

**Inspector General's
Semiannual Report to the Congress
Number 27**



PROFILE OF PERFORMANCE

Audit and Investigation Activities	10/1/91- 3/31/92
Cash Recoveries/Savings ^{1,2}	\$65,746,691
Cost Efficiencies Realized ¹	\$13,493,352
Commitments to Recover Funds ¹	\$45,852,113
Cost Efficiencies Sustained ¹	\$9,826,205
Total Fines Levied	\$491,793
Indictments	271
Convictions	194
Suspensions of Persons/Firms Doing Business with HUD	98
Debarments of Persons/Firms Doing Business with HUD	86
Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board	3
Subpoenas Served	95
Material Weaknesses Reported	1
Personnel Actions Initiated Against HUD Employees	13
Program Integrity Activities	
Awareness Publications Issued	3
Hotline Complaints Received	504
Proposed Legislation/Regulations Reviewed	139

¹ Includes amounts due to HUD program participants

² Includes \$34.4 million in court-ordered restitution



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

May 29, 1992

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

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

Gentlemen:

It is with pleasure that I transmit to Congress the 27th Seminannual Report of the Department of Housing and Urban Development's Inspector General. This report covers the period from October 1, 1991, through March 31, 1992, 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.

With the issuance of the 27th Seminannual Report, it is appropriate to review the actions of the Department under this Administration. I believe that much has been accomplished to restore public confidence in the integrity of the Department's operations--a confidence which had been shattered by the HUD scandals revealed in 1989--and to improve significantly its financial management and control systems. For example,

- o The HUD Reform Act of 1989 has been vigorously implemented, and is already yielding benefits.
- o Discretionary funding has been eliminated and a comprehensive ethics program has been put in place.
- o A Chief Financial Officer has been appointed and assigned important fiduciary responsibilities.
- o HUD's field structure has been strengthened by creating a Regional Comptroller position for each HUD Regional Office. The Regional Comptrollers are scheduled to be on-board by August.
- o Sustained top management attention has been given to correcting material weaknesses in accordance with the Federal Managers' Financial Integrity Act. I am establishing a cross-cutting Departmental Task Force to focus further attention and move closer to FMFIA compliance by the end of this fiscal year.

- o Substantial resources have been devoted to improving Departmental financial management and program data systems. The Department's first long-range financial management systems integration plan has been approved by OMB and is included in HUD's Fiscal Year 1993 budget request.
- o A cycle of systematic evaluations to cover all the Department's programs has begun.

The Department's number one management priority continues to be the correction of financial management problems in the assisted housing programs, which disburse in excess of \$12 billion annually. A Department-wide project team has been established to develop an automated system to correct the payment and budgeting problems associated with these programs. This new system is called the Tenant Rental Assistance Certification System (TRACS). The Office of the Inspector General has provided valuable assistance and guidance in the progress of this project.

Taken together, these steps represent the most focused and concerted effort in HUD's 26-year history to transform the way the Department does business. I am proud of these accomplishments, and am gratified that last year the House Subcommittee on Housing and Employment gave the Department high marks for the progress we have made.

Notwithstanding these achievements, this Semiannual Report makes plain just how much remains to be done. Systemic and programmatic problems continue to be a challenge to HUD's management team.

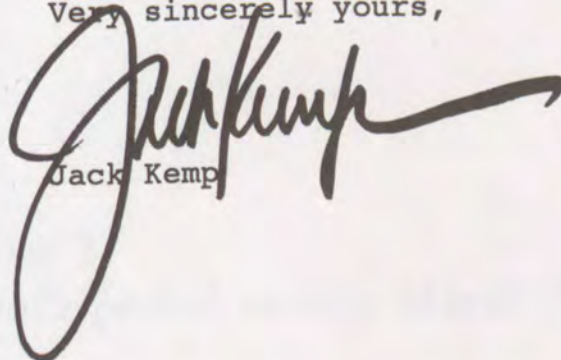
I believe that the existence of such problems says as much about the need to enhance HUD's institutional capacity to better manage ongoing risks, as it does about the need for HUD to find new solutions to meet tomorrow's challenges. The recent events in Los Angeles point directly to the need for change not just in the way HUD's organization operates, but in the way government service is provided to our clients. HUD and other Federal agencies must be more responsive. HUD must become more productive and make better use of the resources it administers.

In this time of new domestic challenges and limited budgetary resources, there is a compelling need to direct our attention to the broader questions concerning HUD's programs and management systems. I acknowledge and accept the task still ahead.

We should recognize that the management environment that exists at HUD today is fundamentally different from the one we inherited in 1989. In three years, we have corrected the course of mismanagement and have put in place the people and procedures from which HUD will acquire and continue to develop the tools and safeguards needed to carry out its mission. As a result of these first steps, over the next three years, and beyond, the challenge to build better systems to provide accurate data, improve internal controls, and increase HUD's responsiveness and accountability will be at the top of the management agenda.

I pledge that the Department will build on this framework and initiate further improvements in cooperation with the Inspector General. HUD is committed to the highest standards of program and financial integrity, and I will continue to make these concerns a hallmark of my stewardship of this Department.

Very sincerely yours,

A large, stylized handwritten signature in dark ink, appearing to read "Jack Kemp". The signature is written in a cursive style with a long, sweeping tail that extends to the right. It is positioned directly above the printed name "Jack Kemp".

Jack Kemp

**Inspector General's
Report to the Congress**

**Report Number 27
For the 6-month period ending March 31, 1992**

U.S. Department of Housing and Urban Development

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Inspector General's Message to the Congress

The demand for increasingly complex and wide-ranging audits and investigations has escalated. We continue to respond to Departmental, Congressional, OMB, and public concerns regarding various programs.

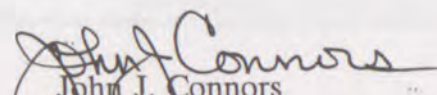
During this semiannual reporting period, specific recommendations to strengthen HUD programs and operations were made and, in most every instance, agreed to by HUD management. Accordingly, HUD program managers, acting on OIG recommendations, were able to realize cash recoveries, savings and cost efficiencies totaling \$79.2 million. Prosecutors were also successful in Federal, State and/or local courts. Persons and firms that misused HUD funds were: ordered to make restitutions totaling an additional \$34.4 million; and convicted of crimes against the Department in 92 cases.

Particularly noteworthy events were our first financial statement audits of the Federal Housing Administration and the Government National Mortgage Association, as required by the Chief Financial Officers' Act of 1990. Even more important, in our opinion, was management's heightened awareness of its fiduciary responsibilities that occurred while going through the process of generating the data contained in the financial statements.

HUD continues to strengthen managerial accountability over its programs and operations as evidenced by the significant progress in promptly responding to and acting upon OIG audit recommendations and initiating far-reaching improvements. However, despite the significant progress in many critical areas, much remains to be done. There are major systemic problems that must be overcome if the Department is to achieve its goals for reform and implement sound, risk-free programs.

We believe the Department will continue to be constrained in carrying out its mission until it has in place: an appropriate organizational structure; an effective integrated financial management system; and a comprehensive management control program. Each of these areas will require substantial time and effort to accomplish. Thus, it is essential that the Department remain focused on these issues if it expects to effectively manage its diverse program responsibilities at current staffing levels. A framework and timetable for addressing these issues must be developed and adhered to over the next few years. Continuity of leadership, management accountability, and adequate staffing are more important than ever as the Department confronts these issues and at the same time continues its day-to-day management responsibilities.

On February 28, 1992, Paul A. Adams retired as HUD Inspector General after 35 years of Federal service. The staff of this Office is dedicated to maintaining the highest standards of excellence in the tradition of Mr. Adams and his predecessors. We will continue to timely report on both the Department's problems and progress as we work closely with Secretary Kemp and the Congress to achieve our mutual goals of efficient and effective Departmental programs free from fraud, waste, and mismanagement.


John J. Connors
Deputy Inspector General

SIGNIFICANT MANAGEMENT ISSUES AT HUD

PROBLEM AREAS	OIG ¹	OIG ²	GAO ³	FMFIA ⁴	OMB ⁵
Financial Management and Accounting Systems	X	X	X		X
Section 235 Accounting System				X	
Section 8 Subsidy Payment Process				X	
Section 8 Special Claims				X	
Internal Control Weaknesses	X	X	X		
Weak Implementation of Internal Controls			X		
Data and Computer Management Systems					X
Security and Controls Over Microcomputer Hardware and Software				X	
Automated Systems for Public and Indian Housing				X	
Core Accounting Systems					X
Organization Structure			X		
Insufficient Number of Qualified Staff		X	X		
Program Management					
Program Guidance Needs Strengthening			X		
HUD Programs Not Benefitting the Needy	X	X			
Community Development Block Grant Program Float Loans		X		X	
Emergency Shelter Grants Program				X	
Use of Assets and Income of Multifamily Insured and HUD-held Projects				X	
Management of Multifamily Insurance Programs	X	X	X	X	X
GNMA Management of Securities Issuers				X	
Management of Single Family Insurance Program	X			X	X
FHA Distributive Shares/One-Time Mortgage Insurance Premium Refunds					X
Title I Debt Management and Collection Practices				X	
Approval and Monitoring of Lenders, Owners and Management Agents	X			X	
Program Execution					
Difficulty in the Implementation of New Programs		X			
CDBG Small Cities Program				X	
Housing Development Grants Program				X	
Rental Delinquencies in HUD-Owned Multifamily Projects				X	
Consolidated Supply Program				X	
Title I Property Improvement and Manufactured Housing Loans	X			X	X
Section 8 Moderate Rehabilitation					X
FHA Retirement Service Centers					X
Title I Supervision of Home Improvement Dealers by Lenders				X	
Management of Public Housing Modernization		X		X	X
Section 8 Contract Administration Functions	X	X		X	
GNMA Management of Subservice Contracts and Asset Disposition	X	X		X	
Undue Concentration of Assisted Housing				X	

¹ OIG Report to Congress for the Period of April 1, 1989 through September 30, 1989

² OIG Report to the Chairman of the Committee on Government Operations Dated February 20, 1992

³ General Accounting Office Report Dated March 1, 1992

⁴ Federal Managers' Financial Integrity Act Report Dated January 24, 1992

⁵ Office of Management and Budget Report Dated January 24, 1992

Chapter 1 - IG's Perspective of Significant Management Issues At HUD

In the spring of 1989, the Department was rocked by reports of widespread fraud, waste, abuse and mismanagement. The systemic weaknesses and related programmatic problems collectively labeled the *HUD scandals* became the subject of Congressional hearings and reviews by the Office of Inspector General (OIG), General Accounting Office (GAO), and Office of Management and Budget (OMB). The Secretary and his top management team began to aggressively deal with the reported problems through a series of reform measures. While there is agreement that HUD has either taken steps or proposed actions to address many of these problems, it is also acknowledged that until solutions are found for the most serious systemic problems, there can be no guarantees that abuses similar to those previously uncovered will not recur. The purpose of this Chapter is to provide Congress an update on our perspective on the nature and status of HUD's major problems.

The chart on the preceding page depicts HUD's significant management problems as defined by the OIG, GAO, OMB and the Department. The similarities in the lists can be viewed as both positive and negative. On the positive side, the similarity reflects a common understanding and agreement on the nature and significance of the problems. On the negative side, the similarity of the 1992 lists to the 1989 lists drives home the magnitude of the programmatic issues and the difficulty in effectively addressing HUD's longstanding systemic problems.

Our first semiannual report following the HUD scandals, Semiannual Report 22, issued September 30, 1989, provided a synopsis of 8 major HUD problems, incorporating the 14 most significant problem areas disclosed by our audit and investigative efforts during the decade of the 1980s. Those 14 problem areas are identified in the first column in the chart.

About the same time, OMB initiated a governmentwide effort to identify and act on the high risk program areas of the Federal government. The OMB list of 10 such areas, shown in the fifth column of the chart, closely parallel the major problems we reported to Congress in September 1989.

Secretary Kemp placed the highest priority on correcting the material internal control and financial management system weaknesses in all high risk areas. When the Secretary came to HUD in early 1989, there were 23 open material weaknesses. In the last three years HUD identified another 44 material weaknesses and reported correction of 45. The 22 outstanding weaknesses are shown in the fourth column of the chart.

HUD management also focused much attention on audit resolution. That focus resulted in effective action to resolve hundreds of recommendations pertaining to millions of dollars of questioned costs and strengthened program compliance.

In some high risk areas, such as the Coinsurance Program, the Section 8 Programs discretionary funding decision processes, and programs that did not benefit the needy (Retirement Service Centers and Title X Land Development Programs), steps were taken to assure integrity and fairness in the distribution of program funds. In addition, numerous actions were initiated to address the more difficult correction of longstanding systemic problems pertaining to HUD's data systems, human resources management, and internal controls. However, much work remains to be done to complete those initiatives and to assure that the corrective actions are implemented properly.

As part of a governmentwide survey, the Chairman of the House Government Operations Committee recently requested the OIGs and GAO to identify the most important problems currently facing their respective agencies. The HUD problems, identified in columns two and three of the chart, respectively, and the open material internal control and financial management systems weaknesses reported in HUD management's December 1991 *Report on Compliance with the Federal Managers' Financial Integrity Act*, are very similar and contain many of the same problems reported in 1989.

As stated previously, until systemic solutions are implemented there can be no assurance that abuses will go unchecked. The Department must remain focused on both short-term and long-term measures to address the adequacy of its data systems, human resource management, and internal controls.

The following discussion details our perspective on the nature and status of the top 10 problems currently facing HUD. Three of these problems are systemic and seven are programmatic.

□ Systemic Problems

The underlying causes of most of HUD's programmatic problems can be attributed to one or more of three systemic problems.

Data Systems

HUD does not have efficient, effective, and integrated financial management and program data systems. Adequate data systems are essential for effective management of HUD's varied complex programs, which include: \$378 billion of insurance in force and \$12.9 billion in property and other assets related to the Federal Housing Administration (FHA) fund; \$423 billion of Government National Mortgage Association (GNMA) Mortgage-Backed Securities; \$25 billion in annual budget authority; and tens of billions of dollars of long-term housing subsidy commitments.

We, as well as others, have reported, and top management agrees, that HUD systems lack credibility, are not responsive to management needs and do not provide adequate control.

More specifically systems documentation is inadequate, audit trails are incomplete, security considerations are lacking, and cost-benefit analyses and feasibility studies are often nonexistent in the systems development process.

Sufficient, reliable data is essential for effective program oversight and management decision making. Prime examples of the adverse effects of inadequate data systems are found in the multifamily housing insurance and tenant subsidy program areas described later in this Chapter. Although the dollar losses resulting from HUD's systems deficiencies are hard to quantify, we believe hundreds of millions of dollars of cost savings or efficiencies are possible through improved data systems in HUD's subsidy and insured housing programs alone.

Most of HUD's systems problems can be attributed to the lack of overall responsibility for systems management and long-range systems planning. Over the past decade HUD data systems generally evolved in a haphazard fashion through a series of short-sighted, quick-fix decisions driven by budget constraints and fragmented, parochial user interests. At the time of the HUD scandals, HUD had at least 77 separate, poorly integrated, often duplicative, and generally unreliable financial management systems. The Single Family Housing Program alone had 24 systems, and Multifamily Housing Programs had 16. Six other major program areas each had multiple supporting systems.

Secretary Kemp and his management team have taken steps to correct HUD's financial management and program data systems problems, including the following:

- Establishing a Chief Financial Officer (CFO) function responsible for overhauling existing accounting and financial reporting practices and ensuring development and operation of a sound financial management system. Controllers were also appointed for HUD's five major organizations.
- Appointing a steering committee to assist a contractor in developing a 5-year system integration plan which was approved in fiscal year 1992.
- Creating an Information Resource Management Planning Board, with representation and support from senior staff of each major HUD organization, to oversee the ADP budget planning and allocation decision making process.
- Awarding a ten year HUD Integrated Information Processing Services contract to convert HUD's multiple financial systems into one or two systems architectures, and to consolidate 35 separate procurements for systems supplies, equipment, computing, teleprocessing, and operating support.
- Implementing a new systems development methodology and ADP standard environment to make it easier to exchange data between applications and to maintain systems efficiently.

These actions should improve HUD's systems management. However, management must make every effort to identify and obtain the resources necessary to carry-out its systems integration plan and to correct specific systems deficiencies as quickly as possible. Until this major undertaking is effectively completed, HUD will be unable to manage its programs at current staffing levels.

In the past, we have recommended that steering committees, with cross-organizational representation from knowledgeable program, field office, accounting, ADP, auditing and legal staff, be appointed for each major system. Given the small size and newness of the CFO's staff, such committees would be a valuable asset in planning and carrying out systems improvements. The committees could also help to keep HUD systems on track in meeting the systems objectives established by the Federal Managers' Financial Integrity Act. Such steering committees are now being used on several major system revisions such as the core accounting and Section 8 systems efforts.

Human Resource Management

HUD's methods of determining needs and allocating Congressionally appropriated resources do not assure their most efficient and effective use. Consequently program results are not maximized and program risk and susceptibility to fraud, waste and abuse remain at high levels.

HUD staffing levels have dropped from approximately 17,000 in 1982 to just over 13,000 in 1992. As part of the effort to reduce the size of HUD, work measurement type processes were largely abandoned as a means of systematically establishing resource needs. In their place, a top down budget process dictated steadily declining resource levels with little or no relationship to actual program needs.

HUD management promised and attempted to analyze capacity issues in the past several years, but nothing substantive was completed. In 1989, HUD entered into an interagency agreement with the Office of Personnel Management for a study of workload and staffing issues in the Single Family Property Disposition, Section 8 Subsidy Payment and Multifamily Loan Management program areas. The effort was terminated due to disputes over contract objectives and performance. In January 1991, HUD told Congress it would conduct a capacity study to determine its Multifamily Housing program staffing needs. HUD was not able to deliver on that promise due to resource constraints.

Questions on the adequacy of HUD's staffing levels remain unanswered. Given the current overall budget constraints, it is probable that HUD staffing levels will be cut in fiscal year 1993. In our opinion, even existing staff levels are inadequate to effectively monitor HUD's wide range of complex programs without a significant improvement in its financial and information management systems. Such systems would allow management to better target HUD resources through the effective use of risk based management and accountability monitoring techniques.

HUD's resource management problems are compounded by its organizational structure. Under HUD's existing organization a matrix management situation exists whereby the various Program Assistant Secretaries are largely dependent upon 10 autonomous Regional and 70 Field Offices for implementing their programs. Such a structure requires close coordination and control to function effectively. HUD, however, has experienced problems of fragmented and poorly defined responsibilities, poor communication of policy and management directives, and a general lack of accountability for program performance.

Numerous studies and audits, including the Grace Commission report of the early 1980's and the GAO study on HUD Management, contained discussions on the need to change the organizational structure to improve accountability and operational readiness. Our reports over the years have criticized Assistant Secretaries for failing to ensure that critical functions are carried out at the field level. Invariably, the Assistant Secretaries respond to this criticism by saying they have little or no control over the daily activities of the field. Consequently, many good intentions for correcting major problems get caught up in the reality of who controls the staff.

HUD management has taken some important steps to strengthen procedures for communicating goals, evaluating performance, and improving operational accountability. However, this long standing organizational problem requires a more comprehensive solution to overcome the past obstacles that prevented meaningful changes.

As discussed later in this Chapter, the resource and organizational problems take on an added importance with the enactment of major new HUD programs without related staffing increases in staffing.

Internal Control Environment

HUD needs to establish an effective Management Control Program to raise control consciousness and emphasis among its management and staff, and provide an on-going process for evaluating, improving and reporting on HUD's internal control and financial management systems.

In the nine years since the passage of the Federal Managers' Financial Integrity Act of 1982 (FMFIA), HUD management has not established an effective evaluation process to meet FMFIA's objectives and provide reasonable assurance that:

- assets are safeguarded against waste, loss, unauthorized use and misappropriation;
- programs comply with legislative, regulatory and administrative requirements; and
- financial management and information systems provide management with current, relevant and reliable information for decision making and reporting.

OMB Circulars A-123 and A-127 require agencies to establish Management Control Programs that provide for periodic risk assessments and cyclical evaluations of administrative and programmatic functions and agency activities. Agency heads report annually to the President and the Congress on the results of internal control and financial management systems evaluations, identifying any material weaknesses and planned corrective actions.

Since 1983, the inception of HUD's Management Control Program, 113 material weaknesses were reported in annual FMFIA reports. Of those 113 weaknesses, 100 were identified by the OIG, 8 by contractors, 2 by GAO and 3 by HUD management. In areas such as Coinsurance, Single Family Property Disposition, Section 8 Moderate Rehabilitation and Loan Management Set-Aside Programs, the material weaknesses were reported at the insistence of the OIG over the objections of key management officials in the prior administration.

Although Secretary Kemp emphasized tracking and correcting known material weaknesses, unfamiliarity with FMFIA processes and objectives and/or a lack of support among management and staff still remains an obstacle to HUD's compliance with the important objectives of FMFIA. We attribute this in part to the fact that responsibility for HUD's FMFIA Program has shifted several times in recent years.

In the Fall of 1989, the Assistant Secretary for Administration drafted a proposal for Reforming HUD's Management Control Program. Although the proposal contained several new concepts and alternative approaches for improving the implementation of FMFIA, permanent program improvements were put on hold pending the selection of a CFO. However, the CFO was not selected until January 1991.

Our audit of FMFIA implementation in fiscal year 1991 again found HUD's Management Control Program in need of improvement. Many of the concerns expressed in our prior audits had not been addressed such as the need for:

- top management commitment, involvement and accountability;
- an independent FMFIA coordination function;
- a combined program covering requirements of OMB Circulars No. A-123, A-127 and A-130;
- evaluation along financial management system or program lines, rather than organizationally;
- documentation of control systems design/structure;
- testing of controls in operation at all Headquarters and Regional/Field Office locations;

- specifying material weaknesses and corrective actions in terms of internal control objectives and techniques;
- tracking systems to control all HUD FMFIA evaluation and corrective action activities;
- a quality assurance function over all phases of the Management Control Program; and
- increasing involvement and use of HUD staff versus reliance on outside contractors to perform FMFIA activities.

Although the CFO acknowledged the need to address our concerns, we were advised that reform of the Management Control Program was deferred in order to first correct known material weaknesses. While we agree with the priority given material weaknesses, we are concerned about the continued failure to establish and implement a Management Control Program that holds managers accountable for fulfilling FMFIA objectives in all program areas and office locations. We believe the key to successful FMFIA implementation is to incorporate the program into HUD's on-going management processes. This can only be accomplished through consistent top management support and the effective use of training and employee performance evaluation systems. As one of the largest financial institutions in the world, HUD must be capable of and responsible for achieving FMFIA objectives.

The CFO assured us that actions would be initiated to significantly improve HUD's Management Control Program in fiscal year 1992. Otherwise, HUD's Management Control Program will be reported and acted upon as a material weakness area in and of itself.

□ Programmatic Problems

HUD has made much progress in improving specific program activities through necessary changes to program policies, processes and procedures. However, there are still many significant program problems to overcome. In many cases, effective solutions to specific program problems are dependent on the resolution of the larger systemic problems discussed earlier. We believe these seven program specific areas present the greatest challenge to the Department.

Multifamily Housing Loan Servicing

Multifamily housing project owners and management agents continue to violate regulatory agreements with HUD by misusing or diverting project assets and income from project operations. This adversely impacts both HUD and low- and moderate-income program beneficiaries through increased loan defaults and physical deterioration of projects. The

problem persists because of insufficient project monitoring and failure to use available sanctions.

HUD administers mortgage insurance programs that insure private lender financing of multifamily housing projects. During the term of the HUD-insured mortgage, the project owner agrees that project assets and income will not be used for unnecessary or unreasonable project operations or unauthorized distributions to owners. Since inception, the programs have assisted in creating 3.9 million affordable rental units with insured mortgages of over \$79 billion. At September 30, 1991, HUD had over \$43 billion of Multifamily Housing Mortgage Insurance in force.

We have long been concerned about the administration of the program. For more than a decade our semiannual reports have highlighted HUD's inability to properly service multifamily insured loans, resulting in millions of dollars of diverted project assets and project deterioration.

In 1984, a HUD Committee on Fraud, Waste and Mismanagement recommended 38 corrective actions for this area. As a result of those recommendations and our continuing audit disclosures, the misuse of assets and income from multifamily projects was acknowledged as a material weakness area in 1987. The Secretary's Management Report on Material Weaknesses identified 10 action items to strengthen internal controls in this area.

In May 1991, management reported all 10 corrective actions as completed. However, our November 1991 Material Weakness Corrective Action Verification Review report concluded that weaknesses still existed, largely due to inadequate resources and data systems to adequately monitor operations and enforce HUD requirements. Although HUD had improved its loan servicing procedures, they were not being effectively implemented. Our audit work continues to show a pattern of ineligible or unsupported project costs, further demonstrating that HUD controls are not functioning as intended.

The Price Waterhouse audit of FHA's fiscal years 1989, 1990 and 1991 financial statements, reports that ". . . FHA's accounting and financial management systems do not yet provide timely, accurate, and relevant financial information The most serious systems weaknesses pertaining to FHA are for its multifamily insurance programs. Management has since initiated a major Multifamily National Systems project to provide improved systems support. This project will take time, and interim solutions are needed to better target HUD monitoring and enforcement efforts at the highest risk projects.

Staff resources, in terms of both numbers and abilities, are also a long-standing problem. In January 1991, HUD committed to Congress that it would conduct a capacity study on its Multifamily Program needs. HUD has been unable to deliver on that promise because of resource constraints. We believe the problems in the multifamily loan servicing area will

continue as a material weakness so long as the systems and staffing support necessary to monitor and enforce program requirements remain at current levels.

Asset Management and Property Disposition - Single Family and Multifamily Housing

Management controls over HUD's single family and multifamily property management and disposition activities are not adequate to preserve the housing inventory and protect the financial interests of the government. Most activities are contracted out, requiring HUD to improve its contract and procurement administration and monitoring.

The single family and multifamily programs were created to facilitate homeownership, stimulate housing construction, upgrade housing quality, and provide decent, safe, and affordable housing for low- and moderate-income families. HUD acquires mortgages or properties as a result of defaults on insured mortgages. HUD contracts with area management brokers or property managers to manage the properties until sold. Management contracts give the brokers and property managers the authority to procure goods and services needed to maintain and operate the properties, provided the procurements comply with the Federal Acquisition Regulations, HUD procurement policies and procedures, and the terms of the management contract. Single family property sales are handled by HUD field offices that contract with closing agents to handle settlements. Closing agents are responsible for making necessary disbursements at closing and transferring the monies due HUD to the U.S. Treasury after settlement.

At September 30, 1991, HUD owned approximately 32,000 single family units and 116 multifamily projects with more than 21,500 units valued at \$542 million. There are also large numbers of single family mortgages assigned to HUD, and defaulted multifamily projects awaiting foreclosure. While HUD sold 62,300 single family properties for \$3.6 billion during the year, the losses on those properties totalled over \$1.4 billion. HUD sold 11 multifamily projects in fiscal year 1991 at a total loss of \$29 million.

Our reports on property management and disposition problems date back to 1983. Past audits disclosed that millions were misspent or diverted by brokers and closing agents (e.g. Robin HUD), and that project mismanagement contributed to both physical deterioration and financial losses to the FHA fund. We found inadequate management and monitoring of procurement actions; property preservation and protection activities; and broker, property manager and closing agent activities. In addition, we found that data systems supporting these functions were not in conformance with systems controls standards and Federal directives.

Actions were taken to correct these problems. In 1989, Secretary Kemp announced steps to address the closing agent problems including a new standard closing contract, stricter documentation requirements, prompt wire transfer, swift HUD review of closing packages, and greater accountability by HUD field office managers. FHA implemented a major new

automated Single Family Accounting and Management System (SAMS) designed to track receipts and disbursements for single family properties from the time HUD assumes title until final sale. Most aspects of the system were operational as of September 30, 1991. The system was recently reviewed by our office and through our contracted fiscal year 1991 FHA financial statement audit by Price Waterhouse. We found that SAMS has substantially reduced the risk of another Robin HUD, but improved implementation and further systems enhancements are needed (see Chapter 2 for discussions of our SAMS review and fiscal year 1991 FHA financial statement audit). On the multifamily side, HUD is in the process of implementing a computerized Property Management System to provide timely, accurate, and relevant data for monitoring property manager activities.

In September 1991, the procurement function for asset management and disposition services was transferred from the Office of Housing to the Office of Administration. The Office of Administration has procurement expertise which should improve the contract award process. In addition, the separation of duties between Housing and Administration should serve to improve management controls. However, improved HUD monitoring and contractor performance are dependent on developing risk based procedures that effectively use data systems to target the efficient use of scarce housing staff resources.

Community Development Block Grant Program - Benefits to Low- and Moderate-Income Residents

HUD management needs to strengthen controls for ensuring that CDBG grantees fund only eligible activities and provide the required level of benefits to low- and moderate-income persons.

The Housing and Community Development Act of 1974, as amended, provides grants to state and local governments to fund programs for decent housing and suitable living environments and to expand economic opportunities chiefly for low- and moderate-income persons. Activities are funded to achieve one of three national objectives: benefit low- and moderate-income persons, aid in preventing or eliminating slums and blight, or to meet other urgent community needs. Under the 1987 Amendments to the Act at least 60 percent of all CDBG funds are to be used to benefit low- and moderate-income persons for a period of up to 3 years. The National Affordable Housing Act of 1990 raised the amount to 70 percent. In fiscal year 1991, the CDBG Entitlement Program provided about \$2 billion dollars to invest in community development.

Parties applying for a grant must develop a statement of community development objectives and projected use of funds. Once a grant is awarded, grantees must submit annual performance reports which HUD is required, at least annually, to review. The grant amount may be adjusted on the basis of the review findings. Because the statements of objectives are not detailed, the annual report reviews and monitoring of grantees is especially important.

OIG audits have consistently found that CDBG monies are used to fund ineligible projects, low- and moderate-income persons are not benefitted and HUD does not sufficiently monitor or supervise CDBG grantees.

On October 21, 1991 and March 18, 1992, we testified before the House Subcommittee on Employment and Housing on the systemic problems affecting the proper administration of the CDBG Program. Our testimony focused on the effectiveness of entitlement communities in meeting program goals, questionable uses of program funds, and steps needed to increase program effectiveness through improved monitoring and enforcement. The specific problems that were highlighted dealt with using CDBG funds for ineligible purposes, weaknesses in the administration of economic development activities, and the misuse of float loans and program income. Some of the individual audits that were discussed at the hearings are also summarized further in Chapter 2 of this report.

The Department has begun to take measures to more aggressively pursue sanctions and improve monitoring. Various additional measures can be taken to improve program effectiveness, including:

- Developing and disseminating clearer guidance about what are and are not proper and responsible program expenditures.
- Implementing risk based monitoring to better use available resources to address the areas most vulnerable to problems.
- Implementing better management and accounting systems to provide more timely and accurate information on how program monies are being spent.

However, implementing these corrective measures will be complicated and delayed until management overcomes the difficulties of poor data systems and inadequate staffing.

Public Housing Agencies

Significant problems in managing and operating Public Housing Agencies (PHAs) preclude HUD from achieving its goal of providing decent, safe, and sanitary dwellings to low-income families. The capability of Public Housing Agencies to manage Federal funds, as well as HUD's oversight of such agencies, must be improved.

PHAs can be any State, county, municipality, or other public body determined by state law to be eligible to engage in or assist in developing, owning, and operating housing projects. HUD relies on the over 3,000 PHAs to manage about 1.3 million units. Funds are distributed to PHAs primarily through operating subsidies, Section 8 funding, and development/modernization grants. The Federal investment in the Public Housing Program is both significant and accelerating. While local governments shared in subsidizing public

housing during the early 1950's, the Federal government is now assuming nearly all of the direct subsidy costs.

Audits by both OIG and GAO have reported that many PHAs are suffering severe financial and operational crises. Federal operating subsidies to PHAs in 1969 averaged \$2.07 per-unit per-month (PUM). By 1980 the average had increased to nearly \$74 and to nearly \$114 by 1990. The total Federal operating subsidy for 1990 was about \$1.9 billion. We found that some PHAs, particularly the larger ones, lack the administrative capacity to effectively manage Federal funds on such a large scale. While only about 5 percent of the PHAs are categorized as large (500+ units), they manage nearly 60 percent of the public housing stock.

Over the years our audits and other reviews have identified a pattern of serious operating and management problems at some large PHAs. Problems such as inefficient and ineffective maintenance, tenant management practices, and energy conservation are resulting in the loss or wasteful spending of millions of dollars in Federal funds annually. Perhaps more importantly, many of these PHAs are not providing their low-income residents with housing that meets HUD's Housing Quality Standards. Our audits have found that properties are deteriorating, vacancies are increasing, operating expenditures are unchecked, rents are uncollected, and administrative and financial practices and controls are inadequate. At OMB's request the OIG is reviewing 10 large troubled PHAs in fiscal year 1992.

HUD considers 24 large PHAs to be financially or operationally troubled. In the Department's recent budget submission to OMB, the Secretary proposed allowing residents of the HUD-designated troubled PHAs to vote on whether their housing authority should be replaced with new management. In addition, the Department has exercised its authority to declare a PHA in breach of its Annual Contributions Contract. For example, HUD has assumed control of the PHAs in Passaic, New Jersey, and Chester, Pennsylvania.

There are various reasons for the PHAs' financial and management problems. Some are statutorily based, such as the rent which can be charged very low-income families. Others are administratively based, such as poor management, increased responsibilities, complex program regulations, and ineffective HUD monitoring. HUD is in the process of implementing the Public Housing Management Assessment Program as a means to improve PHA management and performance by establishing performance goals, and various incentives and sanctions to encourage fulfillment of those goals. Although the program will help to better focus attention on PHA problems, the reasons for PHAs' financial and management problems warrant continued OMB and Congressional oversight.

Government National Mortgage Association Asset Management

During recent years, issuer defaults have dramatically increased the GNMA acquired mortgage servicing portfolio now valued at more than \$14 billion. With a staff of only 70 people, GNMA relies heavily on contracted services to carry out its program responsibilities. This reliance on external parties, coupled with GNMA's staffing limitations and past history

of poor subservicer procurement and contract administration practices, lessens the assurance that subservicer functions are adequately performed, and that claims for services and costs are reasonable or valid. Recent Congressional concerns have been raised on GNMA's reliance on contractors to carry out its program functions. These concerns are being looked at as part of an ongoing review by the General Accounting Office.

GNMA is a wholly-owned government corporation created through amendment of Title III of the 1968 National Housing Act. GNMA operations are overseen by its President and the Secretary of HUD. Through its Mortgage-Backed Securities Program, GNMA guarantees payment of principal and interest on securities issued by private institutions and backed by Federally-insured or guaranteed mortgage loans. Each year GNMA-guaranteed securities provide the financing for approximately 95 percent of all loans insured by the Federal Housing Administration (FHA) and guaranteed by the Department of Veterans Affairs.

During recent years, GNMA experienced a significant increase in issuer defaults. When GNMA defaults an issuer, it assumes issuer status. With the assistance of its subservicers, GNMA manages individual pools by collecting on current and delinquent loans, modifying loans and filing claims on assigned mortgages and foreclosed properties.

In response to our 1989 audit, GNMA's oversight of subservicer contracts was identified as a material weakness area. GNMA has taken action to correct the material weaknesses in its controls over subservicers, including improvements in subservicer selection, performance requirements, and monitoring. One of the most important actions was to hire a contractor to monitor subservicers activities and contract compliance. The monitoring contractor was selected in September 1991. GNMA management agrees that the material weakness should continue to be reported until actual subservicer monitoring has been performed, and the results and effectiveness of the monitoring have been reported, evaluated, and appropriately acted upon.

Section 8 Budgeting and Distribution of Subsidies

HUD does not have an adequate system for tracking and controlling billions of dollars of long-term Section 8 subsidy commitments. As a result millions of dollars of subsidy payments are incorrect or misdirected and HUD has difficulty in establishing program funding needs.

Since 1975, the Section 8 program, authorized by the United States Housing Act of 1937, as amended, has been the primary vehicle for providing Federally-assisted housing. The program is designed to assist low-income families to obtain decent, safe, and sanitary housing through subsidies provided to tenants or owners. Fiscal year 1992 outlays for all aspects of the Section 8 program are expected to total about \$12.6 billion. At the end of fiscal year 1992, HUD estimates that about 2.8 million units will qualify for Section 8 funding.

OIG and GAO audits, OMB reviews and Congressional hearings have identified several problems in HUD's practices and procedures for accounting and budgeting for Section 8 funds. The problems can be grouped into three main categories:

- Ineffective and inefficient processes resulting in millions of dollars of incorrect and misdirected subsidy payments.
- Division of major financial and accounting functions between field program and accounting staffs which contributes to HUD's inability to track various HUD financial operations and provide accurate budget information.
- Insufficient resources and systems to effectively and economically administer Section 8 programs as they are currently structured.

A 1990 OIG audit on HUD's efforts to properly budget and account for Section 8 funds disclosed HUD's inability to produce accurate and reliable data. To illustrate, HUD underestimated its Section 8 funding needs by \$1.2 billion when it submitted its initial FY 1992 budget request to the Congress. Subsequently OMB initiated a SWAT Team review to ascertain whether the last minute budget revision submission was supported. Our recent review of HUD's \$6.5 billion fiscal year 1993 budget request for tenant-based contract renewals raises continued concerns (see Chapter 2).

The Department's automated systems are inadequate for monitoring subsidy contracts. No one system contains all of the data needed and no system is considered reliable enough to depend on the data it does contain. The only source of accurate information is the official paper files, and they are divided among the Regional Accounting Divisions and Office of Housing Branches in Field Offices and in Headquarters.

Insufficient staffing also impacts on HUD's ability to properly manage the Section 8 subsidy process. A lack of staff as well as competing priorities led to the Department not identifying and correcting such situations as subsidy overpayments, ineligible items being claimed and paid, excessive rent and management fee charges, ineligible tenants, and subsidy payments for unoccupied units or to different entities for the same unit/tenant.

HUD contracted with Arthur Andersen for an extensive study of the Section 8 Programs, culminating in recommendations for a major integrated subsidy budgeting and accounting system. HUD is currently implementing the Control Files Subsystem and developing the Tenant Rental Assistance Certification System to address many of the above discussed problems. There are still obstacles to overcome before this system is operational. However, the Kemp administration has made an important and noteworthy departure from previous HUD practice by insisting on a long-term solution to the subsidy problem rather than opting for a "quick fix" approach which has proved so ineffective in the past. The commitment to the development of a fully integrated financial management system for the Department's subsidy programs is a significant milestone.

Implementation of New Programs

New programs enacted by the National Affordable Housing Act of 1990 pose a major challenge to HUD management to timely develop and implement plans for procedures, systems, staffing and other requirements to assure efficient and effective program implementation.

The National Affordable Housing Act of 1990 enacted the following major new programs:

- HOME INVESTMENT PARTNERSHIPS PROGRAM - HOME is a formula based program equivalent to block-grants for housing. The purposes of the program are to: expand the supply of decent, affordable housing for low- and very low-income families, with emphasis on rental housing; build State and local capacity to carry out affordable housing programs; and provide for coordinated assistance to participants in the development of affordable low-income housing. HOME's fiscal year 1992 appropriation was \$1.5 billion.
- HOPE - Homeownership and Opportunity for People Everywhere is the cornerstone of the current Administration's housing agenda. It is a multifaceted program with components for single family, multifamily, and public housing homeownership, as well as shelter plus care, family self sufficiency, and elderly independence components to provide further empowerment opportunities to low-income persons. \$351 million were appropriated for the various HOPE programs for FY 1992.
- Multifamily Prepayment/Preservation - This program was created to avoid the need to replace up to 360,000 units of low- and moderate-income housing in projects where owners have a contractual right to prepay their HUD-insured mortgages and remove their units from the low- and moderate-income housing stock. Incentives will be offered to either sell the housing to a preferred non-profit housing sponsor, or to preserve and retain the units in HUD's inventory. FY 1992 funding of \$718 million was received, and the total cost of the program is estimated at more than \$27 billion over the next 20 years.
- Public Housing Management Assessment Program - PHMAP is intended to improve Public Housing Agency management and performance by establishing performance goals, and various incentives and sanctions to encourage fulfillment of those goals.
- Comprehensive Grant Program - This multi-billion dollar program replaces the Comprehensive Improvement Assistance Program as the principal means of modernizing PHAs and IHAs with 500 or more housing units (250 or more units beginning in fiscal year 1993). CGP funds are allocated on a formula basis to provide a more reliable and predictable source of funding for modernizing larger PHAs/IHAs. The Comprehensive Grant Program also gives PHAs/IHAs greater control and discretion in planning and expending funds for modernization, rehabilitation,

maintenance, and improvement of housing developments for the benefit of lower income families. This program change increases the susceptibility of the program to mismanagement and abuse.

In 1983, HUD established a process to ensure that adequate internal controls are built into all new or substantially revised programs. The process called for identification of program risks and control objectives; description of control techniques to minimize risks; and action plans identifying milestones and responsible officials for ensuring that adequate controls are timely established as a critical part of program implementation. The Front-End Risk Analysis (FERA) process, now part of HUD's FMFIA program, was transferred to the CFO in fiscal year 1991. In light of the many new and revised programs at HUD, the Secretary and Deputy Secretary have placed a renewed emphasis on HUD's FERA process.

Although HUD management has acknowledged the benefits of conducting FERAs on new programs, our reviews have found implementation lacking. This can be attributed, in part, to unclear and inconsistent guidance. While prior FMFIA and risk analysis guidance was abandoned in favor of a simplified process, no alternative guidance was established. As a result, recent FERAs were performed by program staffs with little training or guidance as to how they were to be performed or management's expectations for timing, content, or format. In March 1992, the FHA Comptroller issued draft revised FERA guidance which could be used to strengthen this important program development process. Some of FHA's previously deficient FERAs are being redone.

In the absence of effective risk analysis and control system planning, management increases the risk that new programs will be implemented without adequate systems of internal control. If done properly, the FERA documents could also serve as a training aid for staff assigned to new program operations. Given that the new programs were primarily enacted without a corresponding increase in HUD staffing, the availability of knowledgeable staff to effectively administer these programs is also a major concern.

The Secretary has requested that we provide timely assessments of these new programs as they come on line. We are monitoring management actions to implement these new programs, and will continue to initiate audit work as each major program activity takes effect.

□ Summary

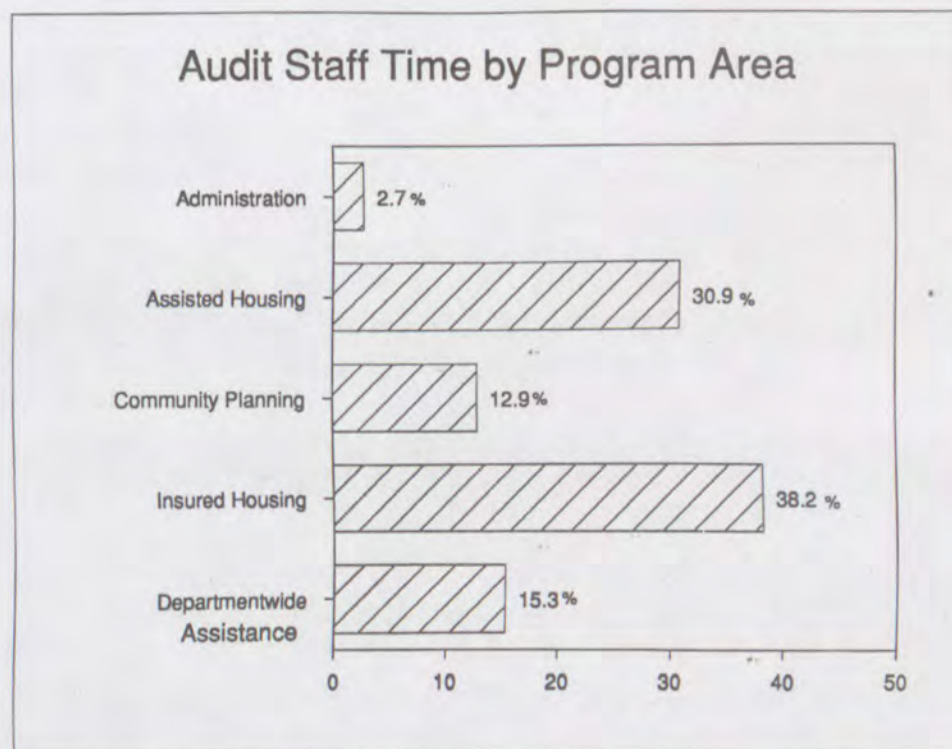
An overall perspective of the Department's major problems is important not only in assessing progress in addressing these problems, but also in establishing realistic expectations for both short-term and long-term solutions. We will continue to re-assess these major issues as we carry out our audits and investigations to ensure that management remains focused on the many key initiatives underway. At the same time, we will carefully evaluate new programs as they come into existence to identify as soon as practicable systemic flaws and vulnerabilities to fraud, waste, and mismanagement.

Chapter 2 - 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 33 reports on internal HUD operations and 71 external reports on grantees and program participants. The chart below shows the distribution of reports by program area.

The majority of our audit resources (84.7 percent) was directed to four major program areas as depicted below. The remaining 15.3 percent of our resources went to Departmentwide assistance which includes such functions as: follow-up on audit findings and recommendations (5.7 percent); quality control over and routine monitoring of independent auditors (4.1 percent); and program integrity activities (5.5 percent) such as technical assistance to HUD program participants and responses to Congressional and citizen inquiries and hotline complaints.



□ 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 HUD's budget estimating processes for Section 8 contract renewals and amendments; the Loan Management Set-Aside Program; various Section 8 Programs (external audits); and selected rent increases in the Tulsa Office.

HUD's Budget Estimating Processes for Section 8 Contract Renewals and Amendments

HUD continues to experience problems in preparing reliable Section 8 budget requests. The primary contributing cause is the Department's unreliable Section 8 data systems which have long been considered inadequate for budgetary purposes. We believe the deficiencies found during our review constitute a material weakness and should continue to be reported as such under the Federal Managers' Financial Integrity Act. This area has been reported as a material weakness by the Department since 1983.

Our review was performed pursuant to the Conference Report on H.R. 2519, VA-HUD-Independent Agencies Appropriations for Fiscal Year 1992. Amendment No. 66 to the Conference Report called for the Office of Inspector General to audit the adequacy of the financial information in support of HUD's funding estimates for Section 8 contract renewals and amendments.

We found that HUD's budget estimates for Section 8 tenant-based contract renewal funding continue to be unreliable, although the accuracy of the estimates for fiscal year 1993 appears improved over fiscal year 1992. As HUD reported to Congress in June 1991, the Department's original budget request for fiscal year 1992 potentially underestimated HUD's funding needs by \$1.2 billion. During March 1992, HUD disclosed the results of its further verification of the Department's 1992 appropriated budget authority for tenant-based contract renewals, reporting a preliminary additional potential shortfall of \$323 million, which was later revised upwards to \$407 million. Further, HUD recently performed a verification of its original Congressional budget estimates for fiscal year 1993 and reported a potential shortfall of \$56.8 million in its estimated tenant-based contract renewal authority needs. Our review also disclosed that HUD's fiscal year 1992 and 1993 Congressional budget requests for project-based contract renewals may be substantially overstated, \$570 million for 1992 and \$268 million for 1993.

Likewise, 1992 and 1993 budget estimates for Section 8 certificate amendments may be overstated. According to HUD's latest analysis, only \$350 million, or about 32 percent, of the approximately \$1.1 billion of certificate amendment budget authority available for fiscal year 1992 may be needed to meet both contract and budget authority amendment

requirements for that fiscal year. This may result in a surplus of \$743 million for fiscal year 1992. With respect to fiscal year 1993, HUD estimates that it may need only \$400 million to fund Section 8 certificate contract amendments for 1 year, which is \$312.5 million, or 56 percent, less than the \$712.5 million in the Department's original Congressional budget request for fiscal year 1993. HUD's fiscal year 1992 and 1993 budget request of \$1.1 billion and \$932.1 million, respectively, for amendments to Section 8 project-based contracts are based on questionable data from HUD's existing Section 8 financial information systems.

Finally, our review disclosed that because HUD's financial data systems are incapable of generating reliable data, the Department's ability to provide Congress with accurate Section 8 budget estimates in the future will depend largely on the operational status and performance of CFS/TRACS -- HUD's new multi-phased assisted housing/Section 8 database and software system currently in the developmental stage. Our review disclosed that the progress of the system has been impeded by planning, administrative and technical problems affecting software development and system implementation. Although HUD management is working aggressively to alleviate those problems, it is not certain if the system will be able to generate adequate data in time for HUD's 1994 budget cycle. Despite the obstacles encountered in system implementation, the current HUD Administration's long-term approach to developing a fully integrated financial management system for the Department's subsidy programs is noteworthy. All too often in the past, HUD has opted for the "quick fix" approach to correcting its deficient automated systems. That type of approach has proved ineffective, serving only to exacerbate and perpetuate existing weaknesses in HUD's automated information systems. HUD management does expect the new system to be of some value to the upcoming budget development process.

We made recommendations to the Assistant Secretary for Public and Indian Housing, the Assistant Secretary for Housing, and the Chief Financial Officer, as follows. We recommended that the Assistant Secretary for Public and Indian Housing: (1) ensure that the revised renewal estimates and revised certificate amendment estimates are brought to the attention of Congress expeditiously; (2) formalize the discrepancy resolution procedures used in developing HUD's tenant-based contract renewal estimates for fiscal years 1992 and 1993 and ensure that sufficient time and staff resources are provided for the fiscal year 1994 estimates; (3) improve internal controls over tenant-based field surveys to increase their accuracy; and (4) develop and issue a work plan for the fiscal year 1994 budget cycle.

We recommended that the Assistant Secretary for Housing: (1) revise the field survey instruction for estimating project-based contract renewals; (2) require Headquarters staff to perform selective quality control reviews of field survey results when appropriate; (3) continue to refine the interim budgeting procedures used to estimate HUD's Section 8 project-based amendment needs; and (4) develop and issue a work plan for the fiscal year 1994 project reserve estimates.

We recommended that the Chief Financial Officer: (1) assure that CFS/TRACS system development activities proceed to subsequent phases only if adequate evidence exists of the

successful completion of prior development phases; (2) require that manual and automated techniques be developed during the developmental process to provide for an ongoing quality assurance function; (3) provide for the CFS/TRACS Steering and Oversight Committees monitoring and analysis of staffing and other resource requirements; (4) ensure a full accounting and analysis of all major administrative and technical problems currently impeding the progress of CFS/TRACS and develop strategies to address these problems; and (5) in coordination with the Office of Budget and affected Assistant Secretaries, consider issuing a consolidated handbook on the Section 8 budget process. (Report No. 92-TS-103-0008)

Loan Management Set-Aside Program - Chicago, Atlanta, and Philadelphia Regions

HUD needs to improve its processing and evaluation of project owners' Loan Management Set-Aside (LMSA) Program applications to ensure that only the most critical and deserving projects are selected for funding. As part of a multi-region audit, we reviewed the application and HUD field office review process for the LMSA Program in selected offices in the Chicago, Atlanta, and Philadelphia Regions. We reviewed 41 LMSA applications which had been processed by nine HUD field offices and recommended for funding by Headquarters. Headquarters subsequently funded most of these applications based on information provided by field offices.

We found significant errors, omissions and inconsistencies in the processing of 29 (71 percent) of the 41 applications reviewed. We questioned the eligibility of excessive funding of 15 (52 percent) of the 29 deficient applications, representing about \$10.1 million in LMSA funding assistance because one or more of the applicants: (1) received funding for more units than needed to stabilize their projects' financial condition; (2) had serious financial problems which could not be solved by the additional assistance; (3) did not have any financial difficulties; (4) did not meet the minimum scores or priority level ratings needed to qualify for funding; (5) charged HUD-approved contract rents which exceeded the fair market rent limitations specified in HUD regulations; and (6) lacked required audited financial statements to support their requests for assistance.

We made recommendations to the appropriate Regional Administrators for actions needed to correct the deficiencies found, including establishing procedures and controls to assure that requirements for processing applications for set-aside assistance are followed, and performing housing quality standards inspections on LMSA projects. (Report Nos. 92-CH-103-0002; 92-AT-103-0003; and 92-PH-103-0004)

External Audits - Section 8 Programs

During the reporting period, we performed external audits of various Section 8 Programs. The following are among the more significant of these audits.

Detroit, MI

The Detroit Housing Department (DHD) did not assure that rental units assisted under the Section 8 Existing, Voucher, and Moderate Rehabilitation Programs met HUD's housing quality standards and that housing assistance payments were made only for eligible units. Of the 86 units we inspected, 62 (72 percent) did not meet the standards. The DHD also made housing assistance payments to owners of units without performing initial inspections, and to owners of units which failed initial inspections. The DHD did not: perform timely follow-up inspections for failed units to assure that the deficiencies cited during annual inspections were corrected; monitor the quality of inspections made by its staff; or abate housing assistance payments when owners did not correct deficiencies in a timely manner. Inappropriate housing assistance payments of \$185,000 were also made for units that did not meet housing quality standards.

The DHD failed to establish payment standards for the Voucher Program reflecting local market rents, and instead used the higher published fair market rents as the payment standards. As a result, tenants may not be paying their fair share which could lead to fewer families being assisted. Our audit also disclosed numerous other deficiencies including improper administrative costs charged to the Section 8 Programs, and improper transfer of \$217,000 in excess operating reserves to the Low-Income Housing Program without assurance that sufficient funds would be available in the future to cover Section 8 administrative costs.

We recommended that the Detroit Office Manager ensure that the DHD implements procedures which will assure proper administration of the Section 8 Programs. We also recommended that the DHD repay rental assistance payments made for units which did not meet housing quality standards. (Report No. 92-CH-203-1010)

Columbus, OH

Of the 92 assisted units we inspected as part of our review of the Certificate and Voucher Programs at the Columbus Metropolitan Housing Authority, 77 (84 percent) failed HUD's housing quality standards. The Authority did not detect existing violations we found during our inspections or ensure that owners corrected violations. Inspectors lacked knowledge of housing quality standards and the Authority had not fully implemented quality controls over the inspection program.

We also found that Housing Voucher tenants were paying an average of 52 percent of their limited incomes for rent. At the same time, the Authority's payment standards were as much as \$81 below the level it could have allowed for various size units. Income verification forms did not consider anticipated income and internal controls over housing assistance payments and cash assets were weak. Tenant files lacked evidence that the Authority notified tenants of lead-based paint hazards, selected the most needy applicants, and verified tenant social security numbers as required.

We recommended that the Authority correct these violations, repay HUD the assistance payments made since the Authority's last inspection of the units which failed our inspection, and implement procedures to correct other deficiencies identified in our report. We also recommended an increase in staff in the Authority's Section 8 Department to an appropriate level. (Report No. 92-CH-203-1011)

Montpelier, VT

Because the HUD Manchester Office did not inform the Vermont State Housing Authority of Section 8 Certificate Project-Based Assistance Program restrictions, the Authority did not use all the certificates for the intended purpose. Although we advised the Manchester Office of the omission and the office attempted to correct the problem, two projects were subsequently processed without assuring tenant rights were protected. As a result, families were denied the right to choose where they wanted to live, and subsidies of over \$2.8 million were provided to projects contrary to funding restrictions.

We recommended that the Manchester Office assure that tenant rights are restored, determine the effects of selecting a project without competition and implement appropriate corrective actions, determine why funding instructions were not promulgated to the Housing Authority and why subsequent projects were processed without corrective actions being taken, and establish procedures to prevent future occurrence of these conditions. (Report No. 92-BO-103-0004)

Selected Rent Increases - Tulsa Office

An audit of Section 8 special annual rent adjustments approved by the Loan Management Branch in the Tulsa Office found that officials approved seven rent increases for five properties which were greater than amounts justified by the budgets for the properties. Included in the seven increases was a special rent increase to cover high security costs. This was neither approved by Headquarters, as required, nor adequately supported. As a result, HUD paid \$204,000 in excess Section 8 rent subsidies between 1990 and 1991 and will pay \$275,000 annually thereafter unless the rents are reduced to supportable amounts. We recommended that the Tulsa Office Manager direct the Loan Management Branch to reduce rents on each property in question to justified amounts, require the Branch to obtain proper approval and justification for the special rent adjustment and require proper written justification prior to approval of all rent increases. The Tulsa Office Manager did not agree that the rents were excessive, but has taken steps to implement our recommendations and recompute the rents. (Report No. 92-FW-112-0001)

□ HUD's Loan Servicing of Direct Loans for Elderly Housing Projects - Section 202

The Department is not adequately monitoring and controlling Section 202 project residual receipt and reserve for replacement accounts, resulting in at least \$127 million in unnecessary housing assistance payments. Our audit of HUD's loan servicing of Section 202 elderly housing projects was performed in the New York, Atlanta, San Francisco and Seattle Regions, in addition to HUD Headquarters.

We found that HUD is not using projects' residual receipts to reduce housing assistance payments (HAPs) as provided for by Section 8 HAP contracts. The Department reported to Congress that Section 202 projects nationwide had \$113 million of residual receipts at the end of Fiscal Year 1989. HUD has not required Section 202 borrowers to establish required separate residual receipt accounts. For the 120 projects reviewed during our four regional audits, we estimated that borrowers improperly deposited \$4.4 million of residual receipts to reserve for replacement accounts. These funds were not available for reducing HAPs and may not be recovered by the Department at the expiration of the HAP contracts.

Deposits to reserve for replacement accounts are not being suspended by HUD when accounts reach established maximum levels. For the 120 projects reviewed, we estimated that \$9.8 million of deposits were made to overfunded reserve for replacement accounts. HUD has also allowed borrowers unrestricted access to reserve for replacement and residual receipt accounts and is not identifying Section 202 project funds which are being shifted to project operations through ineligible withdrawals and transfers from these accounts. We estimated that borrowers had unrestricted access to \$52 million of reserve for replacement and residual receipt accounts and improperly shifted \$1.6 million from these accounts for project operations. The \$1.6 million may result in unnecessary future HAPs.

Our review also found that the Department's procedures and controls for approving Section 202/8 project-based budgeted rent increases do not ensure that rent increases are reasonable and justified. In addition, measures need to be taken by HUD to reduce potential financial risk exposure in certain program areas because: (1) project funds at banks are subject to loss from bank failure; (2) HUD does not begin collecting principal payments on Section 202 funds when due; and (3) HUD does not adequately monitor Section 202 property tax exemptions. As a result, the potential for project default is increased and larger HAPs may be required in the future.

We made recommendations to the appropriate Regional Administrators that HUD take action to ensure that: Loan Management Branches (LMBs) develop new, or improve existing, procedures for the use of residual receipts as a means to offset or deny requests for rent increases; LMBs monitor and evaluate the funding levels and future replacement needs for all projects and consider suspending deposits and reducing rents, where appropriate; field offices place all project reserve for replacement accounts into accounts that are subject to

HUD's control; field offices devise and use a checklist for reviewing statements to ensure all project funds are properly invested and insured by the government, required monthly reserve deposits are made, interest earned is retained in proper accounts, and surplus cash is deposited into the proper account; separate residual receipts accounts are maintained when required by HAP contracts; and LMBs establish procedures to ensure that all eligible projects apply for and receive property tax exemptions. The Regional Administrators generally agreed with our findings, but in some cases disagreed with our recommendations. We are in the process of issuing a final report to the Assistant Secretary for Housing on the results of our regional audits. (Report Nos. 92-NY-112-0001; 92-AT-112-0002; 92-SF-111-0004; and 92-SE-112-0004)

□ Chief Financial Officers' Act and Related Activities

The improvements of Federal financial management envisioned by the provisions of the Chief Financial Officers' (CFO) Act of 1990 are vital to the effective and efficient delivery of programs governmentwide. The statutory basis which now exists for such provisions as audited financial statements assures a measure of uniformity among agencies and departments with regard to financial reporting, and sends a strong signal that accountability is mandatory, not merely desirable.

The HUD Reform Act, which predates the CFO Act, provides for a Chief Financial Officer to oversee financial management issues that cut across program lines and involve such functions as accounting, financial systems, risk analysis, and management control.

In this section we discuss our audits of the Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA) financial statements conducted in accordance with the CFO Act as well as our review of HUD's implementation of the Federal Managers' Financial Integrity Act of 1982, for which the CFO is now responsible.

Financial Statement Audits

Under the provisions of the CFO Act of 1990, OIG is required to conduct an annual audit of FHA, GNMA, and the Department's consolidated financial statements. To fulfill our responsibility, we contracted with an independent certified public accounting (CPA) firm to conduct these audits for the year ended September 30, 1991. The FHA and GNMA audits have been completed and the consolidated audit is scheduled to be completed by June 30, 1992. In completing the FHA and GNMA audits, we approved the scope of the CPA's audit work, monitored its progress at key points, reviewed the CPA's working papers, and performed other procedures we deemed necessary to ensure that the work was in compliance with applicable standards. For both audits, we agreed with the CPA's conclusions. In addition to the audit performed by the CPA firm, our work included a review of performance measures presented by FHA and GNMA in their annual reports prepared pursuant to the requirements of the CFO Act.

Federal Housing Administration

For Fiscal Year 1991, FHA operations resulted in a net deficiency of revenues over expenses of \$2.5 billion. This represents an increased deficiency of \$1.2 billion from last fiscal year. The audit of FHA's Fiscal Year 1991 financial statements disclosed uncertainties relating to FHA's Mutual Mortgage Insurance and General Insurance Funds. Also, the audit's scope was restricted by material internal control weaknesses in FHA's single and multifamily systems which could cause material errors in the financial statements. Because of the combined effect of these factors, we and the CPA firm were unable to, and did not, express an opinion on FHA's financial statements.

The audit also presented five internal control reportable conditions, three of which we considered to be material weaknesses. These involve the need to better monitor borrower and lender activity; to improve accounting and financial management systems; and to curb the losses in both the single family and multifamily loan programs. To correct these weaknesses we recommended the following: improving existing data systems to better accumulate the type of information needed to perform reviews and analysis; developing risk analysis; and developing monitoring systems that will better identify potential defaults.

We also reviewed FHA's documentation and support for the performance data presented in its annual report. However, the scope of this review was limited, primarily by the timeframes mandated by the CFO Act for completing our audit and FHA's completing its annual report. Because of this limited scope, and the inability to express an opinion on the financial statements, we were unable to provide any assurances with respect to the validity of the data presented.

The Assistant Secretary for Housing/FHA Commissioner generally concurred with the findings and recommendations. (Report No. 92-TS-119/129-0007)

Government National Mortgage Association

GNMA operations resulted in an excess of revenue over expenses of \$367.6 million. This reflects a decrease of \$18.1 million from Fiscal Year 1990. The audit concluded that GNMA's Fiscal Year 1991 financial statements present fairly its financial position, the results of its operations, and its cash flows in conformity with generally accepted accounting principles. We found two reportable conditions, the first of which is a material weakness involving monitoring subservicers. Although GNMA has made progress in addressing this problem, which was reported in last year's audit, GNMA needs to continue to place a high priority on conducting an on-site review of each subservicer. We also recommended that GNMA focus on ensuring that the required financial information be promptly and fully completed and submitted on a timely basis.

The second reportable condition relates to the need to strengthen the criteria for withholding guaranteed commitments by GNMA and to establish a review board for

disciplinary actions. GNMA has taken steps to strengthen the commitment process and to take action against violators, but it needs to formally define the duties and responsibilities of the various groups involved. Finance personnel should also be involved to ensure compliance with the CFO Act and the Federal Credit Reform Act.

We also reviewed GNMA's documentation and support for the performance data presented in its annual report. We determined that the data presented were consistent with the financial statements. Our review also disclosed that for the performance measures presented, GNMA complied with requirements to adequately document and support that data. In addition, nothing came to our attention that caused us to believe that the performance data reported were unreliable.

GNMA's President concurred with the audit report content and recommendations. (Report No. 92-TS-171-0006)

Federal Managers' Financial Integrity Act

In our audit of the Department's Fiscal Year 1991 evaluation process and efforts to comply with the Federal Managers' Financial Integrity Act (FMFIA), we found HUD's continued inability to establish and implement an effective FMFIA Program is one of HUD's most significant problems. This is partially due to the fact that the authority and responsibility for managing the FMFIA activities was transferred several times over the years and not permanently assigned to the Chief Financial Officer (CFO) until January 1991.

We have recommended that the Secretary continue to report noncompliance with Sections 2 and 4 of the FMFIA because the Department's process for evaluating its internal control and financial management systems continues to be inadequate for determining compliance with the FMFIA objectives. We also found a need to increase the direction and oversight by the CFO; to revise the current guidance on the Program; to bring the Management Control Plan into compliance with OMB requirements; and to make a stronger commitment to conduct verification reviews of material weaknesses that the program offices identify as being corrected.

The CFO has stated his commitment to formally restructure the FMFIA Program over the next several months and to evaluate the status at September 30, 1992. If sufficient progress has not been made, the CFO will recommend reporting the Program as a material weakness in HUD's Fiscal Year 1992 FMFIA Assurance Statement. (Report No. 92-TS-179-0005)

Material Weakness Verifications

In our previous report we reported that eight verification reviews were performed to determine whether the Department actually corrected material weaknesses as previously reported. We are continuing our efforts to review and verify actions taken by the

Department to correct material weaknesses. We expect to complete five verification reviews during the next reporting period. We have also agreed to perform three additional reviews. Once management has completed agreed upon actions and sufficient transactions have occurred for us to test the effectiveness of the new procedures. In addition, we are participating in a joint verification review of another material weakness area, which is being led by the CFO's staff with representation from pertinent program, accounting, and systems staff. It is hoped that similar future joint ventures will enable HUD to perform verification reviews in a more timely and cost-effective manner.

□ Community Planning and Development

The Office of Community Planning and Development (CPD) administers a number of HUD programs and activities among which are: the Community Development Block Grant (CDBG) Program which provides grants to States and local governments to help develop and revitalize communities; the newly initiated HOME and HOPE III Programs; many of HUD's homeless programs and initiatives; as well as the Rental Rehabilitation and Section 312 Rehabilitation, Urban Homesteading, and the Secretary's Technical Assistance Programs.

In our testimony before the House Subcommittee on Employment and Housing (see Chapter 1), we presented our views on the systemic problems affecting the CDBG program. This section discusses several significant audits that illustrate these problems along with our recommendations for corrective action, including the need for HUD to: improve oversight and technical assistance; implement accountability monitoring to help deal with staffing constraints; develop better systems by which to administer the Program; and more firmly deal with grantees who abuse the Program. Our recently completed audit of Special Economic Development Assistance highlights many of the problems that exist in the overall CDBG Program with the actions that need to be taken to address them.

Economic Development Grant Activity

Our multiregional audit of Special Economic Development Assistance included 10 Field Offices within five Regional Offices, 19 grantees, and covered 84 loans and grants totaling \$13.3 million. The loans and grants represented about 40 percent of the \$34 million in Special Economic Development Assistance provided by these grantees during our audit period.

We concluded that Special Economic Development Assistance was not well managed by either the grantees or HUD. Our reviews showed that much of the assistance was ineffective or too costly. For example:

- 43 percent of the loans originated either failed or were experiencing difficulty, affecting the lasting benefits intended by the loans.

- 50 percent of the 3,491 jobs that were estimated to be created or retained were not provided, and the cost of providing each job more than doubled.
- 13 of the 19 grantees maintained inadequate documentation supporting the necessity or appropriateness of the assistance, and 13 grantees did not adequately document that jobs were created or retained for low- and moderate-income persons.

Our recommendations included:

- Revising the program regulations to: be more specific about the amount and timing of equity investments by developers; describe the steps to be taken by grantees when assessing project viability and risk; and require standard documentation to support job creation and retention.
- Establishing standards for performance evaluation.
- Developing and maintaining an adequate information system.
- Providing better guidance to Field Offices on monitoring.
- Assessing the adequacy of staffing levels and providing training.
- Ranking grantees by performance and providing technical assistance to high risk areas.

We also recommended that the Department's lack of control over Special Economic Development Assistance be reported by the Department as a material weakness under FMFIA. (Report No. 92-TS-145-0009)

Community Development Block Grant Program Activity

Baltimore, Maryland

The City of Baltimore receives about \$22.1 million a year in CDBG funding and administers a variety of activities by itself (in-house) or through subrecipients. Based on the serious deficiencies disclosed by HUD monitors, the Baltimore Office Manager requested a comprehensive audit. We reviewed organizations that accounted for 36 percent of its Program's expenditures as well as revolving funds totaling \$5.5 million. In summary we found that:

- There were over \$6.4 million in ineligible costs and about \$967,000 in unsupported costs.
- Some activities did not meet national program objectives.

- The City did not monitor its in-house programs although those programs represented 50 percent of total expenditures.
- The City incorrectly placed \$4.1 million in CDBG Program income in its General Fund. The income is supposed to be used only for eligible CDBG activities.
- The Council for Equal Business Opportunity issued economic development loans which did not create or retain jobs for low- or moderate-income persons. It also operated two programs costing about \$777,000 which did not meet a national objective and violated conflict of interest regulations by paying about \$31,000 to board members.
- The Housing Assistance Corporation improperly advanced \$1 million from a CDBG loan fund to cover its normal operating costs.
- Neighborhood Housing Services misappropriated \$747,000 earned in investment income on the account balances held in CDBG loan funds. It used the investment income to foster the performance of its non-CDBG loan funds.

We recommended that HUD maintain the current grant conditions and impose other sanctions as may be necessary until such time as the grantee has implemented and demonstrated adequate systems to ensure compliance with program requirements. We also recommended that ineligible costs be reimbursed and unsupported costs be documented. (Report No. 92-PH-241-1003)

Troy, New York

The City of Troy processed and approved loans amounting to \$1.6 million to help a hockey team without complying with CDBG Program requirements. The grantee did not properly amend its program to afford citizens the opportunity for input or maintain adequate information to document whether sufficient jobs were created. Prior to the completion of our audit, the hockey team had repaid \$1.25 million of the loans to the City. We recommended that the City reimburse the CDBG Program the unpaid loan balance. In addition, we recommended that the HUD Field Office suspend the City's use of the letter of credit until controls are implemented to correct the deficiencies. (Report No. 92-NY-241-1003)

San Benito, Texas

San Benito lost \$2.3 million because City officials did not determine whether two private enterprises were adequate financial risks under HUD's Section 108 Loan Guarantee Program. After making only one payment on the loans, both enterprises went out of business. The \$2.3 million loss includes future CDBG entitlement funds of \$1.3 million, additional City funds, as well as CDBG Program income. Consequently, the City placed

itself in financial difficulty and was unable to use the \$2.3 million to meet the needs of its low- and moderate- income residents.

We also found that the City inappropriately used \$250,000 of CDBG funds to cover a bank overdraft in the City's General Fund. The City subsequently charged \$250,000 of costs to the CDBG program, however, \$80,900 of these costs were included in its application for Federal disaster assistance from the Federal Emergency Management Agency.

We recommended that reasonable efforts be taken to recover any available assets or funds involved in the Section 108 loans, with recoveries treated according to CDBG Program income requirements. We also recommended that the City repay the CDBG Program any portion of the identified duplicate costs reimbursed by the disaster grant. The Mayor of San Benito agreed with our findings. (Report No. 92-FW-245-1002)

St. Louis, Missouri

The City of St. Louis improperly authorized the Land Reutilization Authority, an operating agency, to use \$510,000 of CDBG funds to pay the balance owed, including interest, on property it purchased for \$692,000 in the St. Louis Place neighborhood. The expenditure is ineligible because the regulations prohibit reimbursement from CDBG funds for real property costs prior to the effective date of the CDBG agreement. Interest on borrowing is also an unallowable cost. In addition, the Authority paid \$461,000 more for the property than contractually required. We recommended that the City repay the \$510,000 to the CDBG letter of credit; exclude interest costs from claimed CDBG costs; and justify the inflated purchase price. (Report No. 92-KC-241-1801)

Utica, New York

The City of Utica has not implemented adequate administrative control over its Economic Reinvestment Program, diminishing any assurance that the program meets CDBG national program objectives. The City made a \$1 million loan to a local developer which was not properly supported and expended \$832,600 on several other loans that were not supported. In addition, weaknesses in the City's Rental Rehabilitation Program resulted in the inefficient and uneconomical use of program funds totaling over \$255,000. We recommended that the grantee strengthen its procedures to improve the future administration of its program. We also recommended that HUD require the grantee to provide further documentation and justification for the unsupported costs or reimburse the program for any amount that cannot be supported. (Report No. 92-NY-2241-1005)

Kansas City, Missouri

During our audit of the Section 108 Loan Guarantee Program in Kansas City, we found that The City violated provisions of its contract by using \$1.2 million of loan repayments to fund escrow accounts which are not eligible activities under the CDBG Program. The City

received a \$1.7 million guaranteed loan for a specific project and contracted with the Land Clearance for Redevelopment Authority (LCRA) to administer the loan. The total project funding included private financing, an Urban Development Action Grant, and developer equity. LCRA used part of the proceeds to repay City loans that were used to purchase project land and transferred the remaining loan proceeds to the developer. The developer then gave LCRA a \$1.8 million promissory note, eventually paying \$1.2 million on the note. The loan repayment was used to fund two escrow accounts to subsidize project mortgage payments and rents. The HUD's Office of General Counsel rendered an opinion that using program income from Section 108 loan repayments to fund escrows was improper. We recommended that the City be required to deposit \$1.2 million non-CDBG funds to retire the Section 108 debt. (Report No. 92-KC-241-1002)

Lawrence, Massachusetts

The City needs to strengthen its internal controls to protect \$1.3 million in revolving loan assets. Accurate records of loan balances and delinquencies were not available. Recent fiscal difficulties resulted in a reduction of staff which impacted the internal controls and the City's ability to perform. Our work, together with recent monitoring reviews by the Boston Field Office and an independent audit of the City, indicated major weaknesses in the City's management of the CDBG Program and its capacity to perform. We recommended that the City increase the timeliness and accuracy of its records and evaluate current loan servicing procedures. We also recommended that the HUD Field Office examine the City's ability to execute and monitor the CDBG Program. (Report No. 92-BO-241-1006)

New Bedford, Massachusetts

The City of New Bedford needed to strengthen the administration of its CDBG Program to ensure that all proposed activities meet eligibility requirements and a national objective. Over \$400,000 was expended on summer employment programs that were ineligible as claimed. In addition, the Mayor's Office of Economic Development spent \$160,000 that was not reasonable when compared with the actual benefits provided and two housing rehabilitation loan programs did not meet a national objective. We recommended that the City reimburse all ineligible costs to the CDBG Program and reprogram the funds to eligible activities. This review, coupled with recent monitoring findings, indicated major weaknesses in the grantee's management and overview of its CDBG Program. (Report No. 92-BO-241-1005)

Other Community Planning and Development Activities

Chicago, Illinois

The Chicago Mental Health Foundation, Inc., (CMHF) operated without a proper license and did not implement a financial management system to properly account for the source and use of funds for two grants under the Transitional Housing Grant Program. CMHF

failed to: match the \$2.1 million in HUD funds it received from the two grants; support the eligibility of nearly \$1.1 million in personnel costs; provide supportive services to residents as promised in the grant applications; and represent program accomplishments in annual reports to HUD. Additionally, CMHF did not provide information to HUD about the number of residents it would serve with its second grant, resulting in a grant award that was excessive by \$1.5 million. We recommended that HUD declare CMHF in substantial default of its grant agreements and terminate the grants; seek alternate assistance for the residents; and require CMHF to reimburse HUD for the grant funds received that it did not match. The Regional Administrator has concurred with our recommendations and is in the process of implementing them. (Report No. 92-CH-259-1003)

Charlotte, North Carolina

We completed a review of the Rental Rehabilitation Program in Charlotte and found that the City did not maintain effective management control over the approval of program loans and the rehabilitation work done on the rental units. In addition to a majority of the rehabilitated units not meeting local housing codes, \$192,850 had been reserved for projects which were not started within the required period. We also found that the City did not collect program income of \$21,000 which should have been used to pay program costs. Instead, the City drew additional funds from HUD. Among our recommendations were that the City inspect all projects completed after March 1, 1990, and ensure compliance with the City's housing code; collect the program income that is owed; and implement procedures to ensure future compliance with program requirements. (Report No. 92-AT-244-1005)

□ 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 lenders against loss on a mortgage if a borrower (project owner) defaults during the life of the mortgage loan. If a borrower defaults, the lender can assign the mortgage to HUD, making HUD responsible for servicing. HUD can also take legal action to take possession of a property and become owner.

During the reporting period, we audited management agent and project owner operations; the Housing Development Grant Program; HUD's servicing of three multifamily projects in Chicago; and the St. Louis Office property disposition management and procurement activities.

Management Agents

Our audits continue to find problems with the way management agents operate multifamily projects. These problems that contribute to both the physical and financial deterioration of

the projects, have been reported in past Semiannual Reports. While HUD is taking actions to correct the deficiencies, problems continue, as detailed in Chapter 1. Following are examples of audits performed during the last 6 months.

J & B Management Company, The Woodlands, TX

In September 1990, we issued an interim report on our ongoing audit of J & B Management Company and the LaClede Management Corporation (J & B). In October 1990, action was taken by HUD to suspend J & B from further participation in federal programs, and in November, notices were sent to project owners to terminate J & B's management contracts. In April 1991, HUD and J & B entered into a settlement agreement, wherein J & B agreed to assign its management contracts to a successor agent acceptable to HUD, accept a period of non-participation in HUD activities, and post \$1 million as security to complete the corrective action stipulated in the agreement.

Our most recent audit found that J & B violated many of the requirements governing its management of 18 HUD-insured projects we reviewed. As a result, \$19.6 million of the expenses examined by our audit were either ineligible or questionable. J & B also allowed project maintenance to deteriorate, submitted improper rental increase requests to HUD, and contributed to deficient annual audits by making false representations to its independent auditors. We recommended that the Assistant Secretary for Housing require J & B to: (1) reimburse the projects for ineligible costs and provide documentation to support questioned costs; (2) establish corrected books and records in support of project expenses; (3) contract with independent inspectors, acceptable to HUD, for thorough inspections of the projects covered in our review as well as others that are classified as financially troubled and submit inspection reports to HUD; (4) implement plans to correct housing quality standards violations; (5) reimburse HUD for excess subsidies resulting from improper rent increases; and (6) furnish its independent auditors a copy of the OIG audit report on J & B Management Company and any transactions identified by this audit as applicable to the respective auditors' projects. We also recommended that the respective HUD field offices be directed to withdraw rent increase approvals and instruct J & B to revert back to earlier rents and abate the additional Section 8 assistance used to pay the improperly documented rent increases. If J & B refuses or fails to take prompt corrective action, we recommended that the Assistant Secretary for Housing take action to recover double damages and all costs relating to the action including reasonable attorney and auditing fees. (Report No. 92-TS-214-1005)

Housing Resources Management (HRM), Inc., Santa Monica, CA

HRM improperly charged projects at least \$1.6 million for ineligible and unsupported administrative expenses which it should have paid from its management fees. As a result, funds were not available to make mortgage payments or pay necessary operating expenses

including repairs and maintenance. The deficiencies were caused by HRM's neglect, lack of understanding of HUD requirements and lack of internal controls. We recommended that the Assistant Secretary for Housing require the project owners to repay the projects for all ineligible charges plus interest and provide documentation for unsupported charges. (Report No. 92-TS-214-1010)

Boston Financial Property Management, Boston, MA

A review of six of the 75 HUD-insured projects managed by Boston Financial Property Management found that the agent did not remit \$458,000 of Section 236 excess income to HUD because it misinterpreted HUD regulations. As a result, the projects are receiving an interest-free loan from the government, and the amount of flexible subsidy funding available to finance other projects is reduced. The agent also failed to assure that all funds on deposit were fully protected against loss with adequate Federal Deposit Insurance Corporation coverage. We recommended that the agent remit the excess income to HUD and provide evidence that all funds are adequately insured. (Report No. 92-BO-214-1008)

Insignia Management Group, Greenville, SC

Fourteen projects we inspected were not maintained in good repair and condition by Insignia Management Group. In addition, Section 8 assistance was paid for 90 of 108 units that failed to meet housing quality standards and Insignia failed to refund procurement rebates to projects; made ineligible and unsupported payments; and failed to maintain proper equipment inventory records and record all tenant income. Since Insignia manages HUD projects nationally, we recommended that HUD determine whether all such projects meet housing quality standards, stop Section 8 assistance for units not in compliance, and review Insignia's policies and procedures. We also recommended that Insignia be required to make improvements in its maintenance procedures and refund rebates and ineligible expenditures to projects. (Report No. 92-TS-214-1009)

National Housing Partnership Property Management, Inc., Reston, VA

At the request of the Philadelphia Regional Administrator, we audited National Housing Partnership, management agent for 414 projects nationwide. National Housing Partnership incorrectly allocated staff salary and fringe benefit costs for its Occupancy Specialists and District Maintenance Coordinators for the 20 projects we reviewed. Because these costs were incorrectly allocated, the projects absorbed \$276,000 of the costs and project resources were diminished. The agent also was not in compliance with HUD requirements governing procurement, unit turnover, utility allowances, vacancy claims, and occupancy. We recommended that the agent reimburse the applicable projects and implement written procedures to ensure compliance with HUD requirements. (Report No. 92-PH-214-1001)

Project Owner Operations

Project owners continue to violate their Regulatory Agreements with HUD. This agreement requires that owners spend project funds for reasonable and necessary items only. Following are examples of violations we found during recent audits.

Presidential Towers, Chicago, IL

We audited Presidential Towers based on the recommendation of the HUD Chicago Office. Contrary to the Regulatory Agreement, the owners rented blocks of apartment units as corporate and guest suites without HUD approval. Also, the owners did not collect rent from an identity-of-interest commercial tenant; paid the tenant with project funds to cover its operating losses; and used project funds for legal fees related to the negotiation of a HUD operating loss loan and/or workout agreement. We recommended that the Regional Administrator instruct the owners to repay \$1.2 million to the project account and submit documentation for HUD's approval on the use of units as guest suites and on all commercial leases and amendments. (Report No. 92-CH-212-1015) ..

Lutheran Homes and Hospitals, Inc., Gresham, OR

We audited Lutheran Homes and Hospitals, owner of two HUD-insured projects, at the request of the Manager of the HUD Portland Office. The Board of Trustees spent over \$400,000 of project funds for non-project activities. We believe this occurred because the Board relied too heavily on the former director, independent accountants, and HUD to ensure that projects were correctly operated. Because the former director's activities were not monitored and controlled, at least \$150,000 was used to pay questionable expenditures. We recommended that HUD require repayment of ineligible expenditures and compliance with the Regulatory Agreement. (Report No. 92-SE-212-1004)

Brith Sholom House, Philadelphia, PA

Brith Sholom House and Brith Sholom Addition is considered a troubled project because of Regulatory Agreement violations. The owner, Brith Sholom Foundation, did not always calculate or collect Section 236 excess income payments due from tenants. Commercial rents were not increased at the same rate as residential rents, so there was no assurance that the rents covered a proportionate share of project debt service and operating expenses. Since April 1988, \$836,000 of restricted reserve funds have been used without HUD approval due to disregard for and misunderstanding of HUD requirements. In addition, tenants were not properly certified or recertified to determine if they met income limits. We made several recommendations to correct these deficiencies including requiring the owner to: reimburse HUD for any excess income not collected; prepare new commercial leases; and maintain and use restricted reserve funds according to the Regulatory Agreement. (Report No. 92-PH-212-1002)

Housing Development Grant (HDG) Program

HUD field offices did not aggressively monitor or pursue the settlement of housing development grants. As a result, timely settlements were not always achieved and HUD was not assured that the grants were fully justified. Housing development grants are used to help private developers construct or substantially rehabilitate rental housing in areas where there is a severe shortage of lower-income rental housing. Following are examples of deficiencies found at HUD offices during the course of a multi-region audit of the HDG Program.

Since October 1990 when the position of Regional HDG Program Coordinator was established, field offices in the Philadelphia Region have made progress in initiating project settlement and monitoring HDG projects. However, 16 HDG projects totaling \$31.9 million were completed but not yet settled. HUD had no indication that ineligible and unsupported development costs totaling \$1.7 million were incurred by two grantees until they were disclosed in OIG audit reports. The Chicago Regional and Detroit Offices did not effectively monitor and pursue settlement of HDG projects because they said other HUD programs received a higher priority. In the Boston Region, we found that although HUD directives concerning the designation of a Regional HDG Coordinator were followed, the required number of completed settlement packages were not transmitted to Headquarters. We attribute this to a lack of priority on pursuing project settlements.

The San Francisco Regional and Field Offices generally complied with HUD requirements concerning HDG projects.

We made several recommendations in our regional audit reports including: (1) ensuring that field offices establish firm target dates for grantee submission of project settlement packages and perform all required monitoring activities; (2) establishing procedures to coordinate field office activities with the Regional HDG Coordinator to make sure goals are met; (3) ensuring that sufficient staff resources are assigned for the settlement of HDG projects; and (4) ensuring that appropriate sanctions are applied against grantees who fail to initiate or follow through with project settlements. The Philadelphia and San Francisco Regional Administrators generally agreed with our findings and recommendations. The Chicago Regional Administrator disagreed with our overall conclusion that monitoring and pursuit of project settlement were deficient. The Director, Office of Housing, in the Boston Region disagreed with our findings and recommendations. (Report Nos. 92-PH-112-0001; 92-CH-119-0001; 92-BO-112-0002; and 92-SF-116-0801)

HUD's Servicing of Three Multifamily Projects- Chicago Regional Office

We reviewed Poplar Creek Townhouse Cooperatives I and II, in Elgin, Illinois (Report No. 92-CH-212-1012). We also reviewed HUD's loan servicing files for Huntington Park

Cooperative which was managed by the same management agent. The mortgages for all three projects have been assigned to HUD and are delinquent. Our review disclosed weaknesses in the Chicago Regional Office's servicing of the three projects for which we recommended specific corrective actions.

We recommended that the Regional Administrator: (1) finalize or cancel the transfers of physical assets for the two Poplar Creek projects and the Huntington Park Cooperative and determine the status of all transfers of physical assets currently pending in the Chicago Office; (2) implement controls to assure all workout arrangements and modification agreements are reviewed annually and to assure HUD's adherence to their terms and conditions; (3) establish controls to assure audited financial statements and monthly management accounting reports are reviewed timely; and (4) implement procedures and controls to assure annual inspections of projects are conducted according to HUD requirements. The Director of Regional Housing outlined a number of corrective actions that have already been taken or are planned to correct these deficiencies. (Report No. 92-CH-112-0801)

St. Louis Office Property Disposition Management and Procurement Activities

At the request of the Regional Administrator, we reviewed the St. Louis Office Property Disposition activities and found that the Property Disposition Branch had not properly administered many of its functions. The Branch bypassed procurement requirements when contracting for services, supplies and equipment, contractor favoritism may have affected procurement decisions and controls over cash receipts needed strengthening. We recommended the Branch adhere to Federal Acquisition Regulations and HUD procurement requirements; tighten delegation of procurement responsibilities to project managers; properly execute blanket purchase agreements and maintain documentation on supplies and services purchased through those agreements; establish controls to assure pre-acquisition determinations are conducted and approved; and establish adequate internal controls over cash receipts. The St. Louis Office agreed to the corrective action. (Report No 92-KC-113-0002)

□ Single Family Housing Programs

HUD's Federal Housing Administration's (FHA) Single Family Housing 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. The Single Family Programs' objectives are to increase the availability of affordable housing with increased homeownership opportunities. Many of the programs were developed as a result of the National Housing Act of 1934, to improve housing conditions and provide for the insurance of mortgages.

During this reporting period, we focused our single family reviews on the Accounting Management System and the Notes Servicing System. We also reviewed the Philadelphia Regional Office's process for monitoring its exclusive listing broker.

Single Family Accounting Management System

Based on our review of the Department's implementation of the Single Family Accounting and Management System, we recommended that additional system and manual controls be developed to ensure access to SAMS is restricted, software changes are adequately documented and the physical security of ADP resources is maintained. We also recommended that there should be improved control of vendor invoice packages and property tax processing and management. The Department needs better assurance that SAMS system and manual controls over HUD property maintenance and other expenses are functioning as designed. Many vendor invoice packages were approved and processed for payment which lacked adequate documentation. As a result, SAMS system controls designed to prevent duplicate and erroneous disbursements could not function. The Department generally agreed with our findings and has initiated or is planning corrective actions consistent with our recommendations. (Report No. 92-TS-123-0010)

Single Family Notes Servicing System

We conducted a review of the Single Family Mortgage Notes Servicing (SFMNS) System and found that there are significant weaknesses in the data and transaction access controls. Such controls are necessary to assure that access to the system is restricted only to authorized employees who need access to perform assigned duties. We also found that transaction logs are not maintained for the period of time required by HUD standards. The underlying causes of these problems were a lack of management knowledge of HUD ADP security standards and a lack of management emphasis on ADP security. We recommended that Housing implement a comprehensive ADP security system to include, at a minimum: (1) an automated password change capability to require password changes every 21 days; (2) a user password history to prevent password reuse and to prevent others from access to users' passwords; (3) notification of the system security officer within 5 days of any personnel changes, reassignments or transfers; (4) implement case access and transaction restrictions that limit each loan specialist's case update authority to their own cases and to the transactions each specialist needs to perform their assigned task; (5) produce a report listing authorized SFMNS System users by field office and their access authorities at least twice a year and distribute the report to supervisors or security officers at each field office and Headquarters unit as a turn-around document to verify the propriety of the system access provided; and (6) implement a process for deactivating teller numbers whenever the system goes down, while retaining the amount of the teller balance. We also recommended that the Assistant Secretary for Administration ensure that the Director of the ADP Security Staff

direct system GTR's to review their systems for compliance and report whether the system is in compliance and to submit planned corrective actions with scheduled implementation dates. The Department generally agreed with the recommendations contained in the report. We recommended that this be reported as a material weakness in HUD's fiscal year 1992 Federal Managers' Financial Integrity Act Assurance Statement. (Report No. 92-AO-121-0003)

Philadelphia Regional Office Exclusive Listing Broker Monitoring

The Philadelphia Property Disposition Branch needs to improve the monitoring of its exclusive listing broker and the nationwide contract appraiser. Inattention to its monitoring responsibilities precluded the Branch from assuring HUD realized the highest net return to the mortgage insurance fund. Also, we believe holding costs were too high and the costs reimbursed to the broker were excessive. We noted instances where investors bought and promptly resold properties at a significant increase in price. We recommended that: controls be implemented to ensure the exclusive listing broker provides services and reports as mandated in the contract; monitoring and inspection activities ensure compliance with HUD guidelines; listing prices, reanalyses of properties and price reductions be properly justified and supported; inappropriate actions by the contract appraiser be corrected; and resale prices be compared to appraiser-recommended listing prices. The Philadelphia Regional Office generally concurred with our findings, and agreed to implement corrective actions to address our recommendations. (Report No. 92-PH-123-0002)

□ Mortgagee Review Board

The Mortgagee Review Board (MRB) is empowered to invoke administrative sanctions against lenders who violate HUD regulations or policies. Sanctions include: letters of reprimand; suspensions; probation; and withdrawal of FHA participation. During this reporting period we issued six audit reports to the MRB because the lenders failed to comply with HUD's underwriting requirements. We recommended that the MRB take appropriate sanctions. This chart outlines the lenders, the number of loans questioned and the dollar value of the questioned loans.

Company	Loans	Dollars ¹
First Commerce Independence, OH (Report No. 92-TS-221-1006)	5	\$254,000
Sibley Mortgage Corporation Rochester, NY (Report No. 92-TS-221-1011)	13	\$237,000
Freedom Mortgage Corporation Independence, OH (Report No. 92-TS-221-1007)	4 ² 300 ³	\$181,000 \$17,000,000
Capital One Mortgage of Georgia Atlanta, GA (Report No. 92-TS-221-1008)	11	\$872,300
Federated Mortgage Associates, Inc. Pembroke Pines, FL (Report No. 92-TS-221-1012)	10	\$726,800
Continental Home Mortgage Company Scottsdale, AZ (Report No. 92-TS-221-1003)	20 ⁴	\$1,662,950

¹ Potential insurance claims HUD may incur.

² Improperly underwritten loans.

³ Loans that were originated during the lenders preapproval period for unconditional direct endorsement that by-passed HUD's review.

⁴ Continental processed an additional 48 loans totalling approximately \$4.8 million that probably involve similar types of loan processing deficiencies that were found with the 20 loans reviewed.

Actions Taken by the Mortgagee Review Board

During this reporting period, the Mortgagee Review Board took the following actions in response to our recommendations:

Company	Status
Horizon Savings Association Austin, TX ¹	Suspension and withdrawal of HUD mortgagee approval
Waterfield Financial Corporation Phoenix, AZ ¹	Settlement Agreement: Reimbursement to HUD of claim losses totaling \$371,591 and indemnification against future losses on another 100+ loans (valued at over \$2 million).
Unity Mortgage Corporation Atlanta, GA	Settlement Agreement: Indemnification of HUD against claim losses on 3 loans for \$59,596.

¹ Reported in previous Semiannual Report as pending actions.

□ Public and Indian Housing

HUD's Public Housing Programs provide financial and other assistance to public housing agencies (PHAs) 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 this 6 months focused on PHA activities; resident management corporations; the Public Housing Drug Elimination Program; public housing development processing in the Boston Region; protective services costs incurred by large PHAs; PHAs' use of fee accountants in the Boston Region; and monitoring of Indian housing authority activities in the San Francisco Region.

Public Housing Agencies

Each year we audit some of the over 3,000 PHAs throughout the country to determine if they are following HUD policies and procedures, complying with laws and regulations, and using HUD funds as intended. Some of the more significant audits during the 6-month period follow.

Springfield, IL

We audited the Springfield Housing Authority (PHA) based on the recommendation of the HUD Chicago Office. In administering its low-income housing program, the PHA exceeded various expenditure categories in its approved 1990 and 1991 operating budgets because the former executive director approved activities and major purchases without obtaining HUD approval. The PHA also lacked adequate procedures to monitor and control its operating expenditures; as a result, it incurred budget overruns which were then absorbed by its operating reserve. This caused the operating reserve to fall below HUD's recommended level. Consequently, the PHA has now been designated by HUD as "troubled."

The PHA deprogrammed 27 housing units without HUD approval and continued to claim operating subsidies for these units. The PHA also permitted a significant number of units to remain vacant for extended periods when they needed only minor repair work. We estimate that the PHA lost about \$267,000 in revenues because of its vacant units.

Other problems included poor rent collection practices, inadequate internal controls and personnel management practices and improper procurement practices. We made several recommendations to the Regional Administrator to correct the deficiencies including implementing effective budgetary controls, obtaining HUD approval for deprogrammed units, reimbursing HUD for operating subsidies improperly received, and establishing the repair of vacant units as a priority work item for the maintenance staff. (Report No. 92-CH-204-1006)

Poughkeepsie, NY

We audited the Poughkeepsie Housing Authority pursuant to a Congressional request. In administering its program, the Authority failed to resolve a bidding and contract wage rate issue in a timely manner. The Authority also failed to ensure that contractual change orders were reasonable and necessary, that professional service costs were reasonable, and that major physical deficiencies were corrected. We recommended that ineligible costs of nearly \$200,000 be recovered, and the eligibility of \$1.3 million in unsupported costs be determined. (Report No. 92-NY-202-1006)

Chattanooga, TN

Our audit was performed at the request of the Manager of the HUD Knoxville Office. The Chattanooga Housing Authority (PHA) lacked the operational and organizational controls needed to assure effective management of its programs. The PHA's decision to operate each of its departments autonomously resulted in a lack of communication and cooperation. Legal fees of \$494,000 were paid under a contract that did not meet HUD requirements and was not competitively awarded. The PHA continued to pay the legal fees despite HUD's instructions to terminate the contract.

We recommended that HUD require the PHA to: (1) review all tenant rents and assure that they are supported by family income and composition; (2) conduct inventories and account for \$1 million in non-expendable equipment write-offs; (3) implement procedures for project maintenance and to assure that vacant units are timely repaired and available for occupancy; (4) implement necessary accounting and administrative controls; and (5) submit an organizational plan for HUD approval that addresses lines of authority and communication. We also recommended repayment or documentation of the \$494,000. (Report No. 92-AT-204-1008)

Asbury Park, NJ

In response to a request from the HUD Newark Office, we audited the Asbury Park Housing Authority. Because of mismanagement by the Authority (PHA), the financial condition of its operations deteriorated to the extent that it has a serious cash flow problem. This problem caused the PHA's accounts payable under its owned and leased housing programs to increase from \$231,000 to \$763,000 between 1989 and 1991. We believe the

PHA's problems resulted from its failure to ensure that actual costs did not exceed budgeted amounts, its decision to spend funds under its leased housing program without HUD approval, and the incurrence of ineligible and unsupported costs of \$328,000 and \$401,000, respectively, under its leased housing program.

With regard to the leased housing program, over the past 3 years the PHA has not limited the incurrence of costs to only those items either permitted under the lease agreement with the project's owner or approved by HUD. This occurred because PHA officials allowed the owner to claim rents for apartments under renovation, incurred costs for project renovations contrary to terms of the lease agreement, and did not ensure that contractual costs incurred by the owner, but paid by the PHA, were economical.

We recommended that the HUD Newark Office implement a plan for addressing the managerial and fiscal problems disclosed in our audit, direct the Authority to seek reimbursement from the owner of the leased housing project and determine the eligibility of unsupported costs. (Report No. 92-NY-202-1004)

Resident Management Corporations

LeClaire Courts, Chicago, IL

We noted that the LeClaire Courts Resident Management Corporation (RMC) has had some success in managing LeClaire Courts, a 616-unit project. For example, the project had a monthly occupancy rate of at least 98 percent between October 1990 and March 1991, and as of April 30, 1991, the RMC had an operating reserve of about \$1 million. However, we concluded that the RMC needs to develop a greater capacity to handle its project maintenance requirements. Of 103 units we inspected at LeClaire Courts, 96, or 93 percent, did not meet HUD's housing quality standards. Also, as evidenced by the high housing quality standards failure rate of its units, the RMC was not performing required annual inspections, managing work (repair) orders effectively, or ensuring that adequate materials were on hand to facilitate repairs of deficient units. In our opinion, the lack of an effective inspection program, coupled with deficiencies in the RMC's maintenance management and work order system, have impeded its efforts to prevent further deterioration of the project's units and overall physical condition.

We attribute the failure of the 96 units in meeting housing quality standards to several factors. For example, the Assistant Secretary for Public and Indian Housing stated that approximately one-third of the violations were the result of inadequate training of the newly hired RMC maintenance staff. Also, some violations are long-standing and likely existed when the Chicago Housing Authority turned LeClaire Courts over to the RMC. Reportedly, the development was in poor condition and there was a backlog of inspections by the Chicago Housing Authority. The long-standing violations included the most prevalent conditions, i.e., indications of defective paint in units and defective roofs. The RMC did not identify and correct other violations which it could have corrected. We believe that the

Chicago Housing Authority did not exercise adequate oversight and direction over the RMC's maintenance function.

The Chicago Housing Authority monitored the RMC and provided it technical assistance over the course of the RMC's management of LeClaire Courts. However, the Authority needs to strengthen its efforts, particularly those related to the RMC's maintenance, until the RMC develops its capacity to handle its assigned maintenance management responsibilities effectively. The Chicago Housing Authority also needs to review the RMC's contracting activities more closely. The Assistant Secretary for Public and Indian Housing advised us that the Chicago Housing Authority assigned a full-time maintenance person to organize and train the RMC's maintenance staff. He also indicated that the Chicago Housing Authority will strengthen its RMC oversight and technical assistance functions.

In addition to closer monitoring by the Chicago Housing Authority of the RMC's operations, we recommended implementation of a maintenance plan to correct the deficiencies found during our inspections, development of procedures to safeguard cash on deposit in excess of insurance limits, and revision of the management contract and by-laws. (Report No. 92-CH-209-1018)

Public Housing Drug Elimination Program

We completed a follow-up review on the Atlanta Region's processing of 1990 and 1991 Public Housing Drug Elimination Program (PHDEP) grants. The review was initiated as a result of our audit of the Paris, Tennessee Housing Authority's PHDEP. Our findings regarding the Authority's deficient PHDEP grant applications raised questions about the adequacy of the Atlanta Region's processing of public housing agencies' (PHAs') applications.

Paris, TN

The Paris Housing Authority, acting on behalf of itself and a consortium of nine other separate housing authorities, submitted 1990 and 1991 applications for PHDEP funding even though it was aware that the applications did not adequately support a drug-related crime problem. The applications also failed to include separate drug elimination plans for each PHA or a sufficiently comprehensive consolidated plan for all 10 PHAs. In addition, the applications identified other local funding sources, but did not include letters of commitment for such local funding. Based on our audit, we concluded that Paris and the other nine participating PHAs were awarded over \$1.7 million to address nonexistent or inadequately supported drug-related crime problems.

The Authority employed an excessive number of employees to administer its PHDEP. In addition, plans were underway to almost double the staff size. The excessive staff has resulted in the expenditure of program funds for salaries and fringe benefits that could and should have been avoided.

We recommended that, if legally permissible, the Field Office Manager rescind the Paris Housing Authority's 1990 and 1991 PHDEP grants and recapture all funds not yet spent by the Authority for previously approved activities, and require the Authority to reduce the number of workers employed to administer the program to a level determined by the Office of Public and Indian Housing to be commensurate with the demands of the program. (Report No. 92-AT-202-1009)

Atlanta Region's Processing of PHDEP Grants

A review of the Atlanta Region's processing of 1990 and 1991 PHDEP grants showed that the Region processed and approved at least \$6.8 million for 18 PHDEP grants that were based on applications that did not conclusively support the existence of drug-related crime at the targeted public housing sites. These grants included the Paris, Tennessee PHA's \$1.5 million award for the same period. We determined that the Paris Housing Authority grant should not have been made. We attributed the questionable grant awards primarily to weaknesses in the processing and scoring system which allowed HUD field staff to make too many subjective decisions in rating the PHAs' applications. We also found that during the 1990 funding cycle, the Region approved and would have funded at least four deficient applications if it had not previously depleted its allocated funds.

We recommended that the Regional Administrator: (1) recapture any unspent funds from PHAs whose applications did not support a project drug-related crime problem; (2) require all staff involved in supervising, processing and scoring PHDEP applications to receive detailed training on all applicable PHDEP requirements and guidelines; and (3) establish a formal system of quality controls over the processing and scoring of PHDEP applications. The Regional Administrator generally agreed with our findings and recommendations. (Report No. 92-AT-101-0004)

Other PHDEP Audits

In reviewing a number of other PHAs' compliance with PHDEP procedures, we found that in many cases, PHAs followed HUD requirements and regulations. However, our audits did disclose deficiencies in areas such as documentation, monitoring, assessment of program results, and development of adequate program procedures. The following are examples of other audits of the PHDEP.

Richmond, CA

The Housing Authority did not adequately oversee its \$467,000 PHDEP in that it did not properly monitor a subgrantee; make an assessment of program results; or actively seek additional funding as specified in its approval application. As a result, one of two subgrantees did not accomplish all of its program goals and excessive funds have been spent. The Authority's anti-drug activities funded by the Comprehensive Improvement Assistance Program (CIAP) were not being administered as required since planned activities are not

on schedule and salary costs charged to the program are not supported. We recommended assignment of a knowledgeable anti-drug coordinator, establishment of written monitoring instructions, and actions to accomplish all planned CIAP anti-drug activities or deobligation of the funds for those activities. (Report No. 92-SF-209-1001)

Martinez, CA

The Housing Authority of the County of Contra Costa did not effectively manage its \$697,000 PHDEP. The Authority spent funds for ineligible activities and failed to perform a required evaluation of the grantee's progress against its plan. As a result, neither HUD nor the Authority had a timely assessment of the Authority's program. The Authority's anti-drug activities funded by CIAP were not administered as required. The Authority did not require subgrantees to document and report costs and activities, and all activities were not being accomplished as shown in the approved budget. We recommended reimbursement of ineligible expenses, implementation of written instructions for administering CIAP funds provided to subgrantees, and development of a revised CIAP budget. (Report No. 92-SF-209-1002)

Public Housing Development Processing - Boston Region

Field and Regional Office staff in the Boston Region need to improve their performance in reviewing and processing PHAs' applications for public housing development projects to ensure that only eligible applications are recommended to Headquarters for funding. The staffs also need to establish effective management controls, improve communications, and perform more monitoring to ensure that funded projects are constructed and closed out in a timely manner and that established development cost limitations are met.

We audited the Boston Region's processing of public housing development projects at the request of the Assistant Secretary for Public and Indian Housing. Our review at 10 PHAs under the jurisdiction of the Boston, Providence, and Manchester Offices determined that most of the suspected deficiencies brought to our attention by the Assistant Secretary were substantiated. Further, we identified other processing deficiencies not specifically mentioned by the Assistant Secretary.

Although Field and Regional Office Managers were aware of many of the problems we found, they did not implement effective alternative methods for monitoring the progress of projects in the pipeline. Questionable items such as construction delays or lack of development activities for some projects were not pursued. In our opinion, adequate monitoring would have been instrumental in discovering and resolving the problems disclosed or substantiated by our audit.

We recommended that the Regional Administrator ensure that the public housing data management system is updated and maintained; obtain training for both technical and managerial staff responsible for maintaining and using the system; provide training to staff

responsible for processing PHA applications; ensure that managers coordinate more closely on required project terminations and closeout actions and that they do so in a timely manner; and ensure that managers do not revise Headquarters-approved cost containment measures without first obtaining Headquarters approval. Both the Assistant Secretary for Public and Indian Housing and the Regional Administrator generally agreed with our findings and recommendations. However, the Regional Administrator did state that he believed the problems stemmed from a possible misinterpretation of HUD requirements and not intentional noncompliance. (Report No. 92-BO-101-0006)

Protective Services Costs Incurred by Large Public Housing Agencies

At least five public housing agencies (PHAs) in the San Francisco Region were spending over \$5.3 million annually for protective/security activities at public housing projects without sufficient HUD or PHA evaluation to ensure the expenditures were above and beyond those to be provided by local governments and were reasonable, necessary and justified. Inadequate evaluation and justification of the need for these services has led to inefficient expenditures of funds.

We audited the San Francisco Region's review of protective services costs incurred by the Region's largest PHAs. The audit was part of a national review of selected aspects of Cooperation Agreements between PHAs and their local governments.

The total amount that PHAs are spending for protective services expenditures in the San Francisco Region could not be readily determined, but data provided by HUD indicates that PHAs nationally are spending at least \$164 million annually for these services. Of the six PHAs we visited, five (County of Los Angeles and San Joaquin and the Cities of Los Angeles, San Diego and Oakland) were spending about \$5.3 million annually for protective services. None of these PHAs were effectively planning for the protection and security of their projects and residents, requesting needed assistance from local police departments, or exploring alternative, less costly means for meeting their security needs. We also found that from October 1985 through March 1991, the Los Angeles County PHA improperly spent about \$4.3 million for security and protective services which should have been provided at no cost by the County of Los Angeles and the City of Long Beach pursuant to the PHA's Cooperation Agreements.

Although approval of a PHA's operating budget provides HUD an effective means of monitoring the PHA's operations, Field Offices were not closely examining expenditures for protective services to determine whether these were proper and necessary.. While Field Offices routinely review and monitor PHAs, their oversight does not normally encompass project security and protective services. The Assistant Secretary for Public and Indian Housing advised us that PHAs need a methodology to determine if comparable local services are being provided to them under Cooperation Agreements with local governments.

Therefore, he was of the opinion that the PHAs themselves should be primarily responsible for ensuring that they are receiving comparable local services.

We recommended that the Regional Administrator instruct Field Offices to: (1) require PHAs to justify applicable budget requests for protective services expenditures; (2) include in their management monitoring reviews an evaluation of PHAs' security/protective needs and expenditures; (3) provide ongoing technical assistance to PHAs in their contracting for additional protective services needs; and (4) work closely with PHAs and local governments to improve the security and protection at public housing projects. The Regional Administrator agreed with our finding but did not agree with all of our recommendations. (Report No. 92-SF-101-0005)

PHAs' Use of Fee Accountants - Boston Region

Public housing agencies (PHAs) in Massachusetts charged federally aided programs up to 50 percent more for the same services they charged comparable state aided programs. Federal programs were charged as much as \$86 more per unit annually. Neither the PHAs nor the fee accountants could provide adequate justification for the disparities. PHAs compounded the problem by not complying with procedures for procuring professional services. We recommended that HUD require PHAs to support the reasonableness of payments to fee accountants and assure that PHAs competitively procure accounting services. We also recommended that PHAs strengthen fee accountant accountability by including internal controls advice and timeframes for financial reports. The Regional Director of Housing generally agreed with our findings and recommendations. (Report No. 92-BO-101-0005)

Office of Indian Programs - Monitoring Activities

During the reporting period, we reviewed the Office of Indian Program's (OIP's) monitoring of Indian housing authority activities in the San Francisco Region. The OIP did not properly evaluate the administrative capabilities of Indian housing authorities (IHAs) or provide IHAs adequate technical assistance. Our evaluations of the capabilities of IHAs for fiscal year 1991 were much lower than those of the OIP, primarily because OIP evaluations were based on outdated and undocumented information and the OIP practice of giving satisfactory ratings if they were unaware of adverse information. We recommended that sufficient travel funds be budgeted to enable the OIP to make required on-site visits and that pertinent written information be obtained and retained in file to support off-site evaluations by the OIP. We also recommended that the OIP identify the causes of their monitoring findings, develop corrective actions that properly address the causes of the findings, and issue monitoring reports more timely. (Report No. 92-SF-101-0002)

Audit Statistics

	10/01/91-03/31/92
Cash Recoveries ¹	\$23,932,244
Cost Efficiencies Realized ¹	\$13,319,868
Commitments to Recover Funds ¹	\$45,668,363
Cost Efficiencies Sustained ¹	\$9,826,205
Suspensions of Persons/Firms Doing Business with HUD	18
Debarments of Persons/Firms Doing Business with HUD	14
Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgage Review Board	3
Subpoenas Served	12
Material Weaknesses Reported	1
Reports Issued:	
● Internal Audit Reports	33
● External Audit Reports	71
● Audit Related Memoranda Issued	24
● Non-Federal and other Agency Reports Accepted	2,863

¹ Includes amounts due to HUD program participants.

Chapter 3 - Investigation

Investigation of Complaints

The following table lists the number of complaints received by HUD during the period from January 1, 1991, to December 31, 1991, categorized by type of complaint and the number of complaints that were resolved.

Complaint Type	Number of Complaints Received	Number of Complaints Resolved
Discrimination	1,234	876
Health and Safety	987	654
Financial	765	543
Other	543	321
Total	3,529	2,394

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Discrimination	1,234	876
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Other	543	321
Total	3,529	2,394

Results of Investigations
for
October 1 Through March 31, 1992

	OIG/Joint Cases	Others Alone	Total 10/01/91 - 03/31/92
Cash Recoveries/Savings to HUD			\$432,928
Other			\$6,920,984
Court Ordered Restitution			\$34,460,535
Total Cash Recoveries/Savings	\$37,648,834	\$4,165,604	\$41,814,447
Commitments to Recover Funds			\$183,750
Cost Efficiencies			\$173,484
Total Fines Levied	\$316,396	\$175,397	\$491,793
Indictments	155	116	271
Convictions	92	102	194
Investigations	205	142	347
Total Years Suspended/Probated Sentences	292	327	575
Total Years of Prison Sentences	125	71	196
Suspensions of Persons/Firms Doing Business with HUD			80
Debarments of Persons/Firms Doing Business with HUD			72
Personnel Actions Initiated Against HUD Employees			13
Subpoenas Served			83

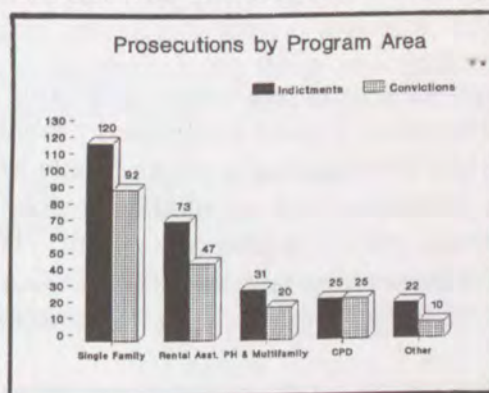
Investigations Pending as of 3/31/92

OIG	842
FBI/Other	455
U.S. Attorney	205
Total Investigations Pending	1502

Chapter 3 - Investigation

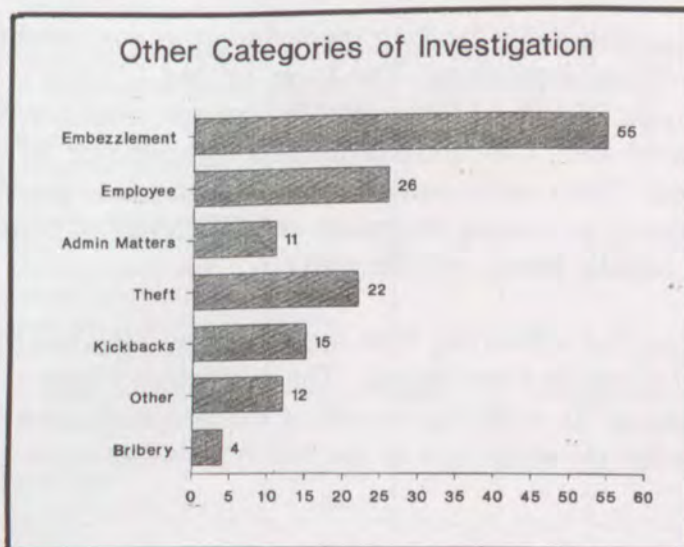
Highlighted in this chapter are some of the more significant prosecutive actions which occurred during this reporting period. While the primary focus of our resources were devoted to fraud in Single Family Programs, increased emphasis was placed on fraud in Multifamily Housing, Public Housing, and Community Planning and Development Programs. We are addressing our investigative responsibilities to protect the integrity of the Department's programs by working closely with the Federal Bureau of Investigation (FBI) and other law enforcement agencies in task forces with the cooperation of the Department of Justice.

Overall, we had 271 indictments and 194 convictions during the past 6 months.



We opened 394 investigations with 249 involving false statements. Approximately 39 percent of our investigative time was spent on single family cases, representing 35 percent of our total investigations.

Other categories of investigations are shown on the following chart:



□ Single Family Housing

Fraud in loan origination, the largest category of investigation in Single Family Housing Programs, and equity skimming, were the primary areas of focus.

Loan Origination

Eligibility for HUD-insured home loans depends on various criteria including income, down payments, and owner occupancy. Schemes to defraud the government are not uncommon. Fraud in the origination of these loans usually involves 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:

As an outgrowth of a Single Family task force, an owner of a Long Island title company was sentenced to 57 months confinement, 3 years suspended probation, and ordered to pay \$20 million in restitution. While investigating a single family loan origination fraud, a scheme to defraud investors was developed and an additional violation of the Real Estate Settlement Procedures Act was made part of a plea agreement. The task force was comprised of the FBI, IRS, Postal Inspectors, and the HUD OIG. (U.S. vs. Hyman J. Gaines, Eastern District of New York and New York State Supreme Court)

A Cleveland real estate broker pled guilty to submitting false information in order to obtain mortgage insurance on properties which were used for rental income. The falsified information included a social security number, employment verification documents, W-2 wage statements, gift letters, and FHA application documents. The total amount of HUD-insured loans was approximately \$400,000. (U.S. vs. Jean Ezelle, Northern District of Ohio)

Two real estate speculators pled guilty for their involvement in a scheme to obtain two FHA insured loans on overvalued property. The loans totaled \$95,651. (U.S. vs. Judy Johnston and Nancy Dobson, District of Georgia). In another, a realtor was engaged in a plan which permitted purchasers to acquire properties with little or no down payments and at inflated sales prices. This realtor signed a plea agreement to pay \$144,362 in restitution. He was sentenced to 2 years probation and 200 hours of community services. (U.S. vs. Edward Pleaez, Middle District of Florida)

Six individuals were indicted for submitting false statements to HUD in order to fraudulently obtain 21 HUD-insured mortgages. The mortgages which have gone into default were worth \$3 million. In addition, several of the properties were later burned to collect the insurance benefits for which one of the defendants has been indicted

separately on state arson charges. (U.S. vs. Charles Roarke, et. al., Northern District of Georgia)

For fraudulently originating approximately 1,000 FHA loans, two investors were sentenced to imprisonment for 27 years and 23 years, respectively, 5 years probation and ordered to pay \$12,618,722 in restitution jointly to HUD and GNMA. The investors purchased numerous multifamily buildings, subdivided them into single family dwellings, had strawbuyers submit false information which resulted in HUD's insuring the mortgages at greatly inflated prices, and did not make any mortgage payments. The properties went into foreclosure. This was a joint effort with the FBI, the Internal Revenue Service, the U.S. Postal Service and HUD/OIG. (U.S. vs. Donald Austin, et. al., District of Colorado)

A task force comprised of the FBI, the Department of Veterans Affairs, IRS and HUD/OIG was formed to investigate loan origination fraud in the Tampa, Florida area. During this reporting period there were three new indictments bringing the total to date to 19 indictments, 12 convictions, and approximately \$650,000 in court-ordered restitution.

Other loan origination cases:

CASE	DESCRIPTION	SENTENCING				ADMIN. SANCTIONS	OTHER AGENCY
		PRISON	PROB.	FINE	REST.		
U.S. vs. Daniel Nielsen, District of Colorado	Real Estate Developer guilty on two counts of submitting false statements to HUD.		5 yrs (each count)		\$10,000	Suspended	
U.S. vs. Paul J. Hollis, Middle District of Florida	As part of an ongoing task force investigation, an investor pled guilty to conspiracy and bank fraud.		4 yrs	\$100	\$175,000		FBI
U.S. vs. James Parrish, et. al., Eastern District of Arkansas	A Closing Agent, two loan processors & three realtors provided unqualified purchasers with funds to qualify for FHA-insured mortgages.	6 mos (halfway house) for one realtor	10 yrs total	\$16,500 total		Debarred	FBI
U.S. vs. Cecil McClendon, Northern District of Indiana	An area management broker accepted payments from a contractor in exchange for work.	6 mos (halfway house)	18 mos	\$2,000	\$450		
U.S. vs. William Winneroski, Middle District of Florida	An investor found guilty of conspiracy to commit bank fraud.	5 mos 2 yrs supervise d release			\$90,000		FBI

CASE	DESCRIPTION	SENTENCING				ADMIN. SANCTIONS	OTHER AGENCY
		PRISON	PROB.	FINE	REST.		
U.S. vs. James Thomas Webb, Eastern District of North Carolina	An investor obtained high loan-to-value mortgages on four properties by falsely stating he was to be an owner-occupant.	4 mos (halfway house)		\$500		Suspended	
U.S. vs. Rex Lyman Parry, Clifford E. Gant, Reynold Leroy Best, et. al., District of Arizona	A Placement Director at an educational institution falsely verified the income of a home buyer and submitted false statements to HUD on his own loan applications for two properties.		5 yrs		\$5,000	All Suspended	DVA
U.S. vs. Raymond Eugene Garrison, Jr., Eastern District of North Carolina	A Section 235 lender submitted false statements to HUD by not disclosing the full income for a family.	6 mos (home confine.)	5 yrs		\$10,528		
U.S. vs. Tommy Haynes/Greater Mortgage Company, Eastern District of Arkansas	In concert with seven other co-conspirators, a mortgage company president provided funds to give the appearance that unqualified buyers had adequate funds to qualify for HUD-insured loans. The mortgage company indemnified HUD resulting in no monetary loss to HUD.	9 mos		\$100		Debarred	

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 San Francisco real estate investor pled guilty to equity skimming involving seven HUD-insured mortgage loans. The investor entered into a plea agreement to pay \$175,000 for losses incurred. (U.S. vs. Scott Sims, Northern District of California)

A joint investigation with the FBI disclosed that 183 properties were involved in an equity skimming scheme. The total amount of HUD-insured properties was about \$4 million. Four investors were sentenced for their participation in the scheme. The primary subject was sentenced to 2 years imprisonment and ordered to pay \$18,000 in

restitution. The other three investors were placed on probation and ordered to pay \$18,835 in restitution. (U.S. vs. William Wasson, et. al., District of Arizona)

In a joint investigation with the FBI, an investor was found to have purchased and defaulted on eight HUD-insured mortgages. He was sentenced to 15 months imprisonment plus 3 years probation. (U.S. vs. Gilbert MacDonald, Middle District of Florida)

□ 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. The cases below illustrate these types of situations:

A former management corporation employee in Dallas, Texas, was indicted on theft and false statement charges. He submitted false bills to HUD for project expenditures. Upon receipt of the HUD checks, totalling over \$23,000, signatures were forged and the checks were deposited into a personal account. (U.S. vs. James Hatfield, Northern District of Texas)

A former executive administrator of a Senior Citizens Housing complex in Beaumont, Texas helped wealthy tenants hide their income and assets in order to qualify for reduced rental rates under the Section 202 Program. She was sentenced to 3 years probation, \$4,127 in restitution, and fined \$10,000, as well as suspended from participation in HUD programs. (U.S. vs. Helen Kuhn, Eastern District of Texas)

After a 3-week trial, an Ohio Corporate Partnership was convicted for its part in a scheme to defraud the Moderate Rehabilitation Program. The scheme was to divert funds from HUD, the Cuyahoga Metropolitan Housing Authority and the Ohio Housing Finance Agency. Charges include tampering with records, forgery and false statements. (State of Ohio vs. Beehive Partnership, et. al.)

□ 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 subsidies, and modernization funds. The cases below illustrate fraud that can occur in these situations:

In a joint investigation, indictments were brought against six organized crime figures. A debarred contractor, through a shell company, received \$23 million in HUD-funded

contracts from the New York City Housing Authority. At least \$1.2 million was skimmed off and used to develop a race horse farm in Florida. Our office participated in the investigation with the New York City Housing Authority and the Internal Revenue Service. The defendant has been debarred from participation in HUD programs. (U.S. vs. Anthony Gurino, et. al., Northern District of Florida and Eastern District of New York)

An employee of the Housing Authority in Plymouth, North Carolina, pled guilty to embezzling \$122,166. The shortage was disclosed during the annual audit. Our investigation disclosed that the funds were obtained through altering the rental registers and incorrectly recording the amounts of rent receipts on the daily statements of operation. (U.S. vs. Wanda C. Hudson, Eastern District of North Carolina)

A bookkeeper from the Huntington, New York Public Housing Authority was arrested and charged with grand larceny as part of an ongoing joint investigation by HUD/OIG and the Suffolk County District Attorney's Office. The bookkeeper deliberately generated approximately \$10,000 in excess rental assistance payments which he shared with a landlord. (State of New York vs. Jamelle Pace)

□ 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. The cases below illustrate these types of situations.

Two Section 8 tenants and a landlord were charged with theft and the submission of false information. These three individuals are among 15 defendants indicted in the latest phase of the Welcheat Task Force. This is a multiagency task force designed to investigate welfare fraud and fraud against the government in central Illinois. A total of 160 government program participants have been charged so far. Losses to HUD are estimated to be in excess of \$1.3 million. (U.S. vs. William Jordan, et. al., Central District of Illinois)

A deputy sheriff fraudulently obtained \$17,000 in rent subsidy by understating his income and omitting his earnings from various business ventures. (U.S. vs. Almor C. Massey, Northern District of Illinois)

Computer match activities in the New Haven and Hartford, Connecticut areas have resulted in several criminal and civil actions. Eight recipients of rental assistance were charged with making false statements and/or conspiracy to defraud the government of over \$200,000. Civil judgements were executed in six additional cases requiring repayments of over \$130,000 via wage garnishment or default judgements. This was a

joint investigation with the FBI. (U.S. vs. Odell Bromell, James Bryant, et. al., District of Connecticut)

Other rental assistance cases:

CASE	DESCRIPTION	SENTENCING				ADMIN SANCTIONS	OTHER AGENCY
		PRISON	PROB.	FINE	REST.		
U.S. vs. Dorothy Jones, Northern District of Indiana	A tenant failed to report income and tenancy of spouse at a loss of \$42,000 to the Government.		4 yrs		\$9,000	Suspended	
U.S. vs. Thomas H. Clark, Northern District of Iowa	A Sec. 8 tenant was given two consecutive sentences for making false statements to DOEd and HUD in order to receive benefits.	5 yrs + 46 mos			\$7,300 to HUD \$25,400 to DOEd		DOEd
U.S. vs. Ruby Moss, Northern District of Indiana	A tenant misrepresented family income resulting in over \$44,000 in losses to HUD.		2 yrs		\$3,600		
State of California vs. Dorothea Lyons Wilcox	A rental recipient engaged in fraudulent activities to receive Section 8 subsidy of \$28,000. As part of the sentencing, she has been ordered to vacate the unit.		5 yrs		\$28,500		

□ Community Planning and Development

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

A contractor was charged with mail fraud in the submission of counterfeit bonds in an attempt to obtain community development block grant funded construction projects valued in excess of \$275,000. The contractor was not awarded the construction projects. (U.S. vs. Dennis Mark Fults, Southern District of Illinois)

As part of plea agreements, two speculators, who previously pled guilty to using nominees to obtain HUD CDBG Urban Homesteading properties, returned the houses to the Local Community Development Agency in North Bellport, New York. The

properties are presently valued at \$475,500. (State of New York vs. Thomas Brazier and Albert Iannuzzi)

Other CPD cases:

CASE	DESCRIPTION	SENTENCING				ADMIN SANCTIONS	OTHER AGENCY
		PRISON	PROB.	FINE	REST.		
U.S. vs. Lloyd A. Gillespie, Western District of Louisiana	A CDBG recipient used the grant to pay personal debts.	30 mos	5 yrs	\$24,500	\$258,000	Suspended	
U.S. vs. Leroy Miah, Eastern District of Pennsylvania	A demolition contractor bribed an Executive Director of the Chester Redevelopment Authority to win Federal contracts.	9 mos	3 yrs	\$1,000			
U.S. vs. William Tancredi, et. al., Eastern District of Pennsylvania	An Executive Director of the Delaware County Partnership for Economic Development accepted illegal cash payments from a contractor in return for preferential treatment during the award process of CDBG funded rehab work.		5 yrs	\$4,000	\$37,000	Suspended	
U.S. vs. Brian Sarault and Louis Simon, District of Rhode Island	The Mayor of Pawtucket and a public works employee were found guilty of racketeering and attempted extortion, respectively.	66 mos 46 mos	3 yrs 3 yrs	\$24,000 \$11,000	\$80,000 \$5,000	One Suspended	FBI

□ 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 was sentenced to 15 years imprisonment and ordered to pay \$852,000 in restitution for mail fraud, conversion of Federal funds and making false statements. For more than 7 years the president embezzled \$11.4 million in FHA and VA claims that were to be repaid to GNMA investors. (U.S. vs. Julio Casar Padin Torres, District of Puerto Rico)

Chapter 4 - Audit Follow-up

□ Introduction

This Chapter reports the Department's progress in implementing corrective actions stemming from previous significant OIG audits. The specific audits or program areas discussed below are: the Section 8 Moderate Rehabilitation Program; accounting and budgeting for Section 8 funds; the Housing Voucher Program, Phase II; the Flexible Subsidy Program; staffing shortages; management of HUD's assigned single family inventory; payment of one-time mortgage insurance premiums; the Title I debt management and collection system; Community Development Block Grant rehabilitation activities; and interim financing activities.

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

Section 8 Moderate Rehabilitation Program

Our April 1989 multiregion audit report disclosing widespread abuse in all phases of the program was discussed in this chapter of our last two Semiannual Reports. The only corrective action not completed was the recovery of overpaid assistance to project owners.

As of September 30, 1991, 10 project reviews for non-coinsured projects remained to be completed. During this reporting period, all of these reviews were completed. The Office of Public and Indian Housing expects to notify the PHAs of the review results by September 30, 1992.

Also, the Office of Public and Indian Housing completed reviews on 24 of 63 coinsured projects. As a result of these reviews, the Department expects to recover about \$10.8 million from public housing agencies and/or owners, and another \$30.1 million will be recovered through offsets against future subsidy payments to owners. The Assistant Secretary for Public and Indian Housing now expects to complete the 39 remaining reviews by August 30, 1992, and notify PHAs of necessary repayments by September 30, 1992. (Report No. 89-TS-103-0005)

Accounting and Budgeting for Section 8 Funds

In this Chapter of our last three Semiannual Reports, we discussed the status of actions taken to correct a significant weakness in HUD's accounting and budgeting for Section 8 Funds.

During this reporting period, final actions were completed on nine of ten open recommendations. Under the overall direction of the Deputy Secretary and the Chief Financial Officer, an implementation plan and schedule to develop the Department's integrated financial and management systems was completed in February 1992. Also, a notice was issued in November 1991 providing guidance to field offices on actions to be taken to improve accountability of funds and ensure that funding requests are necessary and accurate. In addition, a software package was developed and tested that will account for the renewal or replacement of expiring Section 8 contracts. The recommendations in this report were the initial steps to be taken to correct the accounting and budgeting for Section 8 funds. Our current review, discussed in Chapter 2 of this Semiannual Report, shows that problems still exist because of shortcomings in the Department's Section 8 financial management information systems and inherent limitations of basing budget estimates on field surveys.

The last open recommendation requires HUD to develop a long-range plan to combine the best features of the Section 8 Certificate and Voucher Programs. A management decision was made on September 26, 1990, to issue a comprehensive rule for these programs, incorporating the best features of both programs and eliminating as many administrative deficiencies as possible. The original target completion date of April 1991 has been extended twice due to the reassignment of staff to develop regulations for the HOME Program. Work on the rule was restarted in December 1991. Most recently, the Assistant Secretary advised us that the rule would be completed by February 1993. (Report No. 90-TS-103-0010)

Housing Voucher Program - Phase II

This matter was discussed in this Chapter of our previous Semiannual Report. We reported that five of thirteen recommendations included in our November 1989 audit report remained open. During this reporting period, final action was completed on two of the five open recommendations. Actions completed included issuance of a notice instructing HUD offices to impose available sanctions on public housing agencies that fail to correct serious administrative problems. Additionally, the Office of Public and Indian Housing has completed analyzing data on the program's portability feature. However, recommendations regarding participant qualifications and certification and issuing implementing regulations on the portability feature still need to be implemented.

Implementation of two recommendations requires the issuance of instructions to address participant qualification and certification issues. The original target date was September 1990. Delays occurred and the instructions are now in Departmental clearance. The instructions are scheduled for issuance by July 31, 1992.

The third remaining recommendation requires regulatory revisions to the Rental Voucher Program. The original target date of September 1990 was extended three times, most recently to September 1992. The same regulations necessary to resolve the final

recommendation for accounting and budgeting for Section 8 funds (Report No. 90-TS-103-0010) will also resolve this recommendation upon issuance in February 1993. (Report No. 90-TS-103-0005)

Flexible Subsidy Program

This matter was discussed in this Chapter of our last Semiannual Report. We reported that the Office of Housing agreed to implement the seven recommendations included in our September 26, 1989 report on the Flexible Subsidy Program. Housing planned to implement each of the seven recommendations through the revision of the flexible subsidy handbook.

The original September 1990 target completion date was extended two times for various reasons including the impact of H.R. 1 on funding policies of the Flexible Subsidy Program. In September 1991, the Department hired a contractor to revise the handbook, with a target completion date of May 30, 1992. During the current reporting period, the draft handbook was placed into Departmental clearance. The Assistant Secretary for Housing anticipates issuance by the May 30, 1992 target completion date. (Report No. 89-TS-111-0008)

Staffing Shortages

Two audits remain open because of disagreements on staffing issues. The Office of Housing continues to place increased monitoring requirements on field offices without adequately addressing resource strategies to carry out the increased functions. Our April 1990 audit report on the Housing Development Grant Program determined that field offices were not properly monitoring grantee performance. As a result, there was significant noncompliance with program requirements, including excessive grants and delayed grant settlements. In April 1991, we issued an audit report on the Approval and Monitoring of Management Agents for Multifamily Projects. This audit disclosed significant problems in monitoring the activities of management agents which resulted in HUD's not detecting violations of program requirements including procurement and management problems.

In each of these reports, we recommended that the Office of Housing strengthen procedures in the affected program area. We also recommended that Housing assess staffing needs and develop resource strategies. The Office of Housing has taken steps to strengthen monitoring controls in Headquarters and the Regional Offices. However, they have not yet satisfactorily addressed our recommendations regarding an effective resource strategy and assuring that sufficient staff is allocated to these important functions.

In response to our audit on the Housing Development Grant Program, the Assistant Secretary for Housing informed us that the Office of Housing believes they have adequately addressed the resource issue. Actions taken include transferring monitoring responsibilities, providing training and guidance, and requiring field offices to initiate appropriate

administrative sanctions against grantees. However, the Office of Housing did not execute a contract with a major accounting firm to audit project settlements as originally planned in their resource strategy. Instead, they detailed staff from the field and other Headquarters offices to assist in the processing of project settlements. The Office of Housing plans to transfer the responsibility to settle projects to the field without assessing whether sufficient resources are available to carry out this function.

In response to our audit on the Approval and Monitoring of Management Agents for Multifamily Projects, the Assistant Secretary for Housing informed us that budget limitations do not permit assignment of additional personnel to this function. Although increased monitoring requirements have been established, the Assistant Secretary for Housing has not assessed whether the staff available will be able to carry out this increased function.

The OIG has not agreed with the actions taken and continues to believe that the Assistant Secretary for Housing should assess whether sufficient staff is available to carry out required and increased functions under his programs.

(Report Nos. 90-TS-112-0015 and 91-TS-111-0014)

Management of HUD's Assigned Single Family Inventory

In this Chapter of our prior Semiannual Report, we discussed the status and results of actions taken to correct significant weaknesses in HUD's management of its assigned single family inventory. We reported corrective actions were taken on 16 of the 18 recommendations included in our October 30, 1989 audit report. Several of the actions implemented were important to the Secretary's goal of providing affordable housing. The remaining two recommendations pertaining to monitoring field office performance and tracking of loans on the Single Family Mortgage Notes System (SFMNS) were implemented in March 1992. However, during this reporting period, we re-opened two of the 16 recommendations previously resolved.

Two recommendations required revisions to policies and procedures and implementation of a program to reduce interest rates to market levels in order to prevent foreclosure on certain Secretary-held single family mortgages. In response to our recommendations, the Department advised field offices to recommend mortgages to Headquarters for interest rate reductions, if certain qualifying criteria were met. The lower interest rate must enable the borrower to make the full monthly mortgage payment. Subsequently, we learned that new cases for interest reduction were not being processed. Therefore, we have re-opened the two recommendations on this matter pending completion of a Front-End Risk Analysis and the issuance of new program instructions. The Assistant Secretary for Housing estimates completion of the instructions by June 1992. (Report Number 90-TS-121-0004)

Payment of One-Time Mortgage Insurance Premiums

This matter was discussed in this Chapter in our last two Semiannual Reports. In our report for the period ending September 30, 1991, we discussed that final action on three of the nine recommendations included in our October 19, 1989 report was delayed. During this period, the Department experienced additional delays and did not complete final action on the three remaining recommendations. These recommendations concern lender fidelity bond coverage, stricter controls over mortgage insurance certificates and increasing lender net worth requirements. Final action target dates on these recommendations were extended three times since the original management decision date of October 1989.

Implementation of two recommendations requires publication of new lender reform regulations. A proposed rule was placed in Departmental clearance on December 8, 1990, and was published in the Federal Register for public comments in June 1991. The Department received over 180 comments, delaying the scheduled January 1992 publication date reported in our last Semiannual Report. The final rule, being processed as part of the FHA reform package, is currently scheduled for publication by June 30, 1992.

The Department has taken interim corrective actions to improve controls over mortgage insurance certificates--the third remaining recommendation. However, additional time was needed to incorporate instructions into the appropriate HUD handbook. This was to occur by February 1990 but the Assistant Secretary for Housing now estimates that the handbook will be completed May 1992. (Report No. 90-TS-121-0002)

Title I Debt Management and Collection System

As reported in our Semiannual Report for the period ending March 31, 1991, our multiregion audit report disclosed significant weaknesses in the Title I Debt Collection System and in debt management and collection practices. Our report pointed out that: (1) debt owed on defaulted Title I loans was incorrectly calculated; (2) debt was improperly forgiven, transferred or deactivated; (3) controls to safeguard the security of documents, cash receipts and federal tax data were inadequate; (4) lenders were paid for unenforceable claims; and (5) reviews of claims paid were not performed or adequately documented.

The report included 21 recommendations. During the period, actions on 11 recommendations were completed. The Department has taken action to improve many of the system and managerial control weaknesses we identified. The Office of Housing agreed to take action on ten recommendations pertaining to the restoration of improperly written-off debt, proper computation of debt on defaulted Title I loans, claim payment and collection activities, and monitoring and evaluation of Regional Service Centers. However, these 10 recommendations remain to be implemented.

One recommendation addressing the propriety of write-offs of debt and the need to restore \$42 million of improperly written-off debt remains open with a target completion date of November 1992. The Assistant Secretary for Housing plans to seek guidance on what actions are necessary to comply with Debt Collection Act and Treasury requirements.

Three recommendations addressing the Department's computation of debt on defaulted Title I loan obligations remain open. Because of differences in opinion between the Assistant Secretary for Housing and the OIG, the Department requested a Comptroller General opinion on the matter in August 1991. A response is expected by July 1992.

Three recommendations pertaining to unenforceable claims remain open with a target completion date of June 1992. Certain states have laws which limit or bar collection of claim deficiencies. Although requirements currently exist, based on General Counsel guidance, the Office of Housing is in the process of revising its internal claims and collection procedures.

Three recommendations require the development of controls over write-offs and compromises and Headquarters monitoring and evaluation of Regional Service Centers. The system contractor is developing a report that will show all active accounts with zero balances. The Assistant Secretary for Housing plans to use this report to monitor improper write-offs and compromises of debt. The target completion date for development of this report was April 1992; this date has been met. Additionally, the Assistant Secretary for Housing has developed monitoring procedures and plans to complete reviews of all three Regional Service Centers by July 1992. (Report No. 91-TS-122-0009)

Community Development Block Grant (CDBG) Rehabilitation Activities

We discussed the results of our multiregion audit of CDBG rehabilitation activities at entitlement grantees in our Semiannual Report for the period ending March 31, 1990. We found that substandard conditions previously reported in a 1980 audit were not corrected. As a result, health and safety violations continued because of deficiencies in inspections, work write-ups, cost estimates, and overall quality control.

Based on our audit, the Assistant Secretary for Community Planning and Development promised to implement actions designed to correct the problems found. Those actions included issuance of instructions to grantees to emphasize the program's essential policies and procedures, providing training and instructions to grantees on quality control systems, and revising CDBG regulations to require that health and safety violations be identified and reported when federal funds are used.

To date, the Assistant Secretary has taken timely final action on eight of the nine recommendations included in our April 1990 audit report. For the remaining open recommendation, proposed regulations on the program were delayed due to Departmental priorities on developing regulations and guidance on the HOME and HOPE Programs.

Although the target date was November 1991, the proposed regulations were not published for public comment until February 1992. The Assistant Secretary anticipates publishing the final regulation in August 1992. (Report No. 90-TS-144-0012)

Interim Financing Activities

Our multiregion audit report on interim financing (floats) was issued in January 1991. We reported that \$64.2 million in float loans were used for ineligible or questionable activities. The major contributing factor to these problems was that grantees were not complying with existing CDBG regulations. Although HUD monitored the program, inadequate corrective action was taken when problems were detected. Additionally, remedial actions to address deficiencies were inadequate and appropriate sanctions to deter noncompliance were not available.

On June 7, 1991, the Assistant Secretary for Community Planning and Development promised to issue guidance and regulations to implement the six recommendations contained in our report. These actions are still pending. Implementation of four recommendations requires publication of program income regulations. The original final action target date of December 1991 has been extended and the regulations are scheduled to be completed by September 1992. The proposed regulations were placed in Departmental clearance in March 1992 rather than September 1991, as originally scheduled.

For the fifth recommendation, interim financing guidelines were to be issued to grantees by August 1991. The Assistant Secretary delayed completion of the notice because it was determined that comprehensive guidance conveying a clear understanding of the program was needed. The guidance is still being drafted with a revised completion date of May 1992.

The last open recommendation requires development of a risk analysis approach to target grantees for monitoring reviews. Originally, the final action target date for revising the monitoring handbook was December 1991. Because all monitoring handbooks are being revised to incorporate the risk management concept for targeting monitoring, the Assistant Secretary plans to delay any handbook changes until the next fiscal year. (Report No. 91-TS-141-0006)

TABLE A

**Audit Reports Issued Prior to Start of Period
with No Management Decision at 3/31/92**

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 11 of 12 recommendations. OIG is preparing a referral to the Deputy Secretary for final decision.	06/30/92
*90SF0006	Interim Financing Activities Community Development Block Grant Program 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 opinion has been requested. This opinion will be the basis of the management decision.	07/31/92
*91TS0014	Multi-Region Audit of the Approval and Monitoring of Management Agents of Multifamily Projects	04/30/91	Management decisions made on 5 of 6 recommendations. OIG has referred the last recommendation to the Deputy Secretary for final decision.	09/20/92
*91AT1018	Plantation Oaks Apartments Housing Development Grant and Multifamily Mortgage Insurance Programs Savannah, GA	08/02/91	Management decisions made on 23 of 24 recommendations. OIG is working with management to arrive at a decision.	07/31/92

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 3/31/92**

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
85AT1018	Elizabethton Housing and Development Agency, Inc. Section 8 Moderate Rehabilitation Program Elizabethton TN	06/05/85	09/13/85	06/15/92
86KC1008	St. Louis Community Development Agency Jobs Bill St. Louis MO	04/24/86	02/04/88	07/31/92
87SF1009	G and K Management Company Multifamily Management Agent Culver City CA	06/25/87	10/16/87	09/10/92
88PH1006	Philadelphia Housing Authority Procurement Activities Philadelphia PA	03/25/88	09/20/89	03/31/93
88TS0013	Review of Economic Development and Public Facility Grants in State Community Development Block Grant Program	08/29/88	01/23/89	05/31/92
88SF1016	San Diego Housing Commission Section 8 Moderate Rehabilitation Program San Diego CA	09/30/88	09/30/89	07/31/92
89AO1801	Misuse of Consolidated Supply Contracts in Public Housing Agency Overcharges Washington DC	11/23/88	09/08/89	07/31/92
89SF1004	Las Vegas Housing Authority Low-Income Housing Program Las Vegas NV	01/20/89	07/18/89	06/15/92
89PH1011	Community Development Block Grant Program Subrecipient Monitoring Washington DC	03/31/89	09/20/89	07/31/92
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	Note 1

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
89TS1009	Gastonia Housing Authority Section 8 Moderate Rehabilitation Program Gastonia NC	07/24/89	09/30/89	07/31/92
89TS1014	Housing Authority of City and County of Denver Section 8 Moderate Rehabilitation Program Denver CO	09/05/89	09/30/89	07/31/92
89PH1017	Dickey Hill Forest Apartments Housing Development Fund Baltimore MD	09/29/89	05/04/90	01/15/93
90TS1002	Colorado Housing and Finance Authority Section 8 Moderate Rehabilitation Program Denver CO	10/12/89	08/10/90	07/31/92
90TS0002	Multiregion Audit of One-Time Mortgage Insurance Premiums	10/19/89	09/05/90	06/30/92
90TS0004	Management of HUD's Assigned Single Family Inventory	10/30/89	03/27/91	06/30/92
90TS1003	Columbia Housing Authority Section 8 Moderate Rehabilitation Program Columbia SC	11/16/89	08/10/90	07/31/92
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	02/28/93
90SF1002	Mayor's Office of Community Development Urban Development Action Grant Program San Francisco CA	11/24/89	07/11/90	10/31/92
90TS1005	Arlington Housing Authority Section 8 Moderate Rehabilitation Program Arlington TX	01/05/90	08/10/90	07/31/92
90NY1022	Passaic Housing Authority Comprehensive Improvement Assistance Program Passaic NJ	01/19/90	05/18/90	06/01/92
90TS1007	Dade County Department of Special Housing Programs Dade County FL	01/19/90	08/10/90	07/31/92
90CH1006	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	08/10/92
90AT1008	Community Development Block Grant Program Use of Program Income Atlanta GA	03/09/90	Note 2	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
90TS1010	Maryland Community Development Administration Section 8 Moderate Rehabilitation Program Annapolis MD	03/09/90	08/10/90	07/31/92
90FW1004	Regency Place Apartments Multifamily Mortgagor Operations Cedar Hill TX	04/05/90	07/31/90	07/31/92
90TS0012	Multiregion Audit of Community Development Block Grant Rehabilitation at Entitlement Grantees	04/26/90	09/21/90	08/31/92
90TS0014	Multiregion Audit of Monitoring, Servicing, and Disposition of Title X Land Development Projects	04/30/90	10/31/90	Note 1
90TS0015	Multiregion Audit of Housing Development Grants	04/30/90	08/06/90	06/30/92
90PH1014	Delaware County Community Development Block Grant Program Partnership for Economic Development and Other Selected Areas Media PA	06/12/90	11/01/90	07/30/92
90TS1015	Heritage Mortgage Company Supervised Mortgagee Chicago IL	06/13/90	03/29/91	09/16/92
90BO1012	Farwell Hill Housing Development Grant Lisbon Falls ME	07/23/90	02/01/91	06/30/93
90SF0006	Interim Financing Activities Community Development Block Grant Program	09/28/90	02/06/91	07/31/92
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	10/01/91	06/30/92
91KC1001	French Village Apartments Multifamily Mortgagor Operations Kansas City MO	11/09/90	09/30/91	6/15/92
91TS0004	Multiregion Audit of the Rapid Housing Payment System	11/28/90	09/30/91	06/30/92
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	07/22/91	04/10/92
91AO0001	Multiregion Audit of the Emergency Shelter Grants Program	12/28/90	07/05/91	09/30/92
91KC1003	Parkgate Apartments Multifamily Mortgagor Operations Kansas City MO	01/04/91	04/02/91	07/31/92
91TS0006	Multiregion Audit of Interim Financing (Floats)	01/17/91	06/07/91	09/30/92

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
91TS1003	Citadel Mortgage Company Coinsured Mortgagee/Mortgage-Backed Securities Issuer San Antonio TX	02/12/91	09/30/91	07/31/92
91CH1006	City of Chicago Rental Rehabilitation Program Chicago IL	02/13/91	06/14/91	06/14/92
91TS1004	Waterford Associates Coinsured Retirement Service Centers Melbourne FL	02/20/91	03/30/92	03/12/93
91AT1012	Hato Rey Psychiatric Hospital Mortgagor Operations Bayamon PR	02/22/91	01/15/92	01/15/93
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	07/31/92
91SF1003	Mundy Realty Area Management Broker Phoenix AZ	03/28/91	07/12/91	06/12/92
91FW1005	Community Development Block Grant Program Control over Program and Subrecipient Activities Dallas TX	03/29/91	07/26/91	07/24/92
91PH0004	Philadelphia Housing Authority Open-End Repair Contracts	03/29/91	09/16/91	06/30/92
91TS0010	Multiregion Audit of the Supportive Housing Demonstration Program	04/26/91	07/03/91	05/31/92
91TS0011	Review of Management Controls over Single Family Foreclosure Contractors	04/26/91	02/26/92	10/31/92
91TS0012	Major Reconstruction of Obsolete Projects Program	04/29/91	10/25/91	09/29/92
91TS0009	Multiregion Audit of the Title I Debt Management and Collection System	04/30/91	03/31/92	07/31/92
91TS0014	Multiregion Audit of the Approval and Monitoring of Management Agents of Multifamily Projects	04/30/91	09/30/91	09/20/92
91TS1005	Phoenix Management Services Management Agent Raleigh NC	05/01/91	03/05/92	05/15/92
91BO1014	City of Burlington South Meadow Housing Development Grant Burlington VT	05/22/91	12/05/91	12/05/92

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
91NY1008	Burton Towers Multifamily Mortgagor Operations Newburgh NY	05/31/91	10/01/91	08/31/92
91NY1009	Varick Homes Multifamily Mortgagor Operations Newburgh NY	05/31/91	10/01/91	09/30/92
91AT1016	Miami Beach Housing Authority Section 8 Project-Based Certificate Assistance Program Miami Beach FL	06/07/91	11/04/91	09/30/92
91KC1008	Sunjay and Company Management Agent Operations Kansas City MO	06/12/91	11/13/91	09/01/92
91PH1010	State of West Virginia Community Development Block Grant Small Cities Program Bluefield WV	06/12/91	10/22/91	06/11/92
91KC1802	Legal Opinions Conflicts of Interest In Community Development Block Grant Program St. Louis MO	07/03/91	01/28/92	10/31/92
91AT0006	Special Economic Development Activities Community Development Block Grant Entitlement Program Atlanta Regional Office	07/26/91	01/23/92	01/23/93
91AT1018	Plantation Oaks Apartments Housing Development Grant and Multifamily Mortgage Insurance Programs Savannah GA	08/02/91	12/06/91	10/24/92
91BO1021	First Hartford Realty Co. Management Agent Manchester CT	08/09/91	12/26/91	06/18/92
91BO1022	HEDCO Ltd. Multifamily Management Agent Central Falls RI	08/14/91	03/31/92	09/30/92
91CH1015	Leech Lake Reservation Housing Authority Low-Income Housing Program Cass Lake MN	08/16/91	12/10/91	12/09/92
91SF1007	Royce Enterprises Limited Multifamily Management Agent Campbell CA	08/23/91	11/26/91	11/01/92
91NY1011	Hill Manor Apartments Multifamily Mortgagor Operations Newark NJ	08/28/91	03/09/92	10/15/92

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
91PH1013	Philadelphia Housing Authority Section 8 Project-Based Certificate Assistance Program Philadelphia PA	09/03/91	02/07/92	03/31/92
91AT1020	Florida Servicing and Management Corporation Management Agent San Juan PR	09/05/91	02/10/92	02/07/93
91CH1017	City of Detroit Community Development Block Grant Program Detroit MI	09/06/91	12/05/91	08/31/92
91KC1009	Community Development Agency Community Development Block Grant Program St. Louis MO	09/11/91	03/10/92	02/10/93
91SF1008	All Indian Pueblo Housing Authority Albuquerque NM	09/17/91	01/15/92	01/14/93
91SE0003	Special Economic Development Activities Community Development Block Grant Entitlement Program Seattle Regional Office	09/18/91	12/03/91	06/30/92
91PH1014	Urban Redevelopment Authority Housing Development Grant Davison Square Apartments Pittsburgh PA	09/19/91	01/13/92	07/31/92
91SF1009	County of Los Angeles Housing Authority Review of Procurement of Additional Protective Services Los Angeles CA	09/19/91	01/17/92	01/17/93
91SE1004	City of Seattle Community Development Block Grant Program Special Economic Development Activities Seattle WA	09/20/91	11/05/91	05/31/92
91AT1022	Housing Authority of the Birmingham District Birmingham AL	09/23/91	03/27/92	09/30/96
91SE0004	Direct Loans For Elderly Housing Projects Loan Servicing Seattle Regional Office	09/24/91	01/21/92	10/30/92
92TS0801	Material Weakness Verification Review Monitoring of Community Housing Resource Board Grants	10/04/91	Note 3	Note 3
92TS1001	Richmond Housing Authority Public Housing Drug Elimination Program Richmond CA	10/04/91	Note 3	Note 3
92TS0001	Public Housing Authorities Compliance with Rent Reasonableness for Section 8 Existing Program	10/10/91	Note 3	Note 3
92TS0002	Review of Fiscal Year 1990 Resident Management Technical Assistance Grant Awards	10/29/91	02/19/92	06/30/92

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
92TS0003	Multiregion Audit of Grant Application Processing on the Public Housing Drug Elimination Program	10/29/91	04/16/92	04/30/92
92TS0004	Multiregion Audit of the Housing Counseling Assistance Program	10/31/91	03/23/92	03/01/93
92TS0803	Material Weakness Verification Review Use of Assets and Income of Multifamily Insured and HUD-Held Projects	11/15/91	Note 3	Note 3
92TS0804	Material Weakness Verification Review Hospital Insurance Program	11/15/91	Note 3	Note 3
92TS0805	Material Weakness Verification Review Rental Delinquencies in HUD-Owned Multifamily Projects	11/15/91	Note 3	Note 3

NOTES TO TABLE B:

Audits Excluded:

18 audits under repayment plans

31 audits under formal judicial review, investigation, or legislative solution

Notes:

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

² No Management Decision. Decision expected by 07/31/92.

³ No Management Decision. Decision expected by 05/31/92.

Table C

**Inspector General Issued Reports
with Questioned and Unsupported Costs
at 3/31/92**

(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	57	\$159,631	\$31,752
A2.	For which litigation, legislation or investigation was pending at the commencement of the reporting period	23	25,386	11,561
A3.	For which additional costs were added to reports in beginning inventory	0	5,325	1,549
A4.	For which costs were added to non-cost reports	** 4	2,359	670
B1.	Which were issued during the reporting period	63	55,871	38,521
B2.	Which were reopened during the reporting period	0	0	0
Subtotals (A+B)		147	248,572	84,053
C.	For which a management decision was made during the reporting period	75 ¹	69,226	38,081
(1)	Dollar value of disallowed costs:			
	• Due HUD	27 ²	10,090	1,997
	• Due Program Participants	48	36,284	21,065
(2)	Dollar value of costs not disallowed	32 ³	22,852	15,019
D.	For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	18	19,768	8,274
E.	For which no management decision had been made by the end of the reporting period	54 (136) ⁴	159,578 (58,784)	37,698 (37,683)

NOTES TO TABLE C:

- 1 13 audit reports also contain recommendations that funds be put to better use.
- 2 8 audit reports also contain recommendations with funds due program participants.
- 3 24 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 80 for an explanation.

Table D

**Inspector General Issued Reports
with Recommendations that Funds Be Put
To Better Use at 3/31/92**
(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	11	\$3,923
A2. For which litigation, legislation or investigation was pending at the commencement of the reporting period	5	5,228
A3. For which additional costs were added to reports in beginning inventory	0	120
A4. For which costs were added to non-cost reports	6	3,982
B1. Which were issued during the reporting period	16	7,252
B2. Which were reopened during the reporting period	0	0
Subtotals (A+B)	38	20,505
C. For which a management decision was made during the reporting period	25 ¹	15,451
(1) Dollar value of recommendations that were agreed to by management		
• Due HUD	12 ²	7,343
• Due Program Participants	13	6,554
(2) Dollar value of recommendations that were not agreed to by management	7 ³	1,554
D. For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	3	730
E. For which no management decision had been made by the end of the reporting period	10 (14) ⁴	4,324 (4,089)

NOTES TO TABLE D:

- 1 13 audit reports also contain recommendations with questioned costs.
 - 2 2 audit reports also contain recommendations with funds due program participants.
 - 3 5 audit reports 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 5 - Prevention and Other OIG Activities

In addition to audits and investigations, which deal with past events, we are engaged in several proactive and preventive programs with a goal to improve the economy and efficiency and to deter fraud, waste, and abuse in HUD programs and operations. These efforts include:

- Review of Legislation, Regulations, and Policy Directives
 - Legislation
 - Regulations and Policy Directives
- Prevention Activities
 - Secretary's Committee on Program Integrity
 - Tenant Integrity Program
 - Awareness Publications
 - Monitoring Audit Quality
 - HUD Hotline
- OIG Budget for FY 1993

□ Review of Legislation, Regulations and Policy Directives

Legislation

During this reporting period, we commented on a total of 36 legislative bills and proposals and recommended the introduction or modification of legislation to maximize the effectiveness of HUD programs and operations. The most significant efforts are discussed below.

We had recommended two items for the Department's legislative submission to the Congress for FY 1992; the Department did not, however, submit a legislative package to the Congress for FY 1992. We, therefore, repropoed those two items, and the Department has accepted our repropoals for submission to the Congress for FY 1993. One of those proposals would authorize HUD to make additional assistance payments to owners of housing in connection with eviction proceedings against families that received HUD assistance to which they were not entitled because the family failed to provide complete and accurate information on income or family composition. This proposal would (1) provide an incentive to owners to pursue leads that indicate that families may not have provided complete and accurate information on income or family composition, (2) provide an incentive to families to submit complete and accurate information, and (3) free up dwelling units for families that are entitled to assistance.

The second proposal would authorize public housing agencies (and, in some instances, private owners) to retain a portion of the monies secured from tenants because of their fraud and abuse. These amounts would then be made available for the program or project affected by the abuse. This proposal would extend the authority public housing agencies have under current law to retain a portion of Federal subsidies that they recover as a result of certain litigation to permit them to also recover monies secured through other actions, such as criminal proceedings and administrative repayment agreements that result from the agencies' investigations. This proposal would give public housing agencies a stake in investigating cases of fraud and abuse and recovering HUD assistance that was paid in violation of program requirements.

Senate Bill S. 2279 - "Lobbying Disclosure Act of 1992"

This proposal would establish uniform disclosure requirements for those seeking to lobby the Executive and Legislative Branches, and would repeal a number of existing lobbying disclosure statutes. One of the pieces of existing legislation it would repeal is section 13 of the Department of Housing and Urban Development Act, which was enacted as part of the Department of Housing and Urban Development Reform Act of 1989, and governs the disclosure of lobbying efforts directed at HUD.

We reviewed this proposal and expressed our concerns to the Department that this proposal would seriously undermine the Department's attempts to secure disclosure and to inhibit influence peddling with respect to program administration.

Regulations and Policy Directives

During this reporting period, significant work was devoted to monitoring numerous Departmental programmatic and operational reforms and improvements as well as new programs which have resulted from the National Affordability Housing Act of 1990. Our work has concentrated on reviews of proposed and final regulations, reviews of various policy directives and analyses of operational systems. During this reporting period we reviewed a total of 310 documents including 100 proposed or final regulations, and 174 policy directives. Outlined below are several significant items that we reviewed on which we provided comments.

Proposed Rule - Appraisals and Property Evaluation

This proposed rule was developed to strengthen the Department's control over establishing the value of HUD-insured properties. We recommended that the proposed rule be revised to include as an additional basis for removing an appraiser from the Registry of Qualified Appraisers, any attempt or commission of a fraudulent act by an appraiser. We also recommended that any time a Fee Appraiser is hired that the Limited Denial of Participation and/or the Suspension or Debarment list be checked to determine if the

appraiser appears on these listings. The originating office agreed to our recommendations and revised the rule accordingly.

Notice of Fund Availability (NOFA) - HOPE 1, 2 and 3

The NOFA for the HOPE programs included factors for rating and ranking applications. However, we did not believe that there were adequate control techniques for assuring consistency of rating among Field Offices because the rating factors were too subjective. We recommended that Headquarters develop a control technique to assure consistency among Field Offices and provide oversight to ensure that applications were scored equitably. The Office of Policy Development and Research considered our comments and modified the NOFA prior to publication.

Proposed Rule - Part 570 Definition of Income; Special Activities by Certain Subrecipients; Program Income; Performance Report and Revolving Loan Fund Changes

This proposed rule made miscellaneous changes to the regulations implementing the Community Development Block Grant (CDBG) program. We nonconcurrent on the proposed rule based on a number of technical reasons. Among our concerns, the proposed rule attempted to define annual income, but actually provided grantees with the option to use different methods of calculating income based upon the activity being carried out. Grantees could use one definition of annual income for purposes of determining eligibility under a housing rehabilitation program, but could use a different definition for determining eligibility under an economic development program. We believe that grantees should be required to use a single definition of annual income that can be applied to all CDBG activities. Another important concern we had was that the proposed rule modified the procedure for calculating the limitation on planning and administration. The proposed rule would allow a grantee to include 2 percent of the payment of loan principal received during the program year in the calculation for determining the amount that could be expended for planning and administration. We recommended that this provision be deleted since there would be an incentive for grantees to make large, quick turn around loans which, by the nature of such loans, are very risky and difficult to manage. We have expressed our concerns regarding this proposed rule to the Assistant Secretary for Community Planning and Development and are awaiting the disposition of our nonconcurring comments. We have also recommended that other high risk areas of the CDBG program be addressed in this proposed rule including interim financing and guidance on the proper use of "float loans."

Chapter Five of Handbook 4350.3, Recertification, Interim Adjustments, Termination of Assistance and Termination of Tenancy

We nonconcurrent on this handbook chapter in an effort to encourage the development of an administrative alternative to our legislative proposals, discussed above, to provide financial incentives to owners and agents for pursuing cases of fraud and error by tenants

receiving HUD assistance. We indicated that current fees do not consider the substantial staff and legal costs that are entailed in investigating, documenting, and obtaining corrective actions for fraud and error. We recommended that, at a minimum, there should be a policy to permit owners to retain some portion of any recoveries that result from tenant-related fraud to offset costs incurred for such efforts. The Office of Multifamily Housing indicated that they would support our legislative efforts and pending implementation of proposed statutory provisions, would consider developing an administrative policy that would allow owners and agents to retain some level of recoveries. Based on implementation of certain recommendations and promised actions on others, we lifted our nonconcurrency and the handbook chapter was printed and put into effect.

Notice - Instructions for Qualifying Nonprofits in the Single Family Property Disposition Homeless Initiative Program

We nonconcurr on this Notice because we believe that HUD needs to formalize the method of reviewing and ranking applications, selecting applicants and monitoring applicant performance. We believe the permissive and flexible method in which HUD plans to operate this program will expose the government to losses and create an unmanageable situation in Field Offices who are already operating with limited resources. We met with program staff and discussed several options. However, we continue to nonconcur with the issuance of this Notice in its present form and are currently awaiting the disposition of our nonconcurring comments.

Final Rule - Public and Indian Housing Drug Elimination Program

We nonconcurr on this final rule because we believed that a threshold should be established for determining the extent of drug related crime. We were particularly concerned with this final rule as a result of a number of reviews that were conducted (see Chapter Two) and the deficiencies that were found in areas such as documentation, monitoring, assessment of program results, and development of adequate program procedures. One of our specific concerns with this final rule is that presently, a PHA could get zero points for this factor and could still be funded based on the remaining rating factors. We maintained that should a PHA be unable to demonstrate that it has a drug related crime problem, then it should not be considered for funding under the program. To support our position, we cited section 5123 of the statute which states that HUD is authorized to make grants under the Public and Assisted Housing Drug Elimination Program ". . . for use in eliminating drug-related crime" The final rule did not make clear how that objective can be achieved when there is no evidence of drug-related crime at the PHA housing project. The program office has modified the scoring procedure for Notices of Funding Availability (NOFA) under this program to specifically address our concerns.

□ Prevention Activities

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

Secretary's Committee on Program Integrity

The Secretary's Committee, chaired by the Inspector General and composed of representatives of HUD's Principal staff, was established to minimize fraud and abuse in HUD programs. One of the Committee's major projects, Accountability Monitoring, has been completed. The Secretary signed a memorandum instructing the program offices to develop a schedule for implementing this concept of risk management in their on-site monitoring. This will help HUD program managers to prioritize program participants and operations based on risk analyses concepts so that HUD monitoring efforts will concentrate on the most vulnerable activities/participants. A handbook to implement the concept has been developed which covers essential aspects of: identifying programmatic risks, establishing monitoring standards, scheduling monitoring based on the risk assessment, sanctions for abusers of HUD requirements, and reassessing risks on a regular basis. OIG will continue to provide technical assistance to the program offices and the Office of Chief Financial Officer in the implementation of this important concept.

Tenant Integrity Program

The Tenant Integrity Program (TIP) is designed to train PHAs and Indian Housing Authority staff to prevent fraud and administrative error. The training covers original eligibility reviews, occupancy policies and procedures, tenant education, and post-audit verification techniques. The program also shows agencies how to document violations, administer repayment agreements, and pursue local (as opposed to Federal) prosecutions for fraud.

During this period we coordinated with the Office of Housing to issue a Program Integrity Bulletin entitled "Locking Out Tenant Fraud and Errors in Multifamily Housing Programs.: This booklet overviews the TIP and was issued to all subsidized projects. The TIP is also referenced in Housing's Handbook 4350.3, Occupancy Requirements of Subsidized Multifamily Housing Programs which was recently revised, and we believe this will help further emphasize TIP to HUD Field Office staff and owners/agents.

In an effort to combine TIP with our computer matching projects, we started a project with the State of Delaware. One of our goals is for all five PHAs in the State to develop and implement a coordinated effort against tenant fraud. The Delaware Department of Health and Social Services' Welfare Fraud Unit is also supporting this effort. During this reporting period we worked with the Delaware Department of Labor to provide the PHAs on-line access to wage and unemployment data files. We also arranged with the Delaware

Department of Health and Social Services' Division of Social Services for the PHAs to obtain on-line access to welfare data.

Awareness Publications

During this reporting period we issued the following awareness publications:

CDBG Float Loan Financing. This bulletin provides an overview of the float loan method of financing used in the CDBG Program. It discusses the potential risks inherent with the use of this method, how to reduce such risks, and HUD's monitoring responsibilities. We developed the bulletin because of the violations of program rules, misuse of funds, and instances where ineligible activities were undertaken by grantees. (HUD 1349-IG)

Locking Out Tenant Fraud and Abuse in Public Housing. This bulletin emphasizes the important role of public housing agencies (PHA's) in maintaining integrity in those programs that provide assistance to low-income families. These programs include Public Housing and Section 8 Rental Certificate, Rental Voucher, Moderate Rehabilitation and Single Room Occupancy Programs. The bulletin also stresses the prevention and detection of program fraud through effective screening and reexamination procedures, and how to document and take corrective on cases. Some of the successful procedures and techniques used to address the problem of tenant fraud at the local level are addressed. (HUD 1117-IG)

Warning: Be Honest When Applying for a HUD Mortgage Loan. This bulletin stresses the importance of providing accurate information when applying for a HUD-insured mortgage loan. It explains what not to do and why, in an effort to reduce the instances of defaulting that HUD has been experiencing over the last several years. (HUD-1353-IG)

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 bodies.

Referrals have been made to appropriate State Licensing Boards. In each case, we requested that the 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
10/1/91 - 3/31/92**

	(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	2,764	79	2,843	10	0	10	2,853
1. Reports Issued Without Changes or with Minor Changes							
a. Based on desk review	2,741	79	2,820	0	0	0	2,820
b. Based on QCR	0	0	0	4	0	4	4
Total	2,741	79	2,820	4	0	4	2,824
2. Reports Issued with Major Changes							
a. Based on desk review	23	0	23	0	0	0	23
b. Based on QCR	0	0	0	6	0	6	6
Total	23	0	23	6	0	6	29
3. Reports with Significant Inadequacies							
a. Based on desk review	0	0	0	0	0	0	0
b. Based on QCR	0	0	0	7	0	7	7
Total	0	0	0	7	0	7	7
4. Total Quality Control Reviews Performed Including Reports not Issued	0	0	0	10	0	10	10
5. Number of Auditors Referred to State Boards	0	0	0	5	0	5	5
6. Number of Auditors Suspended, Debarred, Voluntarily Excluded	1	0	1	2	0	2	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.

Noted Audit Deficiencies

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

We encountered situations where an independent auditor failed to:

- Prepare or to 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

Audit of a HUD Insured Hospital. We conducted a quality control review of an audit of a hospital, whose mortgage was insured by the Department. As a result of our review, we determined that the CPA who conducted the audit did not exercise due professional care in the conduct of the audit. We filed a complaint against him to his State Board of Accountancy. Our principal complaint was that he did not independently evaluate compliance with the Regulatory Agreement made between the hospital and HUD. Instead of independently evaluating compliance, the auditor relied solely on representations made by the management that they were in compliance with the provisions of the agreement. Evaluating compliance with the agreement is required by both professional and Government auditing standards.

As uncovered in an independent audit of the operations of the same hospital, conducted by the HUD OIG, the hospital's owners were in serious violation of the terms of the Regulatory Agreement. The HUD audit was performed shortly after the audit of the hospital by the CPA. The HUD auditors found that the owners of the hospital incurred ineligible costs of \$2.7 million and unsupported costs of \$2.6 million. Examples of the owners' violations include making \$1 million of unauthorized disbursements using checks set aside as a secret payroll account, and charging the project over \$1 million in unnecessary expenses for life insurance policies, luxury vehicles, per diem expenses for the Board of Directors, and stock options. Project funds were encumbered when the owners used \$1.3 million in accounts receivable to secure a line of credit with a commercial bank. Without HUD approval, the owners used project funds to give interest-free loans of over \$500,000 to themselves and their relatives and incurred another \$500,000 in liabilities for unreasonable expenses. The hospital subsequently filed for bankruptcy. All of these violations indicated a lack of compliance with the Regulatory Agreement.

Audit of an Insured Multifamily Project. We conducted a joint review of a CPA's working papers in conjunction with the Washington State Board of Accountancy. The CPA had audited an insured multifamily project. Our review identified departures from the Government Auditing Standards (GAS) and the applicable HUD audit guide. We found that the CPA neither performed internal control review procedures as required by GAS nor compliance tests required by the HUD audit guide. Finally, the CPA did not adequately report material weaknesses as required by GAS. As a result of these deficiencies, the CPA was disciplined by the State Board and agreed not to perform any audits for a period of two years and be subjected to a peer review if he chooses to perform audits after the two years.

Suspensions and Debarments

During the reporting period, two practitioners were debarred from performing audits of Federal funds for three years each. In addition, one practitioner agreed to a voluntary exclusion whereby he will not perform audits of any HUD funded entities for a period of three years.

Referrals to State Boards

During the reporting period, actions were completed on four CPAs referred to State Boards in prior reporting periods. Penalties assessed by the State Boards in three of the four cases ranged from fines of \$1,000 and payment of costs of \$9,275 to two years probation, 40 hours of professional community service and 40 additional hours of continuing professional education (CPE). In the remaining case, the State dismissed the case.

HUD Hotline

The Hotline received 504 new complaints during the past 6 months. Of these, 380 were sent to the responsible HUD office for handling. The remaining 124 cases are being controlled by the OIG. A profile of the 124 cases shows 52 percent of these cases are allegations against HUD employees and/or management, 38 percent involve program administrators, and the remaining 10 percent are miscellaneous issues.

Of the 196 cases closed during this reporting period, 28 percent resulted in corrective actions. Monetary actions totalled \$13,495. These consisted basically of fines and repayment of ineligible subsidies. Other actions taken included staff counselling, reprimands and other administrative actions; correction of Housing Quality Standards violations; enhancement of HUD procedures, and HUD program participant probations.

Specific examples of actions taken on cases closed during this reporting period are:

Limited Denials of Participation were issued for two mortgagors and a seller who knowingly submitted a mortgage application on a property that did not meet minimum property

standards. The mortgage subsequently went into foreclosure. The Direct Endorsement lender, who certified to the property's condition at closing, was required to reimburse HUD \$1,138 to correct the deficiency before HUD could sell the property.

HUD Management reversed its decision to take a deficiency judgment against former mortgagors of an FHA-insured mortgage. Following reassessment of their involvement, it was concluded that the mortgagors had been victims of a fraudulent scheme and that they had no prior knowledge.

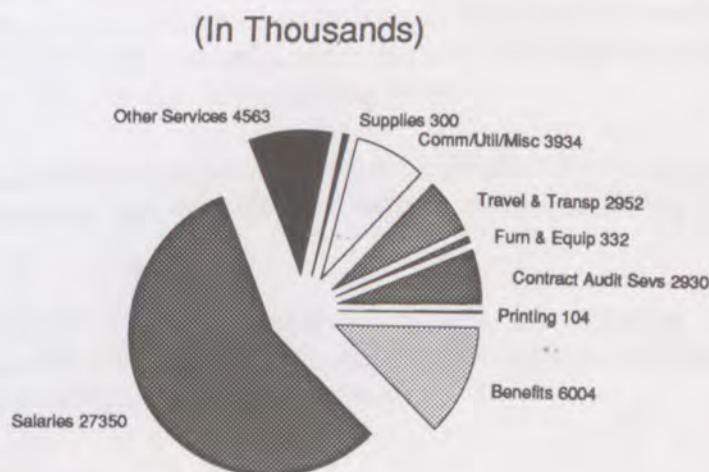
A HUD Manager was issued a letter of reprimand for accepting lunch from a housing authority's executive director on two separate occasions. The employee was also required to repay the cost of the lunches.

Mutual Help Program mortgagors were required to repay about \$3,000 to HUD following verification that the total income of a family was not reported. The family's rent was raised to the market rate. The reporting of the correct total income would have made the family ineligible for the assistance program.

A Section 8 tenant failed to report the family's total income as well as the number of people occupying the residence. Assistance was terminated and the tenant was required to repay over \$2,000 for ineligible assistance.

□ OIG Budget for FY 1993

The OIG has requested a FY 1993 budget of \$48.5 million, a \$3.3 million increase over FY 1992. As shown below, the major portion (81 percent) is for salaries and benefits. The proposed FY 1993 staffing level is 574 full-time equivalent employees (FTE).



We have included in our budget \$2.7 million and seven Full-time equivalents as our commitment to the implementation of the CFO Act. However, it does not reflect any additional resources that we would need should future OMB requirements go beyond the traditional financial statement audits.

The OIG has a critical role in assuring that the Department sustains the momentum necessary to complete the many important initiatives and reforms underway. Approval of our budget request is essential if we are to accomplish this goal, and at the same time, respond to the increased demands and expectations placed upon us for audit and investigative services.

Chapter 6 - Actions Against HUD Employees

Appropriate action is taken in all cases where employees are found to have acted improperly in the conduct of their duties. The following are examples of actions taken against HUD employees during this reporting period.

- A former Administrative Officer was sentenced to 5 days in jail, 1 year probation, and fined \$250 after pleading guilty to one count of fraudulent use of a HUD VISA credit card. The former employee will perform 40 hours of community service in lieu of the fine.
- A Construction Analyst was removed from federal service for circumventing HUD procedures by adding his wife's company to the HUD Direct Endorsement Builders List; providing false information; and using government resources to conduct unofficial business.
- An Equal Opportunity Specialist resigned pending action on a proposed removal from employment. The employee allegedly falsified travel vouchers and misused a government vehicle.
- A Special Agent was suspended for 2 weeks without pay and given a letter of reprimand for failing to make timely payments on a government-issued credit card. The card was also cancelled. Various charges on the card were not in accordance with HUD policy.
- A Construction Analyst was suspended for 60 days without pay for sexual harassment and improper conduct.
- A Labor Relations Clerk was suspended for 40 days for unauthorized use of government telephones and services; failure to follow supervisory instructions; rude and disrespectful behavior toward a supervisor; absence without approval; and failure to follow proper procedures in requesting leave.
- A Multifamily Housing Representative was suspended for 5 days for using his HUD position to obtain a job for his son with a company doing business with the Department.
- A General Engineer was suspended for 2 days for violating the Department's Standards of Conduct by creating the appearance of the existence of a conflict of interest with contractors doing business with HUD.

- A Program Director received a letter of reprimand for participating in causing the submission of a falsified document to HUD; unauthorized commitment of appropriated funds; and misrepresentation of facts during an official inquiry.
- Two Appraisers were issued memorandums of caution for either misusing or creating the appearance of misusing a government vehicle and misusing official time.
- An Equal Opportunity Specialist received a letter of reprimand for unprofessional conduct. The employee used offensive language about and to several female employees.

Appendix 1 - Audit Reports Issued

INTERNAL AUDIT REPORTS ISSUED					10/01/91-3/31/92
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
HOUSING					
92-AO-121-0001	01/28/92	Recoveries of Amounts Owed Under Indemnification Agreements			
92-AT-123-0001	01/29/92	Limited Review of Paradise Management Inc., and Property Disposition Branch Columbia SC Office			\$400,000
92-AT-112-0002	03/17/92	Section 202 Elderly Housing Program Management Columbia SC, Greensboro NC, and Louisville KY Offices	\$6,131	\$165	\$8,292
92-AT-103-0003	03/31/92	Section 8 Loan Management Set-aside Program Columbia SC, Louisville KY, and Atlanta Regional Offices			\$979,725
92-BO-112-0002	10/21/91	Project Settlement and Monitoring of Housing Development Grants Boston Regional Office			
92-BO-103-0004	03/31/92	Administration of Section 8 Certificate Project-Based Assistance Program Vermont State Housing Authority Manchester NH Office			
92-BO-101-0005	03/31/92	Public Housing Authorities' Use of Fee Accountants in the States of Massachusetts and Rhode Island Boston Regional Office			
92-CH-119-0001	12/31/91	Project Settlement and Monitoring of Housing Development Action Grant Program Detroit MI and Chicago Regional Offices			
92-CH-103-0002	03/27/92	Section 8 Loan Management Set-aside Program Columbus OH, Indianapolis IN, and Chicago Regional Offices			
92-FW-112-0001	02/04/92	Multifamily Rent Increases Loan Management Branch Tulsa OK Office			\$274,752
92-KC-112-0001	02/12/92	Servicing of Insured Section 232 Projects Loan Management Branch Kansas City Regional Office			

INTERNAL AUDIT REPORTS ISSUED

10/01/91-3/31/92

REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
92-KC-113-0002	02/28/92	Management and Procurement Activities Property Disposition Branch St. Louis MO Office			
92-NY-112-0001	03/09/92	Section 202 Elderly Housing Project Management Newark NJ and New York Regional Offices			
92-PH-112-0001	11/21/91	Project Settlement and Monitoring of Housing Development Grants Philadelphia Regional Office			
92-PH-123-0002	11/27/91	Pilot Program For Acquired Property Sales Property Disposition Branch Philadelphia Regional Office			
92-PH-103-0004	03/11/92	Section 8 Loan Management Set-aside Program Baltimore MD, Richmond VA, Pittsburgh PA, and Philadelphia Regional Offices			
92-SF-121-0001	11/01/91	Housing Counseling Assistance Program San Francisco Regional Office	\$1,610		
92-SF-101-0002	02/14/92	Monitoring Activities Office of Indian Programs San Francisco Regional Office			
92-SF-111-0004	03/18/92	Section 202 Elderly Housing Project Management Los Angeles CA and San Francisco CA Regional Offices			
92-SF-101-0005	03/31/92	Evaluation of Protective Services Costs Incurred by Large Public Housing Agencies Los Angeles CA, Sacramento CA, and San Francisco Regional Offices			
92-TS-103-0001	10/10/91	Public Housing Authorities' Compliance With Rent Reasonableness Requirements For Section 8 Existing Housing Program			
92-TS-109-0002	10/29/91	Review of Fiscal Year 1990 Resident Management Technical Assistance Grant Awards			
92-TS-101-0003	10/29/91	Multi-region Audit of Grant Application Processing in the Public Housing Drug Elimination Program			
92-TS-129-0004	10/31/91	Multi-region Audit of the Housing Counseling Assistance Program			

INTERNAL AUDIT REPORTS ISSUED					10/01/91-3/31/92
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
92-TS-119-0007	03/27/92	Audit of Fiscal Year 1991 Financial Statements - Federal Housing Administration			
		10 Audit-Related Memoranda	\$254,354		
COMMUNITY PLANNING AND DEVELOPMENT					
92-BO-141-0001	10/18/91	Special Economic Development Activities Community Development Block Grant Entitlement Program Boston Regional Office	\$838,739		
92-DE-141-0001	12/06/91	Special Economic Development Activities Community Development Block Grant Entitlement Program Denver Regional Office			
92-PH-141-0003	12/31/91	Special Economic Development Activities Community Development Block Grant Entitlement Program Washington D.C. and Philadelphia Regional Offices	\$1,897,050	\$1,897,050	
92-SF-141-0003	03/06/92	Grantee Performance Report Review Community Development Block Grant Program Los Angeles CA and San Francisco CA Regional Offices			
ADMINISTRATION					
92-AO-165-0002	03/25/92	Audit of the Commercial Credit Card Program			
92-FW-163-0002	03/19/92	Limited Review - Procurement of Multifamily Property Manager Services Tulsa and Oklahoma City OK Offices			
		2 Audit-Related Memoranda			
MISCELLANEOUS					
92-TS-179-0005	02/28/92	HUD's Implementation of The Federal Managers' Financial Integrity Act of 1982			
		1 Audit-Related Memorandum			
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION					
92-TS-171-0006	03/25/92	Audit of Fiscal Year 1991 Financial Statements - Government National Mortgage Association			

EXTERNAL AUDIT REPORTS ISSUED						10/01/91-3/31/92
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE	
			TOTAL	UNSUPPORTED		
HOUSING						
92-AT-212-1001	10/03/91	SMS Community Housing, Inc. Cost Audit of Section 202 Development Memphis TN				
92-AT-212-1002	11/07/91	Greenwood Elderly Housing, Inc. Cost Audit of Section 202 Development Greenwood SC			\$60,860	
92-AT-203-1003	11/21/91	Municipality of Guaynabo Section 8 Existing Housing Program Guaynabo PR	\$46,802	\$18,474	\$3,616	
92-AT-212-1004	11/21/91	Survey of Costs Claimed By Universal Constructors Inc., For Field Village Project Seneca SC			\$24,939	
92-AT-211-1006	12/11/91	Open Arms Company, Ltd. D/B/A Open Arms Apartments Starkville MS	\$41,189			
92-AT-202-1007	03/03/92	Bristol Housing Authority Limited Review of Legal, Travel, and Salary Costs Bristol TN	\$85,589	\$85,589	\$27,402	
92-AT-204-1008	03/04/92	Chattanooga Housing Authority Chattanooga TN	\$494,192	\$494,192		
92-AT-202-1009	03/25/92	Paris Housing Authority Public Housing Drug Elimination Program Paris TN	\$4,510	\$3,236	\$814,003	
92-BO-212-1001	10/08/91	Hopkins Health Center HUD-Held Section 232 Nursing Home North Providence RI	\$61,949	\$61,949		
92-BO-202-1002	10/09/91	Salem Housing Authority Controls For Safeguarding Assets Salem NH				
92-BO-203-1003	10/29/91	Lowell Housing Authority Section 8 Program Lowell MA				
92-BO-214-1004	12/18/91	Long Bay Management Co. Multifamily Management Agent Boston MA	\$133,805			

EXTERNAL AUDIT REPORTS ISSUED

10/01/91-3/31/92

REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
92-BO-214-1008	03/31/92	Boston Financial Property Management Multifamily Management Agent Boston MA	\$458,232	\$458,232	
92-CH-214-1001	10/09/91	The Rallie Company Multifamily Management Agent Columbus CH			
92-CH-229-1002	10/17/91	Embassy Title Agency, Inc. Single Family Property Disposition Program Westerville OH			
92-CH-214-1004	11/18/91	Oxford Management Company, Inc. Multifamily Management Agent Indianapolis IN	\$8,381		
92-CH-209-1005	11/21/91	London Metropolitan Housing Authority Safeguarding of Monetary Assets London OH			
92-CH-204-1006	11/29/91	Springfield Housing Authority Low-Rent Housing Program Springfield IL			
92-CH-209-1007	12/05/91	Freeport Housing Authority Public Housing Drug Elimination Program Freeport IL			
92-CH-212-1008	12/31/91	Glen Oaks Consumer Cooperative Multifamily Mortgagor Operations Ypsilanti MI			
92-CH-202-1009	01/10/92	Mound Housing & Redevelopment Authority Safeguarding Monetary Assets Mound MN			
92-CH-203-1010	01/30/92	Detroit Housing Department Section 8 Existing Housing Certificate, Voucher, & Moderate Rehabilitation Programs Detroit MI	\$249,898	\$249,898	
92-CH-203-1011	01/31/92	Columbus Metropolitan Housing Authority Section 8 Existing and Housing Voucher Program Columbus OH			
92-CH-212-1012	02/24/92	Poplar Creek Townhouse Cooperatives I and II Multifamily Mortgagor Operations Chicago IL			

EXTERNAL AUDIT REPORTS ISSUED

10/01/91-3/31/92

REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
92-CH-212-1013	02/28/92	Anglin Extended Care Center Multifamily Mortgagor Operations Detroit MI	\$430,560	\$430,560	
92-CH-212-1014	02/28/92	St. Johns Apartments Multifamily Mortgagor Operations Mount Prospect IL	\$75,306	\$24,785	
92-CH-212-1015	03/20/92	Presidential Towers Multifamily Mortgagor Operations Chicago IL	\$1,266,401		
92-CH-215-1016	03/24/92	Delta Property Management, Inc. Multifamily Property Manager Cincinnati OH			
92-CH-209-1017	03/25/92	Portage Metropolitan Housing Authority Section 8 Moderate Rehabilitation Program Ravenna OH			
92-CH-209-1018	03/31/92	Leclair Courts Resident Management Corporation Resident Management Operations Chicago IL			
92-DE-212-1001	03/12/92	Montana Institute of Family Living Multifamily Mortgagor Operations Great Falls MT	\$155,943	\$72,795	
92-FW-215-1003	03/30/92	Ralph L. Jones Company, Inc. Multifamily Property Manager Tulsa OK	\$127,818	\$36,222	
92-KC-212-1001	11/20/91	Elsie Mason and Ligutti Towers Section 202 Elderly Housing Mortgagor Operations Des Moines IA			
92-NY-214-1002	12/06/91	United Realty Corp. Multifamily Management Agent Albany NY	\$385,953	\$316,432	
92-NY-202-1004	03/03/92	Asbury Park Housing Authority Low-Income Housing Program Asbury Park NJ	\$789,084	\$460,770	
92-NY-202-1006	03/30/92	Poughkeepsie Housing Authority Poughkeepsie NY	\$3,172,596	\$2,738,911	
92-PH-214-1001	12/05/91	National Housing Partnership Property Management, Inc. Multifamily Management Agent Reston VA	\$278,301		

EXTERNAL AUDIT REPORTS ISSUED					10/01/91-3/31/92
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
92-PH-212-1002	03/03/92	Brith Sholom House and Brith Sholom Addition Multifamily Mortgagor Operations Philadelphia PA	\$17,837	\$17,837	
92-PH-209-1004	03/26/92	McKeesport Housing Authority Public Housing Drug Elimination Program McKeesport PA	\$13,583	\$13,583	
92-SE-214-1001	12/17/91	Pacific Cities Incorporated Multifamily Management Agent Operations Tacoma WA	\$34,793		
92-SE-203-1002	12/18/91	Housing Authority of Portland Section 8 Project-Based Certificate Assistance Program Portland OR			
92-SE-209-1003	02/06/92	Seattle Housing Authority Public Housing Drug Elimination Program Seattle WA			
92-SE-212-1004	02/12/92	Lutheran Homes and Hospitals, Inc. Multifamily Mortgagor Operations Gresham OR	\$150,036	\$99,745	
92-SF-209-1001	10/10/91	Richmond Housing Authority Public Housing Drug Elimination Program Richmond CA	\$469		
92-SF-209-1002	12/17/91	Contra Costa County Housing Authority Public Housing Drug Elimination Program Martinez CA	\$21,747		
92-SF-212-1003	02/26/92	Lake Mead Villa Apartments Multifamily Mortgagor Operations Las Vegas NV	\$223,261	\$56,465	
92-TS-221-1003	01/29/92	Continental Homes Mortgage Co. D/B/A American Western Mortgage Co. Nonsupervised Mortgagee Scottsdale AZ			\$1,102,200
92-TS-219-1004	02/11/92	Continental Wingate Associates, Inc., Servicing of Coinsurance Loan Boston MA	\$112,861		

EXTERNAL AUDIT REPORTS ISSUED

10/01/91-3/31/92

REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
92-TS-214-1005	03/03/92	J & B Management Company LaCiede Management Corporation Multifamily Management Agent The Woodlands TX	\$19,617,688	\$18,677,056	
92-TS-221-1006	03/06/92	First Commerce Mortgage Corporation Nonsupervised Mortgagee Independence OH			
92-TS-221-1007	03/17/92	Freedom Mortgage Corporation Nonsupervised Mortgagee Independence OH			
92-TS-221-1008	03/17/92	Capital One Mortgage of Georgia, Inc. Nonsupervised Mortgagee Atlanta GA			
92-TS-214-1009	03/20/92	Insignia Management Group Multifamily Management Agent Greenville SC	\$35,724	\$3,458	
92-TS-214-1010	03/25/92	Housing Resources Management, Inc. Limited Review of Multifamily Management Agent Santa Monica CA	\$1,653,924	\$140,616	
92-TS-221-1011	03/31/92	Sibley Mortgage Corporation Nonsupervised Mortgagee Rochester NY			
92-TS-221-1012	03/31/92	Federated Mortgage Associates, Inc. Nonsupervised Mortgagee Pembroke Pines FL			
		2,361 Reports Prepared by Independent Auditors and Other Federal Agencies	\$6,097,277	\$4,951,441	
		5 Audit-Related Memoranda	\$433,260		
COMMUNITY PLANNING AND DEVELOPMENT					
92-AT-244-1005	12/04/91	City of Charlotte Rental Rehabilitation Program Activities Charlotte NC	\$66,754	\$36,750	\$192,850
92-BO-241-1005	01/22/92	City of New Bedford Community Development Block Grant Program New Bedford MA	\$526,581	\$522,579	

EXTERNAL AUDIT REPORTS ISSUED

10/01/91-3/31/92

REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
92-BO-241-1006	02/07/92	City of Lawrence Community Development Block Grant Program Lawrence MA			
92-BO-241-1007	02/27/92	City of Medford Community Development Block Grant Program Medford MA			
92-CH-259-1003	11/07/91	Chicago Mental Health Foundation, Inc. Supportive Housing Demonstration Program Chicago IL			\$2,861,231
92-FW-241-1001	11/18/91	City of Tulsa Community Development Block Grant Program Tulsa OK	** \$168,746	\$122,469	
92-FW-241-1002	01/14/92	San Benito Community Development Block Grant Program San Benito TX	\$168,573	\$147,842	
92-KC-241-1002	01/10/92	Department of Housing and Community Development Section 108 Loan Guarantee Kansas City MO	\$1,218,000		
92-NY-241-1003	12/31/91	City of Troy Community Development Block Grant Program Economic Development Activities Troy NY	\$405,027	\$5,027	\$261,408
92-NY-241-1005	03/13/92	City of Utica Community Development Block Grant Program Utica NY	\$2,087,900	\$2,087,900	
92-PH-241-1003	03/04/92	Baltimore DHCD Community Development Block Grant Program Baltimore MD	\$7,406,031	\$967,453	\$221,555
		479 Reports Prepared by Independent Auditors and Other Federal Agencies	\$2,858,735	\$2,628,391	
		1 Audit-Related Memorandum	\$1,257,886	\$692,000	

REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
ADMINISTRATION					
92-NY-262-1001	10/31/91	State of New York Division of Housing and Community Renewal Advisory Report on Final Costs Bronx NY			
92-SF-263-1004	03/19/92	McGuire and Company Advisory Report on Costs Oakland CA	\$11,501	\$755	
		22 Reports Prepared by Independent Auditors and Other Federal Agencies	\$18,717		\$18,815
		5 Audit-Related Memoranda			
MISCELLANEOUS					
		1 Report Prepared by Independent Auditor			
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION					
92-TS-279-1001	10/04/91	Mellon Financial Services Servicing of GNMA's Multifamily Portfolio Cleveland OH			
92-TS-279-1002	01/28/92	Home Owners Funding Corporation of America GNMA Subservicer Activities Dallas TX			

Appendix 2 -- Program Awareness Publications

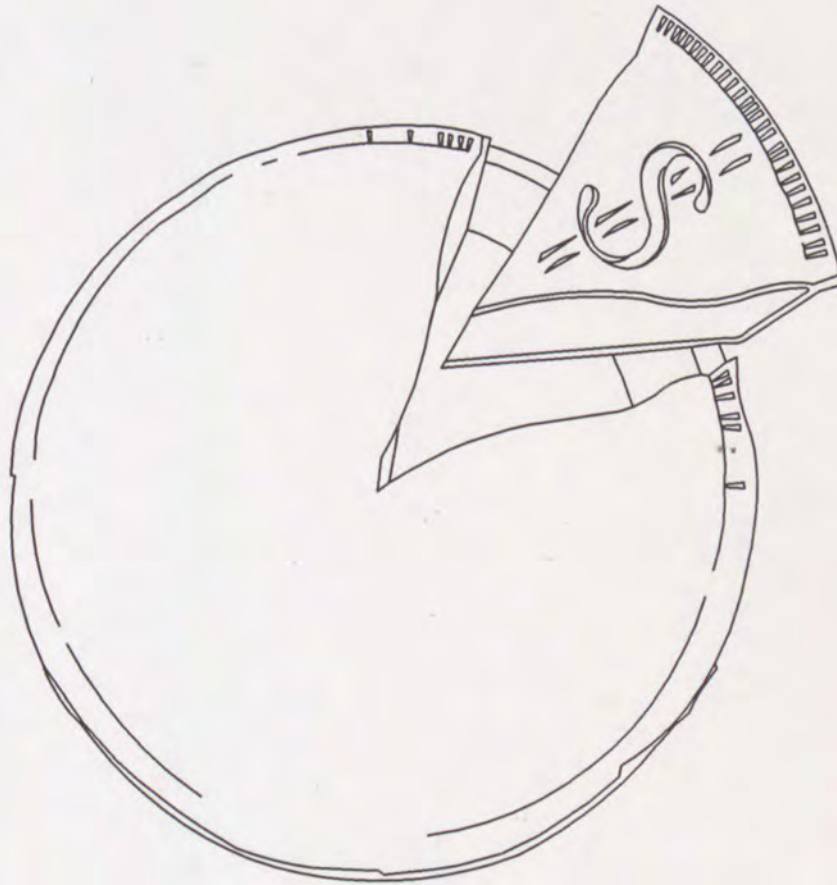
Publication Number	Program Awareness Bulletin
83-1	Accountability Monitoring
84-1	Time and Attendance and Leave Abuse
84-4	Conventional Low-Rent Housing Program
84-5	Tenant Eligibility
P-86-2	Asset Management
P-86-5	Computer Matching
P-86-6	Rehabilitation Activities
P-87-1	Section 8 Moderate Rehabilitation Program
P-87-3	Indian Housing Authority Commissioners and the Low-Income Housing Indian Housing Programs
P-87-5	Monitoring Subrecipients in the CDBG Program
P-88-2	Things You Should Know
P-88-3	Information for Independent Auditors for Use in Conducting 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
89-1	Reviewing Independent Auditors Reports
90-1	Closing Agents
90-2	Microcomputer Security and Management
P-91-1	Public Housing Agency Commissioners
1349-IG	CDBG Float Loan Financing
1323-H	Locking Out Tenant Fraud and Errors in Multifamily Housing Programs
1117-IG	Locking Out Tenant Fraud and Abuse in Public Housing
1353-IG	Warning: Be Honest When Applying for a HUD Mortgage Loan

For Copies of These Publications Write To:

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HOTLINE AT (202) 708-4200 or
TOLL FREE AT 1-800-347-3735.

May 1992
HUD-1357-IG

