multifamily Housing Projects

The primary concern resulting in our nonconcurrency on this notice was based on a number of OIG audits in which we found numerous instances of mismanagement by HUD and abuse by management agents and mortgagors on the foreclosure sales of multifamily projects. Our audits found that delays in foreclosure sales were costing the Department significant amounts of dollars. In order to

lift our nonconcurrency, we wanted time frames to be established for Regional Counsels to complete their work and target dates established for the sales to take place; additional mandatory actions to be listed in the notice that HUD could take when mortgagor/agent abuse was uncovered; and a section to be included to address mismanagement and fund diversions. The Office of Housing agreed with our recommendations and made the changes to the notice.

Proposed Notice: Reviews of Comprehensive Housing Affordability Strategies (CHAS)

In commenting on this proposed notice, we suggested that the instructions, policy, and procedural guidance be clarified and more specific to achieve consistent and qualitative reviews among Regional and Field Offices. We also believed that the broad review discretion afforded by the notice, without the establishment of minimal criteria for reviewing the various types of strategies that were expected to be submitted, opened the process to perfunctory reviews and processing, and subjective evaluation and/or favoritism. Our comments on the notice were based on our belief that Congress intended the CHAS to be the cornerstone for coordinated local and regional housing strategies on which various funding programs were dependent. With such an emphasis placed on the CHAS, we felt strongly that HUD should provide quality reviews of the CHAS submissions to ensure that affordability strategies were of high quality. The program office considered our comments and made a number of revisions to the notice to strengthen the text and provide better guidance.

□ Front End Risk Analysis

HUD policy requires that a Front End Risk Analysis (FERA) be prepared on all new programs as well as on programs where substantial changes are being made. A FERA includes a management analysis of a program's vulnerability to fraud, waste and mismanagement. The process provides for establishing program control objectives and control techniques, and quantifying risks and planned actions. Basic responsibility for prospectively assessing management controls in new or modified programs remains with the appropriate principal program offices. Overall administration of the FERA Program was transferred on an interim basis in August 1990 to the Assistant Secretary for Administration and permanently in January 1991 to the Chief Financial Officer (CFO). OIG participates in reviewing draft FERAs.

Because of the expressed interest of the Secretary and Deputy Secretary in ensuring that HUD's new programs are effectively managed, and Congressional enactment of the National Affordable Housing Act of 1990, more FERAs were prepared in FY 1991 than in any preceding fiscal year. We reviewed over 20 FERAs this year. In addition, others have been identified by program officials and are in various stages of completion.

During our reviews of these analyses, deviations from the previous process prompted us to recommend to the CFO a change in the process. The CFO needs to clarify what comprises an acceptable product and when and how much should be submitted for review. FERA preparers should be trained in the basic concept of risk assessment and other technical requirements to ensure consistent preparation of FERAs in the Department.

□ Prevention Activities

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

Two new Tenant Integrity Program (TIP) publications were prepared. In conjunction with the Office of Housing, we completed a booklet for owners and agents in Multifamily Housing Programs. The booklet is titled "Locking Out Tenant Fraud and Error" and is a synopsis of the TIP Guide. The purpose of the booklet is to assure that all owners and agents will be informed of the TIP program and its benefits. Over 15,000 copies were given to subsidized project owners and agents by the Office of Housing.

The second publication is a TIP Guide directed to Indian Housing Programs. The Office of Indian Programs assisted us in revising the material to make it relative to the Indian environment. We also conducted a "train-the-trainers" session at the end of September for the Indian Housing staff from each Regional Office with Indian Housing Programs.

Computer Matching

Computer matching is a comparison between two or more automated systems of records. In the case of tenant income matches, the State's computerized data base of quarterly wage and unemployment benefits is compared with the public housing agency's (PHA's) income information reported by tenants. OIG has been responsible for computer matching since 1985 and has

implemented several projects, such as the Delaware and Chicago projects. In Fiscal Year 1993, the Office of Public and Indian Housing (OPIH) will accept the responsibility for this effort. We plan to transfer experienced staff to OPIH so that the momentum can be maintained.

Delaware Project

On August 13, 1991, the Lieutenant Governor of Delaware, HUD's Philadelphia Regional Administrator, the Inspector General, and PHA Executive Directors signed a "Declaration of Mutual Goals for the Elimination of Program Fraud" to launch computer matching in Delaware. The ceremony highlighted the high degree of cooperation among State and Federal agencies to establish these PHAs as models for the Nation.

As reported in our previous Semiannual Report, we have made an effort to combine our Tenant Integrity Program with computer matching projects. To date, we have had staff from all five Delaware PHAs attend a TIP workshop. We have negotiated with the State Department of Labor agreements that would give the five PHAs direct access to computerized wage and unemployment data. Similarly, we are working with the State Department of Health and Social Services on an agreement that would provide the PHAs on-line access to welfare, child support and vital statistics data bases. HUD has approved the funding for the PHAs to continue their TIP efforts. The approved funds could be used to contract with the Delaware State Prosecutor to handle prosecution of cases. The State Prosecutor has indicated an interest in such a contract.

Chicago Matching Project

A matching project in Chicago identified 83 families who underreported \$2.4 million in income. This resulted in \$546,000 in excess housing assistance payments. We limited our reviews to those cases where there was a difference of more than \$10,000 between the tenant's file and the State wage files. We had 568 such cases. We recommended that the Chicago Housing Authority implement stronger controls and start recovery actions where appropriate.

Consent Form Issued

The Computer Matching and Privacy Protection Act of 1988 amended the Privacy Protection Act of 1974 to expand the safeguards and verification requirements applicable to data that will be used in Federal computer matching programs. The Act requires, in part, that Federal agencies give adequate notice to participants

that their records may be matched. The McKinney Act requires HUD to obtain signed consent forms from all participants.

With the publication of program regulations, we were able to have the first consent form issued in April. We currently have the "Authorization for the Release of Information" forms for all potential applicants and tenants of multifamily housing programs and/or public housing. The form incorporates the requirements of the McKinney Act and gives notice that computer matching may be done to check the information given by the tenant.

Secretary's Committee on Program Integrity

The Committee, established by Secretary Kemp, undertakes projects that evaluate courses of action which are intended to benefit HUD programs and makes recommendations to help the Secretary decide how to best administer these programs or operations.

Accountability Monitoring

The focus of this project is on helping HUD managers prioritize those HUD program participants and operations most susceptible to abuse. The goal is to be able to better direct our monitoring efforts to those areas.

The Committee has drafted a guide to implement the concept. It covers essential aspects of identifying programmatic risks, establishing monitoring standards, scheduling monitoring based on a point value system, and considering sanctions for repeated abusers of HUD requirements. Training staff to apply the concept and reassessing risks on a regular basis are also addressed in the guide.

Pilot Program for Post Endorsement Reviews

Concern about potential fraud and the need for more in-depth reviews to identify problems in the mortgage origination process resulted in the development of this pilot program. While most of the loans originated by Direct Endorsement lenders comply with HUD requirements, our audits have shown some problems. The purpose of this pilot program is to identify program violations and possible fraud. The program was jointly designed by the Office of Housing's Insured Single Family Housing and Lender Activities offices and our office. Problems found will be reported to the Direct Endorsement lender for response.

In addition to a checklist Field Offices can use to focus on specific indicators of fraud, we will be creating an information data base which will be used for trending loan origination problems. This will

be used by the Office of Lender Activities in selecting locations for more in-depth analysis for compliance with HUD regulations. The test program was conducted in Fort Worth and Houston, Texas; Phoenix, Arizona; and San Diego, California.

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
4/1/91 - 9/30/91

	(COGNIZANT ASSIGNMENTS AND GENERAL OVERSIGHT ENTITIES)			(HUD PROGRAM AUDITS)			
	Independent Public Accountant	State and Local Auditor	Total	Independent Public Accountant	State and Local Auditor	Total	Grand Total
A. STATISTICAL TABLE Total Reports Issued ¹	1,676	61	1,737	7	0	7	1,744
1. Reports Issued Without Changes or with Minor Changes							
a. Based on desk review	1,624	61	1,685	0	0	0	1,685
b. Based on QCR	1	0	1	3	0	3	4
Total	1,625	61	1,686	3	0	3	1,689
2. Reports Issued with Major Changes							
a. Based on desk review	49	0	49	** 0	0	0	49
b. Based on QCR	2	0	2	4	0	4	6
Total	51	0	51	4	0	4	55
3. Reports with Significant Inadequacies							
a. Based on desk review	0	0	0	0	0	0	0
b. Based on QCR	1	0	1	5	0	5	6
Total	1	0	1	5	0	5	6
4. Total Quality Control Reviews Performed Including Reports not Issued	3	0	3	7	0	7	10
5. Number of Auditors Referred to State Boards/AICPA	1	0	1	3	0	3	4
6. Number of Auditors Suspended, Debarred, Voluntarily Excluded	2	0	2	1	0	1	3

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.

Frequently Identified Audit Deficiencies

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

We frequently encountered situations where an 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.

Examples of Extremely Deficient Audits

A Certified Public Accountant (CPA) audited a public housing agency (PHA) in Florida. We conducted a QCR and found that the CPA did not adhere to certain AICPA auditing standards and Government Auditing Standards. We found that the CPA had a combination of relationships with the PHA which impaired his independence. These relationships included applying for the position of executive director prior to completion of the audit, providing accounting services through a fee-accounting affiliate, acting as a consultant to the PHA for a 3-month period which overlapped the period of the field work, and explaining PHA financial information to the PHA Board of Directors. In addition, the CPA's working papers did not provide a reasonable basis for his opinion on the PHA's financial statements. Because of the CPA's lack of independence, we referred him to the AICPA and the Florida State Board of Accountancy for disciplinary action. We have also proposed that the CPA be debarred for a period of 3 years.

We conducted a working paper review of an audit of an insured multifamily project. Our review disclosed significant departures from AICPA auditing standards and Government Auditing Standards. We found this CPA was not independent of the auditee, because a partner in his accounting firm was an owner of the multifamily project. Although the CPA performed the audit and signed the report as a sole practitioner, he is a stockholder in the accounting firm which employs him. The CPA admitted to us that he does not maintain an accounting practice outside of the firm. Thus, his performing the audit as a sole practitioner was his attempt to circumvent an auditor/auditee relationship that was less than

independent. Our review also disclosed other deficiencies including working paper and reporting deficiencies which the CPA subsequently corrected. The CPA was referred to the AICPA and the Minnesota State Board of Accountancy for disciplinary action due to the independence matter.

We conducted a working paper review of three audits covering one insured multifamily project for 2 succeeding years and one project for a single year. Our reviews disclosed significant departures from AICPA auditing standards and Government Auditing Standards. The CPA's working papers contained detected but unreported compliance deficiencies on the part of the auditee. In addition, we found deficiencies relating to supervision of assistants, support for amounts shown on financial statements, and management's representation letter. Also, the CPA was uncooperative about making the necessary corrections to his working papers. As a result of these deficiencies, we referred him to the AICPA and the Missouri State Board of Accountancy for disciplinary action.

Suspensions and Debarments

During the reporting period, one practitioner was debarred for 3 years. Recently two practitioners were suspended pending debarment and two were issued notices of proposed debarment. Following the expiration of a 30-day period, the proposed debarment becomes final if the CPA does not appeal the action.

Referrals to State Boards and the AICPA

During the reporting period, actions were completed on four CPAs referred to State Boards and three CPAs referred to the AICPA in prior reporting periods.

Penalties assessed by the State Boards in these four cases included a \$1,000 fine, two suspensions of licenses for 1 year each, a lifetime ban on performing governmental audit work, and requiring additional hours of continuing professional education.

The AICPA discontinued its investigation of one case due to a Kansas statute which precluded the CPA from cooperating with the investigation. In the another case, the AICPA directed the CPA to complete 40 hours of continuing professional education in specific subjects and have a subsequent engagement review by the AICPA, the results of which will determine if further corrective action is necessary.

HUD Hotline

Utilizing a new automated voice response system to receive calls, we received 587 that generated new complaints. Of these, 155 are being tracked by the Hotline; another 432 local issues or information requests were sent to the HUD office having jurisdiction over the area.

Over 48 percent of the controlled complaints were made against HUD program administrators, e.g., grantees, public housing agencies, management agents, etc., and another 41 percent concerned HUD employees or procedures.

Complaints closed during the period totalled 119. Of these, 23 percent were found valid and generated corrective actions. Monetary actions totalled \$912,277. These consisted of fines, claims collections, deobligations of funds, etc. The table below further details the results of actions taken on the completed cases. Specific examples of actions taken on cases closed during this reporting period are:

- A grantee was required to reimburse HUD \$200,000 plus interest to repay a transitional housing rehabilitation grant advance, and another \$654,965 was deobligated. These actions followed the cancellation of a proposed transitional housing project since 2-1/2 years had elapsed from the date the grant agreement became effective. This was considered an unreasonable length of time not to make any progress on the project.
- Mortgagors repaid \$3,585 in ineligible Section 235 subsidy following an investigation which found that they reported only one-tenth of the money received from a child care business conducted in their home. Also, they did not report several thousand dollars received from workman's compensation. Part of the unreported income was identified from the mortgagor's loan application to purchase an automobile.
- An Executive Director of a public housing agency was debarred for 3 years, ordered to serve 4 months in prison, placed on 4 years probation, and required to repay the agency \$30,098 for using agency funds to pay for work done on his residence and for the purchase of personal items.

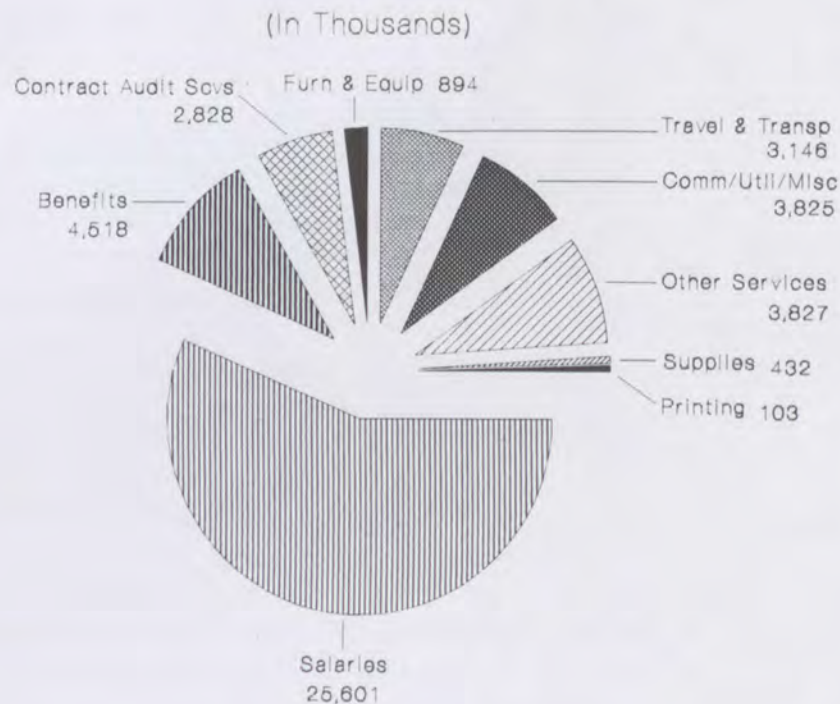
**Results of Completed Hotline Cases
April 1 through September 30, 1991**

ACTION	STATISTIC
Monetary Actions	\$912,277
Months of Administrative/Penal Actions	136
Participants Given Benefits Due to Program Enforcement	3 cases
Procedural Improvements	10 cases
Staff Counselling	7 cases
Removed from HUD Programs	4 cases

OIG Budget for FY 1992

The OIG appropriation provides funding for the necessary expenses to carry out the provisions of the Inspector General Act of 1978, as amended. It finances the costs of conducting and supervising audits and investigations relating to the programs and operations of the Department to promote economy, efficiency and effectiveness and to prevent and detect fraud and abuse in such programs and operations. It covers Headquarters and Field operations, general management, and administration. The OIG FY 1992 budget request has an approved staffing level of 592 full-time equivalents (FTE). However, due to a funding shortfall, the budget request of \$45.1 million will only fund a staffing level of 554 FTEs.

Office of Inspector General Fiscal Year 1992 Budget



A breakdown of the FY 1992 budget request is depicted above. The major categories of funding (salaries, benefits, other services, travel and transportation and contract audit services) represent 88 percent of the budget. The remaining 12 percent consists of support and administrative services including communications, utilities, furniture and equipment, and supplies. Because of the labor intensive nature of the OIG function, a large percentage of resources is provided for salaries and benefits.

Contract audit services consist of contracts and interagency agreements, primarily with the Department of Health and Human Services and the Defense Contract Audit Agency, who have cognizance to conduct audits of certain organizations and universities with whom HUD has business. Travel and transportation funds allow for travel by OIG personnel in accomplishing the audit and investigative function. Other services provide funding for training, maintenance of equipment and software, reimbursable agreements, miscellaneous small contracts, and the Working Capital Fund (which pays the administrative and operating expenses shared by all of the Department).

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.

- An Equal Opportunity Specialist was given a 30-day suspension for misusing a government vehicle, theft of services, and filing false travel vouchers. Over a 3-year period, the employee drove assigned government vehicles and rental cars more than 6,000 miles in excess of what would have been required to accomplish official duties.
- An Auditor was suspended for 14 days for unprofessional behavior during the conduct of an audit. The auditor additionally suggested his own hiring by the management firm.
- A Property Disposition Clerk was removed from duty after falsifying her SF-171 by not admitting that she had been on probation for 2 years on a theft charge. The matter came to the attention of management when the clerk was arrested in the office on a bad check charge.
- An Administrative Officer was terminated from HUD employment after being charged with the theft of \$513 from the office imprest fund and misuse of a government credit card.
- A Computer Programmer Analyst was suspended for 7 days for unauthorized removal and possession of a supervisor's personal documents; failure to follow instructions; and use of loud and threatening language.
- A Clerk was suspended without pay for 40 days for unauthorized use of government telephones and services; failure to follow supervisory instructions; rude and disrespectful behavior toward his supervisor; unauthorized absences; and failure to follow proper procedures in requesting leave.
- A Clerk-Typist was suspended for 3 days and a Computer Specialist was suspended for 2 days for unauthorized use of government equipment. The employees used government equipment to create an invoice from a fictitious company to file a fire insurance claim.

- A Loan Specialist was reassigned for acting in an unprofessional manner while conducting a monitoring review. The employee disclosed information obtained about various mortgage companies during mortgagee monitoring reviews.

Appendix 1 — Audit Reports Issued

INTERNAL AUDIT REPORTS ISSUED						4/01/91-9/30/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE	
			TOTAL	UNSUPPORTED		
HOUSING						
91-BO-103-0001	05/17/91	Section 8 Year-End Settlements Boston Regional Office				
91-BO-111-0002	07/17/91	Servicing of Insured Section 8 Projects Loan Management Branch Providence RI Boston Regional Office				
91-DE-123-0002	04/01/91	Monitoring and Control of Area Management Broker Activities Property Disposition Branch Denver Regional Office				
91-PH-123-0005	05/23/91	Single Family Property Disposition Activities Property Disposition Branch Washington DC Office				
91-SE-112-0004	09/24/91	Direct Loans for Elderly Housing Projects Loans Servicing Seattle Regional Office				
91-SF-101-0003	09/05/91	Grant Application Processing in the Drug Elimination Program San Francisco Regional Office				
91-TS-122-0009	04/30/91	Multiregion Audit of the Title I Debt Management and Collection System				
91-TS-123-0011	04/26/91	Review of Management Controls over Single Family Foreclosure Contractors				
91-TS-108-0012	04/29/91	Audit of the Major Reconstruction of Obsolete Projects Program				
91-TS-123-0013	04/26/91	Control over Area Management Brokers and Related Service Contractors				
91-TS-111-0014	04/30/91	Multiregion Audit of the Approval and Monitoring of Management Agents of Multifamily Projects				
91-TS-108-0015	04/30/91	Review of Accelerated Sales Initiative for Turnkey III Development				
91-TS-108-0016	09/24/91	Review of Master Liability Insurance Policy for Testing and Abatement of Lead-Based Paint				
		12 Audit-Related Memoranda				

INTERNAL AUDIT REPORTS ISSUED						4/01/91-9/30/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE	
			TOTAL	UNSUPPORTED		
COMMUNITY PLANNING AND DEVELOPMENT						
91-AT-141-0006	07/26/91	Special Economic Development Activities Community Development Block Grant Entitlement Program Atlanta Regional Office	7,061,266	7,061,266		
91-SE-141-0003	09/18/91	Special Economic Development Activities Community Development Block Grant Entitlement Programs Seattle Regional Office				
91-TS-156-0010	04/26/91	Multiregion Audit of the Supportive Housing Demonstration Program				
		1 Audit-Related Memorandum				
ADMINISTRATION						
91-AA-166-0002	07/29/91	Controls over Public Housing Operating Subsidy Disbursements and Locks Production Software Kansas City Regional Office				
		3 Audit-Related Memoranda				
GNMA						
		1 Audit-Related Memorandum				

EXTERNAL AUDIT REPORTS ISSUED						4/01/91-9/30/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE	
			TOTAL	UNSUPPORTED		
HOUSING						
91-AT-203-1016	06/07/91	Miami Beach Housing Authority Section 8 Project-Based Certificate Assistance Program Miami Beach FL				
91-AT-202-1017	06/13/91	Pembroke Redevelopment Commission Low-Income Housing Program Pembroke NC	34,501	5,943		
91-AT-211-1018	08/02/91	Plantation Oaks Apartments Housing Development Grant and Multifamily Mortgage Insurance Programs Savannah GA	1,750,173	14,228	235,058	
91-AT-212-1019	08/14/91	Mildred and Claude Pepper Towers Review of Section 202 Mortgagor Operations Miami FL	66,451			
91-AT-214-1020	09/05/91	Florida Servicing and Management Corporation Management Agent San Juan PR	1,994,220	604,588	30,000	
91-AT-202-1021	09/20/91	Ormond Beach Housing Authority Management Operations Ormond Beach FL				
91-AT-201-1022	09/23/91	Audit of the Housing Authority of the Birmingham District Birmingham AL	4,181,456	3,246,696		
91-BO-214-1009	04/04/91	Barkan Management Company Multifamily Management Agent Boston MA				
91-BO-202-1010	04/18/91	Norwood Housing Authority Controls for Safeguarding Assets Norwood MA			278,460	
91-BO-202-1011	05/13/91	Willimantic Housing Authority Comprehensive Improvement Assistance Program Willimantic CT	119,968	119,968		
91-BO-202-1012	05/13/91	Lincoln Housing Authority Controls for Safeguarding Assets Lincoln RI	3,295	603		
91-BO-203-1013	05/17/91	Malden Housing Authority Section 8 Existing Certificate Program Malden MA				

EXTERNAL AUDIT REPORTS ISSUED					4/01/91-9/30/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
91-BO-211-1014	05/22/91	City of Burlington South Meadow Housing Development Grant Burlington VT	564,028	564,028	
91-BO-203-1015	05/23/91	Arlington Housing Authority Section 8 Program Arlington MA	38,280	38,280	
91-BO-211-1016	05/31/91	Town of Greenfield Mill House Project Greenfield MA			
91-BO-202-1017	06/06/91	Portland Housing Authority Review of Controls for Safeguarding Assets Portland CT			
91-BO-202-1018	06/24/91	Nashua Housing Authority Comprehensive Improvement Assistance Program Nashua NH	270,314	247,849	
91-BO-203-1019	07/29/91	Taunton Housing Authority Section 8 Program Taunton MA	116,800	83,674	
91-BO-202-1020	08/09/91	Wakefield Housing Authority Controls for Safeguarding Assets Wakefield MA	13,123	13,123	
91-BO-214-1021	08/09/91	First Hartford Realty Co. Management Agent Manchester, CT	2,059,129	476,777	
91-BO-212-1022	08/14/91	HEDCO, Ltd. Multifamily Management Agent Central Falls RI	874,351	874,351	
91-BO-202-1023	08/26/91	Putnam Housing Authority Controls for Safeguarding Assets Putnam CT	14,884	8,809	
91-BO-202-1024	09/16/91	Needham Housing Authority Controls for Safeguarding Assets Needham MA			
91-BO-203-1026	09/18/91	Waterbury Housing Authority Section 8 Certificate program Waterbury CT	74,815	74,815	
91-CH-219-1008	05/03/91	City of Mount Morris Housing Development Grant Program Mount Morris MI			
91-CH-201-1009	05/28/91	Warren Metropolitan Housing Authority Low-Rent Housing Program Lebanon OH	4,510		

EXTERNAL AUDIT REPORTS ISSUED					4/01/91-9/30/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
91-CH-209-1010	06/03/91	Chicago Housing Authority Computer Match Audit Section 8 and Housing Voucher Programs Chicago IL			
91-CH-221-1011	06/14/91	SGB Corporation DBA West America Mortgage Oakbrook Terrace IL			
91-CH-212-1012	07/12/91	Lakeside Towers Section 202 Elderly Housing Multifamily Mortgagor Operations Sterling Heights MI	90,963	78,450	
91-CH-202-1013	07/12/91	New Haven Housing Commission Development Cost Audit New Haven MI	221,111	221,111	
91-CH-202-1014	08/02/91	Muncie Housing Authority Safeguarding Monetary Assets and Inventories Muncie IN	**		
91-CH-202-1015	08/16/91	Leech Lake Reservation Housing Authority Low-Income Housing Program Cass Lake Reservation MN			
91-CH-221-1016	08/23/91	Mortgage Correspondents of Illinois, Inc. Single Family Mortgage Insurance Program Wood Dale IL			
91-DE-209-1002	05/08/91	Adams County Housing Authority Controls for Safeguarding Monetary Assets and Inventory Commerce City CO	15,000		
91-FW-212-1006	04/17/91	Parklane Apartments, LTD/Scott County Apartments, LTD Multifamily Mortgagor Operations Danville AR	472,927	266,973	
91-FW-203-1007	07/09/91	Pine Bluff Housing Authority Section 8 Existing Housing and Housing Voucher Programs Pine Bluff AR	2,326		
91-FW-201-1008	08/07/91	New Orleans Housing Authority Limited Review of Individual Metering of Utilities New Orleans, LA	3,400,000	3,400,000	

EXTERNAL AUDIT REPORTS ISSUED						4/01/91-9/30/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE	
			TOTAL	UNSUPPORTED		
91-FW-204-1009	09/11/91	Austin Housing Authority Comprehensive Improvement Assistance Program Austin TX	376,476	132,621		
91-KC-204-1006	04/24/91	Cochran Gardens Tenant Management Corporation Technical Assistance Grant St. Louis MO				
91-KC-212-1007	05/06/91	Tommie Rose Gardens Apartments Multifamily Mortgagor Operations Omaha NE				
91-KC-214-1008	06/12/91	Sunjay and Company Management Agent Operations Kansas City MO	505,488	307,577		
91-NY-201-1007	04/18/91	City of Oneonta Housing Authority Accounting Controls for Safeguarding Monetary Assets And Inventory Oneonta NY	107,647	65,440		
91-NY-212-1008	05/31/91	Burton Towers Multifamily Mortgagor Operations Newburgh NY	594,780	188,664		
91-NY-212-1009	05/31/91	Varick Homes Multifamily Mortgagor Operations Newburgh NY	181,071	64,117	60,375	
91-NY-211-1011	08/28/91	Hill Manor Apartments Multifamily Mortgagor Operations Newark NJ	407,619	399,045		
91-NY-211-1013	09/11/91	Town of Colonie Colonie Terrace Apartments Housing Development Grant Colonie NY	327,601	152,553		
91-NY-211-1014	09/10/91	City of Albany Bleecker Terrace Apartments II Housing Development Grant Albany NY	354,658	62,202		
91-NY-214-1015	09/18/91	James Management Company, Inc. Management Agent Buffalo NY	511,548	75,355	97,820	
91-PH-212-1007	04/16/91	Lemko Housing for the Elderly Baltimore MD	123,117	123,117		
91-PH-214-1008	04/29/91	Progressive Property Management, Inc. Management Agent Activities Virginia Beach VA	325,897	192,760		

EXTERNAL AUDIT REPORTS ISSUED					4/01/91-9/30/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
91-PH-214-1009	04/29/91	Community Management Corporation of Maryland Management Agent Operations Rockville MD	1,730,105	1,165,393	
91-PH-203-1011	07/11/91	Westmoreland County Housing Authority Section 8 Project-Based Certificate Assistance Program Greensburg PA	3,431		
91-PH-203-1012	07/11/91	Department of Community Development and Housing Section 8 Project-Based Certificate Assistance Program New Castle County DE			
91-PH-203-1013	09/03/91	Philadelphia Housing Authority Section 8 Project-Based Certificate Assistance Program Philadelphia PA	**		
91-PH-219-1014	09/19/91	Urban Redevelopment Authority Housing Development Grant Davison Square Apartments Pittsburgh PA	1,423,882		
91-SE-212-1001	04/15/91	Kirkland Union Manor II Section 202 Project Portland OR			
91-SE-212-1002	05/01/91	Hutchison House Apartments Section 202 Project Issaquah WA	1,463		
91-SE-202-1003	09/11/91	Tulalip Tribes Housing Authority Review of Fishing Income and Expenses Tulalip Indian Tribe WA			
91-SF-212-1005	05/10/91	Eden Lodge Incorporated Section 202 Property Management San Leandro CA			
91-SF-212-1006	07/11/91	CCDA Housing Corporation DBA Cathay Manor Section 202 Property Management Los Angeles CA	19,157	16,871	
91-SF-214-1007	08/23/91	Royce Enterprises Limited Multifamily Management Agent Campbell CA	1,328,683	469,205	66,675
91-SF-202-1008	09/17/91	All Indian Pueblo Housing Authority Albuquerque NM	3,225		164,837

EXTERNAL AUDIT REPORTS ISSUED						4/01/91-9/30/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE	
			TOTAL	UNSUPPORTED		
91-SF-201-1009	09/19/91	County of Los Angeles Housing Authority Review of Procurement of Additional Protective Services Los Angeles CA	4,395,267	4,395,267		
91-SF-201-1010	09/19/91	City of Los Angeles Housing Authority Review of Trash Collection Activities Los Angeles CA			77,916	
91-SF-219-1011	09/19/91	Sea Breeze Apartments Housing Development Grant Vallejo CA	161,445	14,419		
91-TS-214-1005	05/01/91	Phoenix Management Services Management Agent Raleigh NC				
91-TS-219-1006	06/21/91	York Associates, Inc. Coinsurance Loan Servicing Activities Bethesda MD				
91-TS-221-1007	08/09/91	Unity Mortgage Corporation Nonsupervised Mortgagee Atlanta GA	77,351		140,768	
91-TS-212-1008	08/22/91	Hunters Glen Apartments Multifamily Mortgagor Operations Delran NJ	212,913			
91-TS-221-1009	08/23/91	Colonial Mortgage Corporation of DC Annandale VA	204,206			
		1377 Reports Prepared by Independent Auditors and Other Federal Agencies	991,188	862,605		
		9 Audit-Related Memoranda	73,000			
COMMUNITY PLANNING AND DEVELOPMENT						
91-AT-242-1014	04/10/91	Limited Review Of Urban Development Action Grant Sheffield AL	1,190,521	160,453		
91-AT-243-1015	04/26/91	Community Development Block Grant Program Anderson County SC				
91-BO-248-1025	09/17/91	City of Somerville Section 108 Loan Guarantee Somerville, MA				
91-CH-241-1017	09/06/91	City of Detroit Community Development Block Grant Program Detroit MI	1,211,134	1,211,134		

EXTERNAL AUDIT REPORTS ISSUED						4/01/91-9/30/91
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE	
			TOTAL	UNSUPPORTED		
91-KC-241-1009	09/11/91	Community Development Agency Community Development Block Grant Program - Benefits to Low- and Moderate-Income Persons St. Louis MO	5,094,520	305,095		
91-PH-243-1010	06/12/91	State of West Virginia Community Development Block Grant Small Cities Program Bluefield WV	99,854	32,806	250,857	
91-SE-241-1004	09/20/91	City of Seattle Community Development Block Grant Program Special Economic Development Activities Seattle WA				
91-SE-241-1005	09/20/91	Pierce County Community Development Block Grant Program Special Economic Development Activities Tacoma WA	**			
372 Reports Prepared by Independent Auditors and Other Federal Agencies			392,043	370,043		
3 Audit-Related Memoranda			400,415			
ADMINISTRATION						
91-AO-262-1002	04/02/91	Final Audit of Coop Agreement and Contract Washington DC	30,982	8,853		
91-AO-262-1003	07/10/91	Incurred Cost Audit Herndon VA	3,295,868	3,286,005		
91-BO-262-1008	04/04/91	Brennan Construction Company Shelton CT				
91-NY-262-1010	08/13/91	Mid-Bronx Desperadoes Community Housing Corporation Advisory Report on Final Costs Submitted New York NY	1,227	219		
91-NY-262-1012	09/04/91	Research Foundation City University of New York Advisory Report on Final Costs Submitted New York NY	1,100	1,100		
34 Reports Prepared by Independent Auditors and Other Federal Agencies			6,981		334,755	
9 Audit-Related Memoranda			**			

EXTERNAL AUDIT REPORTS ISSUED					4/01/91-9/30/91	
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE	
			TOTAL	UNSUPPORTED		
MISCELLANEOUS						
91-TS-271-1010	09/20/91	Bowest Corporation GNMA Master Subservicer La Jolla CA				
		8 Reports Prepared by Independent Auditors and Other Federal Agencies				

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

For Copies Write to:

DIRECTOR, PUBLICATIONS AND AWARENESS DIVISION
 OFFICE OF INSPECTOR GENERAL, HUD
 451 SEVENTH STREET, S.W., ROOM 8254
 WASHINGTON, D.C. 20410-4500

**To Report Fraud, Waste, or Mismanagement
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(202) 708-4200
1-800-347-3735**

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