Inspector General's Semiannual Report to the Congress
Number 28

Department of Housing and Urban Development — For the Period Ending September 30, 1992

PROFILE OF PERFORMANCE

Audit and Investigation Activities	4/1/92-9/30/92	FY 1992
Cash Recoveries/Savings [1,2]	$27,291,859	$95,038,550
Cost Efficiencies Realized [1]	$9,603,034	$23,096,386
Commitments to Recover Funds [1]	$45,291,595	$91,143,708
Cost Efficiencies Sustained [1]	$8,741,921	$18,568,126
Total Fines Levied	$820,314	$1,312,107
Indictments	285	556
Convictions	151	345
Suspensions of Persons/Firms Doing Business with HUD	73	171
Debarments of Persons/Firms Doing Business with HUD	32	118
Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board	6	9
Subpoenas Served	115	210
Material Weaknesses Reported	3	4
Personnel Actions Initiated Against HUD Employees	21	34
Program Integrity Activities		
Awareness Publications Issued	3	6
Hotline Complaints Received	576	1,080
Proposed Legislation/Regulations Reviewed	114	253

[1] Includes amounts due to HUD program participants

[2] Includes $9.5 million in court-ordered restitution

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

November 16, 1992

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

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

Gentlemen:

I am pleased to transmit to Congress the 28th Semiannual Report of the Department of Housing and Urban Development's Inspector General covering the period April 1, 1992 through September 30, 1992.

On February 13, 1989, when I was sworn-in as Secretary of HUD, I dedicated myself to creating an agenda for compassion and opportunity; of hope and the promise of a better and brighter future for America. I also pledged to restore honor and integrity at the Department, which had been besieged by scandals and mismanagement.

To this end, early in the Bush Administration, we launched a "New War on Poverty" to create more opportunity for ownership and choice, eliminate economic barriers, and empower the poor. In 1990, the Administration secured passage of the National Affordable Housing Act of 1990, the first major housing legislation in a decade. At the heart of this Act is HOPE (Homeownership and Opportunity for People Everywhere), the Administration's initiative to help low-income families manage their communities and realize the dream of homeownership. The enactment of the HOPE programs constitutes a fundamental shift in the national welfare debate on welfare policies and marks an important first step at the Federal level towards empowering people over bureaucracies.

At HUD, we also looked inward at the way the Department did business. Early in FY 1989, we cleaned house from the top down and succeeded in turning the tide of past waste, fraud, abuse and mismanagement that became known as the HUD scandals as this Administration came into office. A sweeping HUD Reform Act was enacted, and numerous ethics and management reforms were implemented by the Department.

With the assistance of the Inspector General, we restored public confidence in the integrity of the Department's operations. We put in place financial management and internal control systems that will safeguard the public's trust and put accountability back into HUD's business.

The policy and management environment we pass on to the next Administration is fundamentally different than the one we inherited. During the past forty-two months, we have laid a new foundation predicated on sound financial principles and a renewed commitment to HUD's mission to provide affordable housing, end discrimination, and rebuild our neighborhoods and communities. Yet, while this Semiannual Report makes it clear that HUD is on the right track, it also clarifies just how much remains to be done.

To continue to achieve progress at HUD, several initiatives must be sustained to complete the reforms put in place.

1. Financial Management - The number one management priority at HUD must continue to be the correction of financial management problems in the assisted housing programs, and the continued development of an integrated financial management system that provides accurate, timely, and relevant information on program obligations, expenditures, and budget requirements.

2. FHA Reforms - The Department also must continue to improve the actuarial soundness of the FHA's Mutual Mortgage Insurance Fund and take all necessary steps to reach the goal of a two percent capital ratio by the year 2000.

3. Program Management - For the foreseeable future, HUD will continue to face increased workload demands coupled with fiscal constraints on hiring new staff. Future efforts to improve the quality of HUD's program management and prevent waste, fraud, and abuse will require HUD to utilize existing resources more efficiently, eliminate unnecessary administrative processes, and develop more effective monitoring systems. By continuing efforts to improve the quality of its workforce and strengthen HUD's resource allocation system, HUD will be able to constructively address the "staffing shortages" identified by management and the Inspector General.

4. Organization - HUD's organization will continue to pose a challenge to management. Maintenance of good planning and priority systems is essential to the execution of HUD's mission. Continuing efforts to improve the ways in which HUD communicates, coordinates, and delegates responsibilities to its staff and clients will remain an important management priority.

Taken together, the steps we have made since 1989 and the steps immediately ahead of us constitute the most highly focused agenda since HUD was created 26 years ago.

The men and women at HUD have worked tirelessly during these last forty-two months to rebuild the Department and have renewed our nation's fight against poverty. I applaud their desire to improve the quality and character of our nation's urban policies, and their efforts to usher in a new era of management at HUD. I join them in making a commitment to the job of delivering assistance fairly and responsibly to those who seek housing opportunities and the opportunity for a better life. It is their commitment to the spirit of HUD's mission that will enable the reforms we began in 1989 to succeed.

Very sincerely yours,

Jack Kemp

Jack Kemp

Inspector General's Report to the Congress

Report Number 28
For the 6-month period ending September 30, 1992

U.S. Department of Housing and Urban Development

REPORTING REQUIREMENTS

The specific reporting requirements as prescribed by the Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988, are listed below.

Source/Requirement	Page
Section 4(a)(2)-review of existing and proposed legislation and regulations.	Pages 66-69
Section 5(a)(1)-description of significant problems, abuses and deficiencies relating to the administration of programs and operations of the Department.	Pages 1-43
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses and deficiencies.	Pages 1-34
Section 5(a)(3)-identification of each significant recommendation described in previous Semiannual Reports on which corrective action has not been completed.	Pages 54-61
Section (5)(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	Pages 37-43
Section 5(a)(5)-summary of reports made on instances where information or assistance was unreasonably refused or not provided, as required by Section 6(b)(2) of the Act.	No Instances
Section 5(a)(6)-listing of each audit report completed during the reporting period, and for each report, where applicable, the total dollar value of questioned and unsupported costs and the dollar value of recommendations that funds be put to better use.	Appendix 1
Section 5(a)(7)-summary of each particularly significant report.	Pages 1-34
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Pages 62-63
Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.	Pages 64-65
Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.	Page 53
Section 5(a)(11)-description and explanation of the reasons for any significant revised management decision made during the reporting period.	No Instances
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	No Instances

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INSPECTOR GENERAL'S MESSAGE TO THE CONGRESS

This is our 28th Semiannual Report to the Congress. Secretary Kemp and his management team are to be commended for their aggressive actions to manage the Department's programs in the wake of the HUD scandals and to institute processes for correcting many of the problems that for years have seemed insurmountable. Yet my message today is similar to that of my predecessors with regard to the need for resources and oversight. In our first report to Congress in early June 1979, the Inspector General said:

> "Many problems, however, have plagued HUD over the years....The most serious of these problems has been insufficient program monitoring due to the low level of staff available in HUD for monitoring....Inadequate monitoring and insufficient on-site reviews of program participants have seriously jeopardized HUD's interests and permitted waste and mismanagement to go unchecked...."

Conditions at HUD 13 years later, however, are further compounded by tremendous growth in many of HUD's more vulnerable programs, by the enactment of many new programs, by the need to clean up after an unprecedented scandal, and by the loss of staff resources in terms of numbers and experience.

HUD is one of the largest financial institutions in the United States. At the same time, it has a mandate to provide decent, safe, and sanitary housing for lower-income families. With insured loans and guarantees exceeding three-quarters of a trillion dollars, with housing subsidies serving over 4 million families, and with grants to virtually every state and city in the country, HUD's programs are both diverse and far-reaching. Unfortunately, staffing constraints and the organizational environment (inadequate data systems and management controls) have adversely impacted on HUD's ability to keep pace with the technology, information, and monitoring requirements necessary to run a large business effectively.

After years of inattention, much-needed emphasis is now being placed on upgrading and integrating data systems, and instilling management controls and accountability. Secretary Kemp and his management team deserve high marks for these efforts since they lay the foundation for improved management. However, until systems are fully integrated, sound management controls are in place throughout the Department, and decisions based on risk analyses are routine ways of doing business, HUD desperately needs resources to implement needed changes and to carry out its mission.

The Congress continued to play an active role this period by holding four oversight hearings, one on HUD's systemic weaknesses in data systems, staffing, and internal controls with specific reference to multifamily loan servicing, and three on public housing agencies. These hearings provided an opportunity to discuss the complex issues and recommendations for improvement as seen from the perspective of this Office, HUD management and interest groups.

We urge Congress to continue its oversight of HUD and to ensure that sufficient resources are appropriated to avoid a repeat of the problems of the 1980's. In this regard, it is extremely troubling to us that the recently enacted Fiscal Year 1993 housing authorization bill continued the pattern of proposing new programs and functions for HUD staff without any authorization of the resources to carry out these new responsibilities. Although the Department understated its resource needs, HUD's 1993 appropriation provides even less than the Department requested for data systems development and staffing. Accordingly, progress towards achieving financial systems integration and effective program monitoring will be impeded once again because of resource limitations.

HUD management continues to make audit resolution a top priority and unresolved matters are at their lowest level in more than a decade. During this reporting period, management's actions on our recommendations resulted in cash recoveries, savings and/or efficiencies of more than $26.5 million. Our Office, alone or with other Federal, State, or local law enforcement agencies, also was responsible for 151 convictions of persons or firms doing business with HUD and more than $9.5 million in court-ordered restitutions. We completed our first audit of the Department's consolidated financial statements under the Chief Financial Officers Act. Although, we were unable to express an opinion on the statements for the reasons discussed on page 31 of this report, the audit was positive in that it helped to focus on what remains to be done to make HUD financially sound.

This Office will continue its independent and objective assessments of the Department's programs and operations. At the same time, we will also continue to support the Secretary, Deputy Secretary, and Chief Financial Officer with technical assistance and guidance in the areas of risk analysis, internal control, performance measurement, and audit resolution. **However, we must caution that, despite all of these collective efforts and momentum in reforming Departmental programs and operations, another HUD scandal is a distinct possibility unless the Department has sufficient resources to carry out its formidable mandate.**

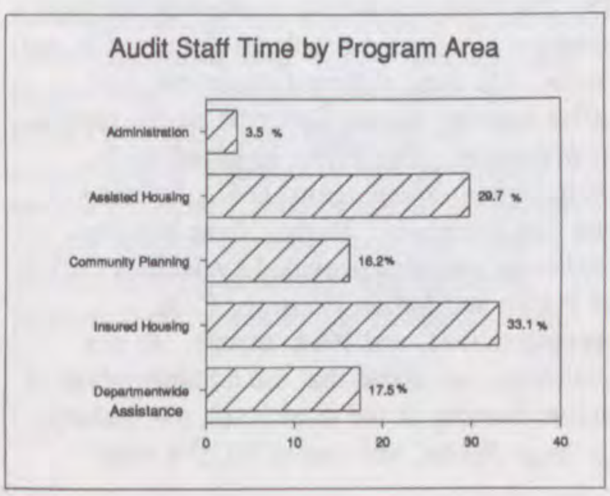
John J. Connors
John J. Connors
Deputy Inspector General

Chapter 1 - Audit

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

During this period, we issued 23 reports on internal HUD operations and 68 external reports on grantees and program participants. The chart below shows the distribution of reports by program area.

The majority of our audit resources (82.5 percent) was directed to four major program areas as depicted below. The remaining 17.5 percent of our resources went to Departmentwide assistance which includes such functions as: follow-up on audit findings and recommendations (4.7 percent); quality control over and routine monitoring of independent auditors (5.6 percent); and program integrity activities (7.2 percent) such as technical assistance to HUD program participants and responses to Congressional and citizen inquiries and hotline complaints.



PUBLIC AND INDIAN HOUSING

HUD's Public Housing Program provides financial and other assistance to public housing agencies (PHAs) for housing lower-income families and to remedy unsafe and unsanitary housing conditions. Such financial assistance includes primarily funds for financing the development and modernization of housing projects and operating subsidies. 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.

PUBLIC HOUSING AGENCIES

During this 6-month period, our audit work focused on "troubled" PHAs. Prior to HUD's implementation of the Public Housing Management Assessment Program (PHMAP) in January 1992, HUD Regional Administrators were responsible for designating PHAs as "troubled." The designation was based on various performance standards prescribed by HUD, including the amount of the PHA's operating reserves, operating expenses, occupancy rates, rent collections, and quality of a PHA's units. During 1992, HUD initiated PHMAP which implements section 502(a) of the National Affordable Housing Act of 1990. The purpose of PHMAP is to assist the Department in identifying PHA management capabilities and deficiencies, including PHAs that are "high performers," "standard performers," or "troubled" overall and "troubled" with respect to their project modernization activities. Under PHMAP, PHAs that achieve a total weighted score of less than 60 percent on the statute's and HUD's designated performance indicators or the modernization performance indicator are designated as "troubled" PHAs or "mod-troubled," respectively. HUD's Field Offices are responsible for assessing and scoring PHAs under PHMAP; however, their scoring is subject to review by Regional Administrators.

During the reporting period, we also reviewed PHAs' controls over the handling of cash and other monetary assets; monitoring activities of the HUD Denver Regional Office of Indian Programs; operations at two Indian housing authorities in Montana and Washington; and the Public Housing Drug Elimination Program.

Troubled Public Housing Agencies

Problem

Over the past 10 years, we have reported on major problems at large "troubled" PHAs in our Semiannual Reports to the Congress. The Assistant Secretary for Public and Indian Housing and the Office of Management and Budget requested that we perform comprehensive audits of 10 to 12 "troubled" PHAs during Fiscal Year 1992, covering a wide range of financial and managerial practices. There are currently about 3,400 PHAs and 1.4 million units of PHA-owned public housing units in the Nation. As of about March 1992, HUD had designated 23 large PHAs as "troubled." (Large PHAs are those having 1,250 units or more.) While the 23 large PHAs may be small in number, these PHAs receive a significant percentage of HUD's operating subsidy and modernization funding, and account for a relatively large segment of the Nation's public housing units. The units in these 23 PHAs represent about 20 percent of all public housing units. The 23 PHAs receive 27 percent of HUD's operating subsidies and about 26 percent of its modernization funding.

During the 6-month reporting period, we completed audits of eight large "troubled" PHAs. These PHAs together managed nearly 70,000 units of conventional public housing. Generally, these audits disclosed that PHAs are providing ineffective management in administering the Public Housing Program. Millions of dollars are being spent on maintenance, but the quality of housing continues to be a major problem and unit inspections are inadequate. Vacancies are increasing despite huge waiting lists for public housing. In addition, operating reserves are declining at an alarming rate, further contributing to the poor condition of projects. As a result, PHAs are not maximizing their rental income, Federal operating subsidies are increasing, and adequate public housing is not being made available to eligible families and persons.

The Congress also held a number of hearings covering the myriad problems discussed in our audits. On three different occasions, our office testified before Congress on the results of our audits. The PHAs involved were Philadelphia, Washington, D.C., Jacksonville, and San Francisco. During these hearings, testimony was also provided by HUD's Office of Public and Indian Housing, PHA representatives, and PHA tenants. In our testimony, we stated that the administration of public housing at the local level, particularly by large PHAs, was one of HUD's most significant problem areas. The costs of operating the conventional Public Housing Program have escalated over the last 20 years. Federal operating subsidies totaled about $6.5 million in 1969, or an average of $2.07 per unit per month. By 1990, operating subsidies had risen to $114 per unit per month, or $1.9 billion annually. We also noted in our testimony that investigations of fraud in these programs during Fiscal Years 1989-1991 resulted in 112 indictments and 84 convictions of persons or firms for misusing public housing funds. Court-ordered restitutions or fines amounted to $1.9 million.

We believe these hearings, together with the related media coverage and the Department's increased use of sanctions for poor performance, will have a positive impact on the overall effectiveness of the Public Housing Program. A brief summary of problems unique to each PHA we audited follows:

Discussion

Philadelphia Housing Authority

Over the past 10 years, more than 30 studies, audits, reviews and task force evaluations of the Philadelphia Housing Authority have concluded that the PHA is incapable of carrying out its primary function of providing public housing. Our most recent audit reaches the same conclusion. The PHA's vacant units have increased to over 4,500. Maintenance repairs were not being made timely, the PHA's personnel practices were not economical or reasonable, and the PHA's overall financial condition was deteriorating. Almost none of the units inspected were decent, safe and sanitary. The following pictures depict some of the violations found.

Rotted kitchen subfloor at unhabitable PHA unit.

Bedroom ceiling that has caved in due to plumbing leaks from upper units.

The PHA has not collected $6.5 million in rent owed by current and former tenants. In addition, uncollectible accounts rose from $4.5 million in 1988 to $6.5 million in 1991. We also found that the PHA received operating subsidy for housing that had already been demolished. In addition to recommendations resulting from our current audit, our report identifies 25 unresolved recommendations made over the last 5 years. In May 1992, with the agreement of the PHA Board of Directors, HUD appointed a "Special Master" to manage and operate the PHA for 1 year. (Report No. 92-PH-201-1005)

Our office is participating in an investigation into corruption at the Philadelphia Housing Authority. To date, a PHA housing inspector has pled guilty to extorting over $30,000 in cash and gifts from contractors whose work he inspected and approved.

Department of Public and Assisted Housing, Washington, DC

Fraud, waste and abuse continue to plague the operations of the Department of Public and Assisted Housing (DPAH) in Washington, D.C., which has been designated as "troubled" for the past 13 years. Despite recent improvements to its operations, DPAH continues to experience wasteful procurement and inventory operations, inefficient maintenance and administrative staffs, financially unsound management decisions, and poor quality housing that is being upgraded at an excessive and uncontrolled cost. The following picture shows DPAH's inability to provide decent, safe and sanitary housing.

Severely deteriorated wall and ceiling at unit with 11 Housing Quality Standards violations (HUD standards of decent, safe and sanitary housing which all units must meet before rental by program participants).

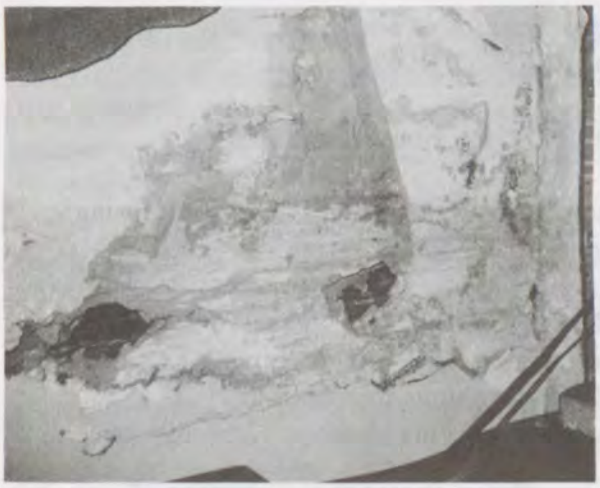
As a result of these problems, we reported ineligible and unsupported audited costs of over $7.5 million. To prevent further waste and abuse, HUD needs to provide the degree of staff commitment and oversight necessary to assure that systems and controls are in place and consistently applied by DPAH. (Report No. 92-PH-201-1015)

Our office is participating in an investigation of problems at DPAH.

New Haven Housing Authority

Housing quality remains a problem at the New Haven Housing Authority, even though the Authority spent $3.7 million for ordinary maintenance for the year ended September 30, 1991. The Authority was designated as "troubled" in 1979 and again in October 1987. Over the past 4 years, the Authority has received $57.3 million from HUD and its tenants, exclusive of modernization funds, to administer its Low-Income Housing Program. However, the PHA did not manage the funds efficiently and effectively. In each area that we reviewed, we found material weaknesses which were contributing to the deteriorating physical condition of units and projects, and the declining financial condition of the PHA.

In addition, the Authority's Low-Income Housing Program is becoming insolvent, with operating reserves declining from $5.4 million to $1.8 million over the last 3 years. In most cases, the Authority has adopted policies which could help alleviate many of the conditions cited in our audit, but failed to follow these practices. The picture on the next page shows an example of the type of physical conditions we found, some of which were identified 10 months before our audit. (Report No. 92-BO-201-1011)



Water damage holes in wall allow air infiltration.

Newark Housing Authority

The housing stock of the Newark Housing Authority has deteriorated to the extent that 5,770, or nearly one-half of its original 12,904 units, were either deprogrammed, demolished or vacant at December 31, 1991. We attributed this deterioration to various historical operating problems and an ineffective maintenance operation. Further, the Authority benefitted financially when it collected millions of dollars in Federal subsidies to operate thousands of units vacated during the past 10 years, many of which are in closed and sealed buildings. Unless a unit is deprogrammed at the request of the NHA, regulations allow the NHA to receive operating subsidies even though the unit is vacant. (Report No. 92-NY-204-1009)

Housing Authority of Kansas City

Vacancies and management inefficiencies have brought the Housing Authority of Kansas City to the brink of insolvency. About one-third of the Authority's 2,000 public housing units were vacant and unfit for habitation by families on the waiting list, resulting in lost revenue of over $440,000 a year. The following pictures illustrate the effects of poor maintenance.

Hazardous entry steps.

Kitchen sink faucet that will not turn water off.

In late 1990, the Authority started Operation Full House (OFH) to eliminate vacancies. After spending $1.2 million, OFH did not accomplish its objectives. The vacancy problem increased from 541 units before OFH to 613 units after OFH. Many of the problems stem from unstable leadership. The Authority had five executive directors in 10 years and went for prolonged periods with no leadership. In August 1991, HUD designated the Authority a "troubled" PHA and in November took control of its bank accounts.

In April 1992, the Board of Commissioners relinquished control of the Authority to HUD. (Report No. 92-KC-201-1003)

Jacksonville Department of Housing and Urban Development

The Jacksonville Department of Housing and Urban Development (JHUD) did not effectively administer its Public Housing and Section 8 Programs and breached the terms of its Annual Contributions Contract. JHUD made payments of $7.1 million in Comprehensive Improvement Assistance Program (CIAP) funds for contract work that did not meet Housing Quality Standards. JHUD officials also applied for CIAP funding before determining if a residential site on a closed City-owned dump was safe. As a result, CIAP funds of over $3 million are being used to repair buildings on a potentially hazardous site. The Environmental Protection Agency is assessing the existence of any potentially hazardous health conditions in the vicinity of the buildings' site. In addition, JHUD prematurely demolished housing units prior to completing plans for replacing them, thus further reducing the housing stock. (Report No. 92-AT-201-1014)

Housing Authority of the City of Los Angeles

The Housing Authority of the City of Los Angeles was reclassified from a "troubled" agency to a standard performer in April 1992. Our audit disclosed that with some exceptions, the Authority generally complied with HUD requirements. However, the Authority understated the costs of the Conventional Housing Program by up to $2.4 million while overstating the costs of the Section 8 Program; may have spent up to $7.3 million due to possible overstaffing; could not show that the $5.3 million it spent annually for administrative salaries was reasonable; and experienced eviction delays and late recertifications of tenant eligibility. (Report No. 92-SF-201-1012)

San Francisco Housing Authority

The accuracy of the San Francisco Housing Authority's (SFHA) Fiscal Year 1991 Public Housing Management Assessment Program (PHMAP) certification and score was questionable. PHMAP requires PHAs with 500 or more units to submit to HUD a certification rating itself on 12 performance indicators. The SFHA scored itself higher than warranted and certified to questionable PHMAP performance data. This prompted HUD to remove the SFHA's "troubled" agency designation prematurely. The SFHA was originally designated by HUD as "troubled" in March 1980. This designation was removed by HUD in April 1992. However, we believe that the SFHA should be redesignated by HUD as a "troubled" agency. We also found a lack of verifiable and documented systems to support data on the SFHA's vacancies, vacant unit turn-around time, and unit inspections, along with improper reporting of rents collected. (Report No. 92-SF-201-1009)

Our office also investigated the issue of the PHMAP certification and score.

PHAs' Controls Over Cash and Other Monetary Assets

Problem

PHAs, particularly those considered by HUD to be small- or medium-sized, are losing or misusing millions of dollars of assets due to their failure to establish or maintain sound internal controls, especially in high-risk areas.

Discussion

In our multi-regional audit of PHAs' internal controls over the handling of cash and other monetary assets, we reviewed the results of 93 PHA reports issued by our office during Fiscal Years 1987 through 1991 and performed other related audit work concerning internal control problems at PHAs. Of the 93 reports reviewed, 87 (94 percent) disclosed about $3.4 million of assets that were lost or misused by PHAs. We determined that about $1.9 million of this amount was caused in part by the lack of internal controls. Executive Directors were directly responsible for about 51 percent of the assets lost or misused. However, for many of the internal control deficiencies disclosed in these reports, a monetary value either was not or could not be associated with the deficiencies. Our audit disclosed that not establishing internal controls was a far greater problem than not maintaining or following such controls once established.

The problems noted in our current audit closely parallel those disclosed in our March 1988 report. That report disclosed about $6 million of misappropriated and misused assets at 122 PHAs. Of note is the fact that the number of PHAs reviewed in both our current report and our 1988 report encompassed only about 6 percent of all PHAs nationwide.

We believe PHA management must assume responsibility and be held fully accountable for establishing and maintaining sound internal controls in high risk areas. We also believe that HUD should do more to improve PHAs' attitudes, understanding and awareness of internal controls and high risk areas.

We recommended that HUD incorporate instructions on PHA internal control standards into the Financial Management Handbook; require PHAs to perform risk assessments; encourage PHAs to obtain outside expertise to assist in establishing internal controls; expand the regulatory grounds for suspending certifications of housing managers to include the willful disregard of known internal control deficiencies; develop or sponsor, in cooperation with industry groups, an ethics/standards of conduct program for PHA officials; and consider incorporating an internal controls' indicator in the Public Housing Management Assessment Program tied to PHA performance. The Assistant Secretary for Public and Indian Housing generally agreed with our findings and recommendations. (Report No. 93-HQ-101-0002)

INDIAN HOUSING AUTHORITIES

During the reporting period, we reviewed the monitoring activities of the HUD Denver Regional Office of Indian Programs and operations at two Indian housing authorities.

MONITORING ACTIVITIES OF THE OFFICE OF INDIAN PROGRAMS

Problem

Operations of the Regional Office of Indian Programs have improved significantly since our 1981 review. However, weaknesses still exist that need to be corrected to assure more efficient and effective use of HUD resources.

Discussion

We reviewed the Office of Indian Programs (OIP) in the Denver Region to evaluate their monitoring of Indian Housing Authorities (IHAs), identify policies and procedures needing improvement, and determine if improvements had been made since our 1981 review. Site reviews of four IHAs were made as part of the review to evaluate the effectiveness of regional monitoring, technical assistance and assessments of administrative capability. We found that the OIP needs to improve its use of administrative capability assessments. Current use does not provide accurate data or give uniform results. Also, HUD monitoring has not ensured that IHAs are implementing needed controls.

Our external audits of IHAs have disclosed that tenant accounts receivable continue to grow, thereby restricting the amount of operating funds available to the IHAs. The increasing receivables, in turn, have a direct effect on the IHAs' maintenance policies and capabilities.

We found that IHAs need to improve their controls over development funds. Projects were closed out to meet management goals even though funds had not been expended. The funds were certified as either spent or obligated but were subsequently reprogrammed for unrelated purposes.

We recommended that the Regional Office of Indian Programs be required to improve its application of administrative capability assessments and track and monitor all findings and recommendations from our audits of IHAs. We also recommended adherence to procedures for closing out projects. (Report No. 92-DE-108-0003)

BLACKFEET INDIAN HOUSING AUTHORITY, BROWNING, MT

Problem

Due to ineffective management, the Blackfeet Indian Housing Authority's (IHA's) housing stock has deteriorated and its financial condition has become unsound.

Discussion

IHA management improperly used over $777,000 in operating funds, thereby depleting trust funds and resulting in unnecessary expenditures. The improper operating fund use caused a shortage in IHA funds for maintenance and necessary operating costs. The IHA's inadequate internal controls contributed to the improper use of funds. Funds were commingled for the six programs funded by HUD and the IHA did not adequately segregate duties.

The IHA did not assign a high priority to its maintenance function. We found an excessive backlog of work orders, inordinate turnaround time for vacant units, and a lack of preventive and routine maintenance. Some residents were living in substandard, and in some cases, hazardous conditions.

We found that the Authority was lax in collecting at least $1 million due from low-rent tenants and mutual help homebuyers. Tenant accounts receivable are a principal factor in the Authority's lack of financial resources. In some cases, the Authority has resorted to using reserved funds for normal operational expenses.

We recommended that the Authority be required to develop, and HUD's Office of Indian Programs review and approve, a plan that will correct the deficiencies found in our audit and improve operations. We also made specific recommendations to correct each deficiency discussed in our findings. (Report No. 92-DE-202-1002)

COLVILLE INDIAN HOUSING AUTHORITY, NESPELEM, WA

Problem

At the Colville Indian Housing Authority, housing units were not maintained in decent, safe and sanitary condition and rental delinquencies were not managed properly.

Discussion

Forty-four of the 50 units we inspected did not meet minimum Housing Quality Standards. Our audit determined that the Authority's inspection process was inadequate, resulting in some tenants and homebuyers living insubstandard housing. The Authority also failed to take the necessary action to either collect delinquent rents or evict delinquent tenants/homebuyers. Delinquent rents have increased by 54 percent since 1989.

The Authority could not account for 75 percent of maintenance staff time and did not evaluate staff performance. HUD cannot be sure that maintenance charges over the last 3 fiscal years were proper. In addition, cash receipts were not adequately safeguarded against potential loss, misuse or diversion. We recommended that HUD immediately perform an administrative capability assessment to determine whether the Authority possesses the necessary capabilities to manage its programs; withhold all new development and comprehensive grant funds until the Authority is determined administratively capable; and require the Authority to establish the needed standards, controls and procedures over housing quality, tenant accounts, maintenance, and cash receipts. (Report No. 92-SE-202-1005)

PUBLIC HOUSING DRUG ELIMINATION PROGRAM

ATLANTA REGION'S PROCESSING OF PHDEP GRANTS

Problem

Weaknesses exist in the Atlanta Region's PHDEP application processing and scoring system. Policies and practices may not provide reasonable assurance that funds are awarded only to PHAs who have a need for such assistance.

Discussion

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

Our audit of the Paris, Tennessee Housing Authority's PHDEP, discussed in our last Semiannual Report, raised questions about the adequacy of the Atlanta Region's processing of other PHAs' drug elimination grant applications. Consequently, we conducted a follow-up review to determine if the Region processed and funded other Fiscal Year 1990 and 1991 PHDEP grants in a like manner. In April 1992, the Assistant Secretary for Public and Indian Housing agreed with our conclusions and recommendations relating to the scoring of applications but did not agree that approved applications were required to support the existence of drug-related crime at PHA projects. We requested a General Counsel (OGC) legal opinion to clarify the intent of the statute and HUD regulations. In September 1992, OGC opined that while no explicit requirement exists for a PHA to provide anything other than an application or a plan for addressing the problem of drug-related crime, an implicit requirement exists that the application include some evidence of a drug-related crime problem. OGC has advised that data which is not directly related to a grant application's targeted projects may nonetheless reflect a drug-related crime problem in such projects. The regulations do require applicants to submit an assessment of the drug-related crime problem with the application. An assessment, according to OGC, must describe the nature and scope of the problem.

During the Fiscal Year 1990 and 1991 funding cycles, the Atlanta Region approved and funded grants totaling about $3 million based on applications that, in our opinion, did not adequately support the existence of a drug-related crime problem at the targeted PHA projects. Of 24 applications funded by the Atlanta Region, 13 included raw crime statistics but did not include an analysis showing both the scope and nature of the drug-related crime problem. We attributed these questionable grant awards primarily to weaknesses in the processing and scoring system which allowed HUD grant application scorers to make subjective judgments when rating PHDEP applications. We believe the problems disclosed in the Atlanta Region may extend to other HUD Regions.

We recommended that the Assistant Secretary for Public and Indian Housing: (1) develop and issue guidance to improve HUD's oversight and control of the PHDEP application and scoring process; (2) determine whether the PHDEP application processing and scoring problems disclosed exist in other Regions and take appropriate corrective actions; and (3) establish minimum or threshold rating points for the rating factor concerning drug-related crime problems that an applicant must score before being considered for a grant award. While the Assistant Secretary disagreed with our finding concerning applicants submitting an assessment of drug-related crime problems, he did indicate that steps have already been initiated to provide further direction and controls regarding scoring in the application review process. (Report No. 93-HQ-101-0801)

PHAs' Compliance with PHDEP

Problem

PHAs are generally complying with HUD requirements in administering their Public Housing Drug Elimination Programs (PHDEP). However, audits of several PHAs disclosed that some are mismanaging or misusing funds or are not meeting the program's intent.

Discussion

The Housing Authorities in Oakland, California, Schenectady, New York, and Somerville, Massachusetts, mismanaged PHDEP funds. At the Oakland Housing Authority, anti-drug activities funded by the Comprehensive Improvement Assistance Program (CIAP) were stopped in 1990 even though only about half of the $632,000 was spent. Only one-third of the $250,000 in PHDEP funds had been spent after 18 months because of its delayed start and reduced scope. The Schenectady Housing Authority used PHDEP funds for activities that were funded under CIAP, and certain security activities were funded that were not included in the approved budget. As a result, the PHDEP incurred over $129,000 in ineligible costs and over $90,000 in unsupported costs. Methods used by the Somerville, Massachusetts Housing Authority to charge maintenance workers' and the modernization coordinator's salaries and fringe benefits resulted in ineligible costs of over $182,000.

Program administration and administrative controls were a problem at four PHAs we reviewed. At the Housing Authorities in the City of Pittsburgh and Allegheny County, administrative deficiencies led to untimely disbursement of program funds, drug elimination activities not implemented timely, and required progress reports not submitted to HUD. The Jersey City Housing Authority did not submit financial reports, progress reports or budget revisions timely. The Schenectady Housing Authority incurred ineligible and unsupported costs of nearly $100,000 due to administrative deficiencies. The Authority contracted for a security coordinator without competitive bidding, paid the City of Schenectady for drug education activities without a written agreement, and failed to submit required reports to HUD.

We made several recommendations to correct the deficiencies found including reimbursement of misused funds and assessment of the PHAs' ability to carry out an effective anti-drug strategy. (Report Nos. 92-SF-209-1006; 92-NY-209-1008; 92-BO-204-1010; 92-PH-209-1007; 92-PH-209-1010; and 92-NY-209-1011)

COMMUNITY PLANNING AND DEVELOPMENT

The Office of Community Planning and Development (CPD) administers a number of programs which provide financial and technical assistance to states and communities for a number of different activities. Funds are used to solve community development problems, rehabilitate housing, provide homeownership opportunities, restore neighborhoods, and foster local jobs and economic development.

During this reporting period, we focused on the preparation and use of the Grantee Performance Reports, benefits to low- and moderate-income persons, grantee program administration, and related monitoring by HUD. The programs we reviewed included the Community Development Block Grant (CDBG) Program, the Home Investment Partnership Act (HOME) Program, Rental Rehabilitation and Section 312 Rehabilitation activities, and the Urban Development Action Grant (UDAG) Program. The following are the major audits conducted in these areas:

CDBG AND REHABILITATION PROGRAMS

MULTI-REGION REVIEW OF GRANTEE PERFORMANCE REPORTS

Problem

Deficiencies in the preparation and use of the Grantee Performance Reports constitute a material weakness in HUD's control over the CDBG Program. As a result, there is no assurance that grantees are fulfilling program objectives and safeguarding funds from fraud, waste and abuse. We recommended that material weaknesses previously identified in our audits relating to program income, interim financing and Special Economic Development activities, as well as this GPR material weakness, be consolidated into one overall material weakness and reported in HUD's Federal Managers' Financial Integrity Act submission this year.

Discussion

Unlike most other Federal grant-in-aid programs, the CDBG Entitlement Program does not involve an application review and approval process. CDBG Entitlement grantees are required to submit an annual performance report to HUD, referred to as the GPR. This report is the only document submitted to HUD which contains detailed and comprehensive management and accounting information on a grantee's program and is the basis for HUD's reviews of grantee performance.

The GPR was developed to provide a systematic format for reporting on the use of entitlement funds. The report covers one program year's activities, is the basic document used to maintain control over the CDBG Program, and is the basis for fulfilling the statutory requirement to report to Congress on program progress.

Our review was conducted at 20 entitlement grantees, their respective HUD Field and Regional Offices, and HUD Headquarters. We found that grantees were insufficiently trained in GPR preparation; that they did not verify the data obtained from subrecipients; and that they submitted their GPRs late without penalty. In addition, HUD Field Office reviews often exceeded established timeframes and lacked substance.

Since the GPR is the basic document used to maintain control over the CDBG Program and the only document which provides detailed accounting and other information on a grantee, it is routinely tested for underlying support and accuracy during our audits. These audits show that individual reports are frequently not accurate or reliable. Therefore, they neither serve as a good management tool nor a good source from which to gather information for the Annual Report to the Congress on the program.

In view of the persistent and material internal control weaknesses with the GPR process and HUD's inability to detect and properly address them, we recommended that the Department's control over the CDBG Program be reported as a material weakness under the Federal Managers' Financial Integrity Act. Among our other recommendations were that: a uniform method of grantee accounting be implemented; independent verification of the accuracy and reliability of GPR data be provided; grantees and Field Office staffs receive training on the preparation and use of the GPR; Field Offices uniformly sanction grantees who do not submit GPRs timely or accurately; and the present management and reporting system be updated to provide for the automated review and processing of GPR data. (Report No. 92-TS-141-0014)

Monitoring Entitlement Grantees

Problem

The St. Louis Office (SLO) did not assure adequate benefits were provided to low- and moderate-income persons.

Discussion

Regional CPD responsibilities include advising the Regional Director on implementation of Departmental goals and monitoring/evaluating overall management performance and goal achievement of Field Office CPD programs. At the Field Office level, the Program Manager is primarily responsible for monitoring grantee activities.

Between 1989 and 1991, the SLO was allocated $83.4 million for five entitlement grantees. At the time of our audit, Title I of the Housing and Community Development Act of 1974, as amended, required 60 percent of aggregate program expenditures to benefit low- and moderate-income persons (it is now 70 percent). We found that neither the SLO nor the Regional Office established the necessary safeguards to assure that this national goal was met. For example, one grantee improperly claimed that $1.2 million in five activities met the goal during 1987-1989, and also charged $1.1 million to the program for three ineligible activities. When the SLO developed their monitoring strategy, they did not use Grantee Performance Reports to target specific monitoring areas; conduct substantive on-site reviews; or properly supervise monitoring. In addition, Regional Office annual reviews were too limited to properly evaluate the SLO monitoring effectiveness. We recommended that HUD assure Regional and Field Office staff use accountability monitoring, a risk-based management strategy, to select and monitor CDBG grantees; that monitoring strategies targeting systemic grantee program weaknesses be developed; that monitoring files support annual review conclusions; that more time for Regional Office annual reviews of Field Offices be considered; and that Regional reviews be consistent with the accountability monitoring concept. (Report No. 92-KC-141-0003)

Program Oversight by Grantees

Problem

Audits conducted of CPD programs being managed by grantees disclosed serious violations of HUD requirements. Specifically, our audits reported on ineligible and unsupported loans/costs, poorly run rehabilitation programs, inadequate records and insufficient monitoring of subgrantees. In addition, we noted instances where funds were provided to persons/firms where there was a conflict-of-interest or an identity-of-interest relationship between the grantee and the program recipients. As a result, there was no assurance that all funds provided by HUD were accurately accounted for and properly spent. We made recommendations to correct the deficiencies and repay funds that could not be supported as being used for eligible activities and costs. Examples of specific problems are discussed below.

Discussion

We found that the City of **Huntington, West Virginia**, failed to provide the necessary management oversight and monitoring to assure program compliance by borrowers. This resulted in ineligible and unsupported loans being made. We also identified poor controls and mismanagement in program operations resulting in ineligible costs of $2.1 million and unsupported costs of $2.5 million. We recommended that the City reimburse the program for the ineligible costs and any unsupported costs not justified. In addition, we recommended the City implement specific controls and procedures to correct the deficiencies. (Report No. 92-PH-241-1009)

In the City of **Troy, New York,** over $2 million in loans approved for a local corporation were inadequately supported. Also over $43,000 in ineligible costs and $340,000 in unsupported costs were reimbursed to subrecipients. Economic development loans totaling $145,000 were improperly made with funds from loan repayments under the Rental Rehabilitation Program. Conflicts-of-interest may have occurred because agreements were executed with a consulting firm whose general partner was the grantee's former Commissioner of Planning. Labor standards violations may have occurred because rehabilitation project contracts were inadequately monitored. In addition, other noncompliances occurred pertaining to accounting and administrative procedures that weakened the grantee's system of internal control. Our recommendations addressed the audit findings and will strengthen the grantee's future administration of HUD programs. We also recommended the repayment of all ineligible costs and any that the grantee cannot support. (Report No. 92-NY-241-1007)

Deficiencies in the **Lockport, New York** CDBG and UDAG Programs involved using loan proceeds to pay costs claimed by three entities which in our opinion had undisclosed identify-of-interest relationships with the developer. The costs were for renovation work and legal and administrative services, including work and services that were not performed, were unreasonable or inadequately supported. We considered $390,000 to be ineligible and another $460,000 to be unsupported. We found weaknesses in the grantee's internal controls over loan repayments and collection procedures. The accuracy of the rehabilitation loan accounts receivable balance could not be determined. These weaknesses adversely affected the grantee's ability to compile accurate, current and complete financial information. We recommended that the grantee repay all ineligible costs and any others that the grantee cannot support. (Report No. 92-NY-242-1010)

Most CDBG activities in the City of **Chattanooga, Tennessee,** are carried out by subrecipients but the City was not adequately executing contract agreements with subrecipients, obtaining independent audits, or monitoring their activities. Most of the $1.7 million in costs of three subrecipients we examined were either inadequately documented or excessive. For example, we found that over $200,000 in charges were ineligible and $225,000 were unsupported; ten property acquisitions were deficient because their fair market values were not supported; and the City paid over $200,000 during a 7-year period to a subrecipient for processing one check a month to the City from a temporary lease. We recommended that the City repay all ineligible costs and any unsupported costs that the grantee cannot support. We also made recommendations to strengthen overall management of the programs. (Report No. 92-PH-157-1014)

The City of **Vallejo, California,** funded 11 activities totaling $870,000 as area benefit to low- and moderate-income residents. However, the City did not document the boundaries of the areas served and there is no assurance that the activities properly benefitted the targeted population. We also identified over $503,000 in questioned costs because the grantee did not require a cost allocation plan for indirect costs and did not always obtain adequate documentation to support direct costs from subgrantees. Understaffing and a disagreement with local residents regarding how CDBG activities should be conducted caused needed urban community projects to be delayed. We also noted problems concerning the City's environmental review process, an inadequate financial management system, unclear subgrantee agreements, and inadequate procurement procedures. We recommended that the grantee return any of the $870,000 that it cannot show benefitted low- and moderate-income residents. We also recommended the establishment of procedures to overcome the noted deficiencies. (Report No. 92-SF-241-1013)

The City of **San Bernardino, California**, failed to reprogram over $3 million from completed or canceled projects, prematurely drew $2.2 million from its line of credit, and needs to reassess the viability of its rehabilitation program. The grantee established a separate revolving fund for its Neighborhood Rehabilitation Program to carry out specific activities which, in turn, generated payments to the fund for use in carrying out the same activities. Program income (principal repayment and interest) earned on a revolving fund may be retained in the fund but the income must be used prior to drawing U.S. Treasury funds for the revolving fund activities. In response to this audit, the grantee is taking corrective actions on all the areas identified and has returned $460,000 to its line of credit and paid over $42,000 in interest earned on the premature draw. (Report No. 92-SF-241-1007)

The **District of Columbia's** Office of Business and Economic Development undertook the renovation of the Lincoln Theater Project using a $4 million Section 108 loan and a $100,000 CDBG loan to the developer. We found that the grantee did not adhere to HUD requirements regarding the eligibility of costs or adequately document that over $376,000 for architect services and an overhead fee to the development were necessary and reasonable.

We also found that the grantee did not ensure that a $100,000 CDBG loan to the developer was used for the purpose intended. We recommended that the grantee reimburse HUD and the CDBG Program from non-Federal funds for these costs. (Report No. 92-PH-257-1014)

Our audit of the Municipality of **Anchorage, Alaska**'s housing rehabilitation programs disclosed serious problems with all three programs which were funded by HUD (Section 312, Rental Rehabilitation and CDBG Rehabilitation). Deficiencies included providing loans/grants for borrowers, properties, and work that was not eligible for rehabilitation assistance. Our on-site inspections disclosed funds paid for work not completed, poor quality work, and work completed before loan/grant approval. An example of the Municipality's questionable practices is shown in the following photograph of work that was certified as complete even though it clearly was not.

1992 photo of work certified completed in 1989

We noted more than $615,000 of ineligible and improper rehabilitation activities and another $226,000 lacking supporting documentation. The Municipality did not comply with HUD's lead-based paint, conflict-of-interest, and contractor selection requirements and its rehabilitation loans and grants records were not complete. We recommended that the Municipality repay all ineligible items and any unsupported costs that they cannot support. (Report No. 92-SE-241-1008)

As a result of the above audit, we performed a limited review of the HUD Seattle Regional Office of Community Planning and Development's (CPD) monitoring of the Municipality's rehabilitation programs. We concluded that CPD's monitoring was ineffective because they chose not to review rehabilitation programs with identified problems and did not adequately plan inspections of the Section 312 properties reviewed. We recommended that steps be taken to improve CPD's monitoring. (Report No. 92-SE-141-0001)

Our audit of Palm Center, an economic development project of the City of **Houston, Texas**' Target of Opportunity Program, disclosed that $2.2 million, or 26 percent, of the CDBG funds were not spent economically, efficiently or effectively. Further, the City did not comply with governing regulations and other requirements including contractual provisions. We noted the work scope was reduced without a reduction in the contract price, contractor reimbursements were made for ineligible and unsupported costs and funds available to reduce total loan costs were not recovered. We also reported overdue property taxes, loans made even though the program objective of job creation was not achieved, and deficiencies in reporting accomplishments and expenditures. We recommended the City repay the program for any ineligible and unsupported costs. We also recommended the establishment of procedures for contract administration, project selection, loan underwriting and contractor reimbursement. (Report No. 92-FW-241-1004)

HOME PROGRAM

Report on Cash Management Information Development

Problem

Our audit of the Cash Management Information System (C/MIS) identified weaknesses in HUD's plan for managing and monitoring the Home Investment Partnership Act (HOME) particularly the security and control over the data maintained in the system.

Discussion

We conducted an audit survey of the development of C/MIS, which is to maintain a running account of funds for each HOME participant. Because of limited personnel, management has focused on the legally mandated annual review of participants, rather than on ongoing reviews of the program's progress and participants' monitoring of subgrantees. Because of the risk that HOME funds may not be used appropriately or comply with the grant agreement, we recommended that procedures be established to instruct HUD Field Offices and participants how to monitor fund expenditures.

As to the system itself, the potential for unauthorized users to access the system is significant. HUD requirements, such as the length of a password and limits on the number of attempts to access, have not been incorporated. Additional problems include allowing a user to switch between passwords and the lack of termination provisions when a user does not access the system for a specified period of time. This allows anyone access to the system when the authorized user is not at his/her terminal. HUD management responded that the contractor who developed this system will be instructed to implement access controls in accordance with HUD guidance.

Although not tied to the development of C/MIS, we reported an additional concern that program intent may not be met. Under the HOME Public Law, funds may not be used to defray any administrative costs. However, such costs are covered if the HOME activity is a CDBG eligible activity and they meet certain criteria. HOME-eligible activities include new construction and rental assistance which are not CDBG-eligible activities. Without HUD provided HOME administrative funds, participating jurisdictions may not enter into those activities or may not monitor and evaluate them. This could result in not meeting the intent of the HOME Program. (Report No. 92-AO-156-0806)

MULTIFAMILY HOUSING

HUD-INSURED MULTIFAMILY PROJECTS

HUD administers mortgage insurance programs that insure private lender financing of multifamily housing projects. The OIG has long been concerned about the administration of these programs. For more than a decade, we have reported the need to properly service multifamily insured loans in order to halt the diversion of millions of dollars of project assets as well as the steady deterioration of properties. Also, in 1987 HUD acknowledged that the misuse of assets and income from multifamily projects was a material weakness. Although HUD has, over time, improved its loan servicing procedures, our audits continue to disclose a pattern of ineligible or unsupported project costs. That pattern demonstrates that controls are not functioning as intended.

During the last 6 months, we issued several significant internal and external reports on HUD-insured multifamily projects. The internal audits addressed the activities of Loan Management Branches and the Housing Development Grant (HDG) Program settlement process. The external audits included five on owners/management agents, one HDG recipient and two coinsurance lenders.

SERVICING INSURED MULTIFAMILY PROJECTS

Chicago Region Loan Management Branches

Problem

The Loan Management Branches experienced difficulties servicing insured multifamily projects primarily because of insufficient staff resources and inadequate data systems. HUD Regional and Field Offices are responsible for administering the insured loan programs within their jurisdiction. The Field Offices are specifically required to assure that projects are physically well-maintained, and tenants have decent, safe, and sanitary housing. However, our audits of two Loan Management Branch activities in the Chicago Region, Detroit and Grand Rapids, indicate that the Field Offices are not always effective at doing so. We are currently reviewing activities in two other Regions and will issue a summary report to the Assistant Secretary in early 1993.

In June 1992, the Senate Housing Oversight Committee held hearings concerning the multifamily loan servicing function. Using our two audit reports as background, the Committee heard testimony from the HUD Deputy Secretary, a panel of former HUD officials who are now program participants, and our office. The basic thrust of the hearing was the systemic weaknesses at HUD that give rise to the less than adequate loan servicing by HUD staff. More specifically, the Department's lack of effective data systems, internal controls and adequate staff in terms of both numbers and expertise contribute to situations where the lack of action by loan servicers tends to increase the possibility of loan defaults and claim payments.

Discussion

Although the details of the two audits vary, the overall conclusions are the same--responsible parties owning or managing HUD-insured and -assisted housing projects were not providing decent, safe and sanitary housing for all tenants and HUD Field Office staff responsible for monitoring the physical condition of the multifamily projects were not assuring that all deficiencies were corrected. The impact of this situation is twofold. First, some tenants are living in substandard conditions and second, the repair costs to project owners, and potentially HUD, are increasing as the physical condition of the projects deteriorates. The Field Offices cite understaffing as the primary cause of the lack of monitoring.

We inspected 50 units in five Detroit projects and found that more than 75 percent of the units did not meet Housing Quality Standards and four of the five projects required extensive repairs. In addition, we found that some inspection reports did not identify the significant physical deficiencies in the properties and the Field Office did not always obtain written corrective action plans and follow up to assure the deficiencies were corrected. The ratio of projects to servicers in the Detroit Field Office was 105 to 1 as compared to a state housing finance authority where the ratio was 17 to 1. (Report No. 92-CH-112-0004)

During the Grand Rapids audit, we inspected five projects and 29 Section 8 assisted units in three of the projects and found the Section 8 units were not maintained in a decent, safe and sanitary condition and physical inspections were not adequate to assure that appropriate corrective action was taken. About 69 percent of the Section 8 assisted units inspected, 20 of the 29, did not meet the Housing Quality Standards. The project to servicer ratio in the

Grand Rapids Field Office was 71 to 1. (Report No. 92-CH-112-0003)

Owners and Management Agents

Problem

We continue to find that project owners and management agents violate their agreements with HUD by misusing or diverting project assets and income from project operations, even though they agree to operate projects in accordance with applicable laws, regulations, and program guidelines. As a consequence, both program beneficiaries and HUD are negatively impacted by increased loan defaults and physical deterioration of projects. We believe these problems will persist as long as there is insufficient project monitoring and an unwillingness to exercise available sanctions. During this reporting period, we reported on five significant examples of owner/management agent abuse.

Discussion

The audit of **Wilco Management, Inc., Nashville, Tennessee,** was performed at the request of the Associate General Counsel, Office of Program Enforcement. We found that Robert Willey, owner of Wilco Management and partial owner of four projects with HUD-insured 221(d) mortgages, diverted, in total, $4.7 million of project funds to his use or benefit after defaulting on the mortgages. In September 1990, we reported that Mr. Willey had diverted $2.7 million of project funds to his use or benefit. Our current audit identified an additional $2 million so diverted. Of the total $4.7 million, over $3.7 million was withdrawn by the owner in cash and an additional $965,000 was paid for owner and management agent obligations. (Report No. 92-TS-214-1013)

Interstate Realty Management, Inc., Marlton, New Jersey, paid more than $1.3 million for unauthorized interest on owner advances, excess management fees and incorrect agent personnel costs, but did not repay an outstanding HUD flexible subsidy loan of nearly $283,000. Interstate Realty Management, Inc., has an identity of interest with the projects' owners. Although the owner ostensibly provided about $630,000 in non-interest bearing owner advances, the advances were later restated as interest-bearing loans and as much as 20 percent cumulative interest was calculated and applied retroactively. The net effect of this activity was that advances of $630,000 yielded nearly $698,000 in interest. Not only did Interstate not have HUD's approval for such payments, but the payments depleted the excess cash that should have been used for the flexible subsidy loan payments. Interstate also collected over $477,000 in unallowable and unreasonable management fees and about $190,000 for personnel costs covered by the management fees. (Report No. 92-TS-214-1015)

The general partner and the identity of interest management company of **Heritage Pointe Apartments, Smyrna, Georgia,** a coinsured multifamily project assigned to HUD, withdrew more than $821,000 while the mortgage was in default. The mortgage on the apartments went into default in November 1989. At that time, the general partner and management company agreed to pay the interest and principal on the mortgage with funds from a reserve account and letter-of-credit and to use their own funds to make other payments. In lieu of foreclosure, the parties were also allowed to sell notes to raise nearly $500,000 in additional working capital. However, the general partner and management company did not make other required payments but did pay themselves more than

$821,000 for advances and accrued interest. In April 1991, when the property was assigned to HUD, the balance on the loan was $10.4 million. (Report No. 92-AT-212-1016)

Renaissance Apartments, Ltd., owner of **Lakes at Renaissance Park, Austin, Texas**, and V. I. Management, Inc., the management agent, used about $728,000 of property funds and tenant security deposits for loans to affiliated companies. The general partners in Renaissance Apartments, Ltd., and the owners of V. I. Management, Inc., are the same two people. In disregard of the mortgage and Regulatory Agreement, the owner/agent used $616,500 of project funds and $9,500 of tenant security deposits for loans to identity-of-interest firms, $68,700 of operating funds for their own business expenses and overpaid themselves $33,000 for payroll costs. The problems were not fully detected by HUD because the owner/agent refused to respond to HUD's requests for certified financial statements for 1990 and 1991. (Report No. 92-FW-212-1008)

Dallas Healthcare, Inc., owners of **Doctors Hospital, South Charleston, West Virginia**, not only paid ineligible and unsupported expenses totaling more that $727,000 but also did not properly control hospital operations. In 1989, HUD financed a $4.3 million mortgage with Dallas Healthcare. The owners not only defaulted on the mortgage three times, but paid ineligible and unsupported costs which deprived the hospital of the funds needed to meet mortgage payments and operating costs. The ineligible expenses, totaling nearly $570,000, consisted of disbursements to owners, payments of owners' costs and meal, entertainment and personal expenses. The unsupported costs of approximately $157,000 were primarily for payments to or for the owners. (Report No. 92-PH-212-1011)

Housing Development Grants

The HDG Program supports new construction or substantial rehabilitation in areas having a severe shortage of rental housing. HUD awards grants to states, cities, and counties responsible for implementing the program and ensuring compliance with HUD regulations. Grants are used primarily to provide partial financing to owners of rental projects.

Problem

While substantial efforts have been made to improve guidance and training for the HDG settlement process, the program is still not operating effectively and ineligible and unsupported costs are still being paid.

Discussion

Our audit of the HDG settlement process disclosed that critical actions promised and needed to address resource strategies in Field Offices have not been taken, are being eliminated, or have not been effective. For example, while the instructions for administering settlements provide adequate guidance, management controls and resources were not sufficient to ensure Field Office implementation of the settlement procedures. In addition, Regional Office HDG coordinators were not directly involved in bringing the projects to settlement, resulting in excessive HDG payments, misuse of identity-of-interest parties, and inadequate funding of equity requirements. We also found that the low priority assigned to the HDG Program by some HUD Regional and Field Offices contributed to delayed project settlements and inadequate action against grantees and owners who do not comply with settlement requirements. Our review of eight HDG-assisted projects disclosed nearly $5 million of ineligible and unsupported costs resulting in $2 million in excessive grants from a total of $17.9 million in authorized grants. (Report No. 93-HQ-116-0001)

Our audit also included a review of actions taken by HUD to correct previously reported material weaknesses in the HDG Program. In a separate report to the Chief Financial Officer we reported that a material weakness still exists in the implementation of controls at both the HUD Regional and Field Offices over the HDG settlement process. These deficiencies constitute a material weakness that should continue to be reported under the FMFIA. (Report No. 93-HQ-116-0802)

In addition to the project reviews conducted during the HDG settlement process audit, we reported on the **Bayamon Country Club, Bayamon, Puerto Rico.** GRAMCO Development Limited Dividend Partnership, the mortgagor for the project, claimed more than $2.1 million of ineligible costs and nearly $1 million of unsupported costs. HUD provided a $5 million maximum insured mortgage and a $6 million HDG for the project. We found that GRAMCO and the contractor, Construction Team Corporation, did not maintain subsidiary ledgers of disbursements to subcontractors, identify payments to subcontractors by project, or provide support for general contractor payments and cost certifications. The ineligible and unsupported costs claimed for the project included unrelated interest costs, duplicate appliance charges, unsupported architect fees, contractor general requirement costs, various subcontractor costs, overstated bond premiums, uncollected liquidated damages, and questionable disbursements after the cut-off date. If the unsupported costs are found to be ineligible, GRAMCO needs to provide an additional $2 million in project equity. (Report No. 92-AT-211-1018)

Coinsurance Lenders

Problem

Two HUD-approved coinsurance lenders, **TRI Capital Corporation** of San Francisco, California, and **Love Funding Corporation** of Washington, DC, were referred to the Mortgagee Review Board for sanctions because of loan underwriting irregularities.

Discussion

Section 223(f) of the National Housing Act authorizes HUD to insure mortgages for purchase or refinancing of existing multifamily housing. Section 244 of the Act authorizes HUD to coinsure such mortgages with an approved coinsuring lender. The coinsuring lender agrees to abide by HUD requirements and to perform HUD's normal loan underwriting functions.

Our audit of TRI Capital Corporation showed that 13 of 21 Section 223(f) loans reviewed were not properly processed and approved. In addition, more than one-third of the required physical inspections were not adequately documented. The improperly processed and approved loans, totaling $41.8 million, included 10 that were over-insured and three that were ineligible. The over-insured loans, totaling more than $32.5 million, resulted from overestimates of annual gross income and underestimates of annual expenses. The $9.4 million of ineligible loans were for properties where transient rentals and hotel amenities were provided. We recommended the Mortgagee Review Board impose sanctions against TRI Capital unless it entered into an agreement which requires reimbursing HUD for insurance claim payments, obtaining underwriting reviews of the loans not included in our review, agreeing to indemnify HUD for future losses from the overmortgaged coinsurance projects, and terminating the coinsurance contracts for ineligible projects. (Report No. 92-TS-219-1016)

Love Funding Corporation overmortgaged two of its four defaulted loans by at least $374,000, basically because it did not develop a quality control system to ensure its loan processing and servicing activities were in compliance with HUD requirements and its own policies and procedures. As a result of that system deficiency, various errors, omissions, or inconsistencies such as unreasonably high and unsupported occupancy rates used to estimate net income for debt servicing were not detected. In addition, procedures were not in place to review project financial reports and to report and resolve any deficiencies. We recommended the Mortgagee Review Board impose sanctions against Love Funding unless it executes indemnification agreements to reimburse HUD for losses resulting from underwriting errors and provides assurance that servicing procedures are implemented under its quality control plan. (Report No. 92-TS-219-1014)

ASSISTED HOUSING

HUD has programs for providing rental units or rent subsidies to low- and moderate-income families. These include the development and management of Conventional Public Housing and the Lower Income Rental Assistance Program (Section 8). During this reporting period, we focused our efforts on the Section 202 Elderly Housing Program; Section 8 assisted multifamily project bond refunding; and the Section 8 Loan Management Set-Aside Program.

SECTION 202

Direct Loans for Elderly Housing Projects -- Loan Servicing

Problem

HUD is not adequately monitoring and controlling Section 202 project residual receipts and reserve for replacement accounts - a condition we consider a material weakness under the Federal Managers' Financial Integrity Act (FMFIA).

Discussion

Capital advances are made to eligible private, nonprofit sponsors to finance the development of rental housing with supportive services for the elderly. The advance is interest free and repayment is not required as long as the housing remains available for very low-income elderly persons for at least 40 years. Rental assistance covers the difference between the HUD-approved operating cost per unit and the amount the resident pays.

Our multi-regional audit of HUD's loan servicing of elderly housing projects financed under Section 202 of the Housing Act of 1959 and subsidized under Section 8 of the U.S. Housing Act of 1937 encompassed 120 projects in the New York, Atlanta, San Francisco and Seattle Regions. We found that HUD is not: (1) using projects' residual receipts to reduce the Department's Housing Assistance Payments (HAPs) where appropriate; (2) enforcing the requirement that certain borrowers establish a separate residual receipts account; (3) monitoring borrowers to ensure they are requesting suspensions of deposits to their reserve for replacement accounts when appropriate; and (4) adequately restricting borrowers' access to reserve for replacement and residual receipt accounts and identifying project funds being shifted to project operations through ineligible withdrawals and transfers from these accounts. As a result of these conditions, we estimated that HUD disbursed at least $127 million of Section 8 subsidies (HAPs) to Section 202 project borrowers as of the cut-off date of our regional audits without having duly considered the level of these nonprofit-motivated borrowers' residual receipts and overfunded reserve for replacement accounts. We concluded that all or a part of these assistance payments may be unwarranted.

We 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 for such projects are appropriate and justified. As a result, HUD is approving rent increases for borrowers' projects without adequate supporting documentation from the borrowers to substantiate valid increases in their operating expenses. Also, HUD is not adequately documenting its changes to projects' budgeted income and expenses when processing rent increases for the projects.

Lastly, measures need to be taken by HUD to reduce its potential financial risk exposure in certain program areas because: (1) projects' bank accounts are subject to loss from bank failure; (2) HUD does not begin collecting principal payments on Section 202 loans when due; and (3) HUD is not adequately monitoring Section 202 property tax exemptions.

In addition to recommending that HUD's inadequate monitoring and controlling of Section 202 project residual receipts and reserve for replacement accounts be considered a material weakness under the FMFIA, we recommended improved procedural guidance for Field Offices in monitoring and controlling these accounts and issuance of regulations and procedures which address the problems cited in our report. The Assistant Secretary for Housing disagreed with 7 of our 12 draft audit report recommendations, including our recommendation that HUD's inadequate monitoring and control of project residual receipts and reserve for replacement accounts be considered a material weakness under FMFIA. In most cases, we believe the Assistant Secretary's basis for disagreeing was unsound and not supported. We requested a subsequent legal opinion from HUD's General Counsel which supports our position. (Report No. 93-HQ-111-0003)

Contractor Incentive Payments for the Elderly Housing Program

Problem

HUD procedures for computing contract incentive payments excessively rewarded contractors and did not prohibit incentive payments when fraud or misrepresentation was involved.

Discussion

Our review, conducted in the Atlanta Region, disclosed that HUD approved incentive payments which were due to inaccurate HUD cost estimates, not to contractor efficiencies. Incentive payments for savings in interest, taxes and insurance were supposed to be based on savings resulting from early completion of construction work by contractors. However, in 10 test cases we reviewed, 79 percent of the incentive payments resulted from HUD's excessive estimates of the costs for interest, taxes and insurance.

We also found that in three cases we reviewed, HUD allowed a contractor to receive incentive payments even though the contractor submitted certifications of project costs which were fraudulent or materially misrepresented. In these cases, HUD disallowed $555,000 for the projects, but the contractor recovered nearly $256,000 of the disallowance through increased incentive payments because the disallowed cost reduced the total contract cost. We have initiated an investigation of this contractor.

We recommended that the Assistant Secretary for Housing implement revised procedures: (1) for computing incentive payments for savings resulting from early contractor completion; and (2) to preclude incentive payments in cases involving fraud or misrepresentation. The Assistant Secretary disagreed with our findings and recommendations. (Report No. 92-TS-112-0015)

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 project owners. During this reporting period, we completed an interim report on the refunding of Section 8 bond financed projects and a multi-regional audit of the Section 8 Loan Management Set-Aside Program (LMSA).

BOND REFUNDING

Problem

Current policies and procedures relating to refunding hamper HUD's ability to realize hundreds of millions of dollars in savings.

Discussion

In the 1970's, when interest rates rose to unprecedented levels, most Section 8 subsidized projects around the country were financed with tax-exempt bonds. The Section 8 contracts for the tax-exempt financed projects were generally for 20 to 40 years. The contracts provided a subsidy for the difference between what tenants could pay pursuant to a HUD formula and the total costs of operating the project, including debt service. The subsidy provides the bulk of the cash for project operation, including the interest on construction debt.

When interest rates declined in the 1980's, HUD was interested in having the bonds refunded so that the Section 8 subsidies would be reduced by the savings in financing costs. HUD instructed State and local agencies to explore the feasibility of refundings. Also, in 1988 the Stewart B. McKinney Homeless Assistance Amendment Act of 1988 authorized State agencies to share 50 percent of the savings from the refundings. On April 21, 1992, the Act was amended to also allow local agencies to share in the savings, retroactively to January 1, 1992.

We performed an audit of bond refunding to determine if bond-financed Section 8 projects were being refinanced to reduce HUD's costs and if HUD realized the appropriate savings from such refunding. We completed a review of one bond refunding by the Oregon State Housing Finance Agency and evaluated the internal controls over the accounting for the proceeds over bond refunding transactions overall. An interim report was issued that identified weaknesses in the following areas:

- Controls over the accounting and collection of refunding savings were not adequate to ensure the prompt and accurate collection of over $316 million in accounts receivable due HUD.
- Unnecessary administrative fees and other allowances charged by agencies reduced the savings realized by HUD by $2.8 million in one State alone.

- Requirements were not adequate for ensuring all Section 8 projects are refinanced when savings can be realized and that HUD shares in those savings. Potential savings of $5.4 million were not realized by HUD in one refunding alone because the agency was not required to pass the savings along to HUD.

- Waivers of bond refunding regulations were not being published as required by law.

- The process for granting annual rent increases resulted in unnecessary costs to the Section 8 Program by application of an annual adjustment factor to rents that includes elements which are not subject to inflationary increases. We estimated that at least $200 million in such rent increases had already been granted.

These problem stem from ineffective regulatory requirements and inadequate policies and procedures for ensuring bonds are refunded for Section 8 projects where savings can be realized and the cost efficiency of the program is maximized. HUD program administrators reported to us that action is already being taken to establish an effective accounting for bond refunding savings, and that actions will be pursued to minimize costs to the program and, to the extent possible, to seek bond refundings for Section 8 projects not currently included in their efforts. (Report No. 93-HQ-119-0004)

Loan Management Set-Aside Program

Problem

Field Office errors in processing and evaluating project owners' LMSA Program applications resulted in over $10 million in questionable funding.

Discussion

We conducted our audit in the Philadelphia, Atlanta and Chicago Regions and HUD Headquarters. We reviewed 41 LMSA applications processed by nine HUD Field Offices and recommended for funding to Headquarters. Headquarters subsequently funded most of these applications based on information provided by the Field Offices. However, we found errors, omissions and inconsistencies in the Field Office processing of 29 (71 percent) of the 41 applications reviewed. Field Offices did not always comply with application processing regulations, verify and analyze information provided in applications, or complete required needs surveys and checklists consistently and accurately. We questioned the eligibility or excessive funding of 15 deficient applications, representing about $10.1 million in LMSA funding assistance.

The primary goal of the LMSA Program is to reduce claims on the Department's insurance fund by assisting those HUD-insured or HUD-held projects currently experiencing serious financial difficulties. These troubled projects often have problems common to many low-income multifamily housing projects, including escalating operating and maintenance expenses, poor management, and the inability of low-income tenants to pay their rent.

Three Field Offices we reviewed in the Chicago Region executed Housing Assistance Payments contracts before ensuring that LMSA units met HUD's Housing Quality Standards (HQS). In the case of one project, the Field Office knew about the HQS deficiencies but did nothing to stop the ineligible assistance payments. The cost to HUD will be approximately $772,000 for the three projects we inspected. In the Philadelphia Region, misunderstanding by one Field Office of HUD's instructions relating to determining applicants' compliance with HQS may have caused Headquarters to reject four applications which might otherwise have qualified for LMSA assistance.

We made several recommendations to the Office of the Assistant Secretary for Housing including requiring Field Office Managers to ensure that Housing Directors certify that LMSA applications have been reviewed for completeness and accuracy before applications are submitted to Regional Offices and Headquarters; providing training on LMSA application processing and evaluation techniques; and issuing instructions to Field Offices reemphasizing the need to ensure that units meet HQS before assistance is provided. The Assistant Secretary generally agreed with our findings and recommendations and specified actions that have been taken and those that will be taken to correct the deficiencies. (Report No. 92-TS-103-0012)

SINGLE FAMILY HOUSING PROGRAMS

HUD's Federal Housing Administration (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 Program's 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 6-month period, our audit work focused on HUD's Direct Endorsement Program. We performed in-depth reviews of five Field Offices, and limited reviews of five additional Offices. Our audit was designed to determine whether these HUD Field Offices were effectively administering the mortgage credit functions of the program and whether current program requirements ensure loans processed through the Direct Endorsement Program meet HUD requirements. Chapter 4, "Prevention and Other OIG Activities," discusses a quality control initiative that was a joint effort by Housing and the OIG to increase the awareness of underwriting quality and fraud detection issues.

During this reporting period, we also conducted audits of the Single Family Mortgage Insurance Program and the Exclusive Listing Broker Program.

DIRECT ENDORSEMENT PROGRAM ADMINISTRATION

Problem

Field Office implementation of program controls needs to be strengthened to protect HUD against the risks of unsatisfactory underwriting practices of lenders involved in the Direct Endorsement Program. The Offices' reviews of mortgage credit risk were not as effective as they should have been in disclosing lender underwriting problems. When underwriting deficiencies were detected, timely and effective actions were not taken to resolve the deficiencies.

Discussion

The Direct Endorsement Program began in 1983. It was designed to simplify and expedite the process by which mortgagees can obtain mortgage insurance endorsements from HUD. Approved lenders are authorized to underwrite and close loans without prior HUD review and approval. The loan packages are submitted to HUD and are subjected to a limited review to ensure they meet statutory requirements. If the review results in no deficiencies the mortgage insurance is granted. After the endorsement for insurance is granted, Field Offices perform in-depth reviews of a sample of loans to assess the quality of underwriting. If underwriting deficiencies are identified, Field Offices are to institute appropriate remedial action to either improve mortgagee performance or remove noncomplying mortgagees from the program.

We made recommendations to each of the three Regional Administrators-Regional Housing Commissioners specific to the conditions we found at the Field Offices in their respective Regions. The recommendations included: (1) developing and implementing written guidance covering the scope of the mortgage credit post-endorsement reviews; (2) setting more definitive standards for supervisory reviews of staff work; (3) providing training to staff involved in conducting post-endorsement reviews; (4) implementing uniform guidelines covering when and which remedial actions should be taken; and (5) improving Regional Office monitoring of Field Office operations in the areas of post-endorsement reviews and the imposition of sanctions.

We will be issuing a consolidated report to the Assistant Secretary of Housing-Federal Housing Commissioner which will discuss systemic problems identified during this multi-regional review. We also initiated a joint project, the Direct Endorsement Post-Endorsement Technical Review Project, with the Office of Housing as a quality control initiative to increase awareness of underwriting quality and fraud detection issues. Full implementation of the recommended programmatic changes resulting from the audits and the joint project should result in more effective use of limited staff resources and improve oversight of the Direct Endorsement Program. The Direct Endorsement Post Endorsement Technical Review Project is more fully discussed in Chapter 4.

A brief outline of the problems found in each of the Field Offices reviewed is set forth below.

Chicago Regional Office

The Chicago Office overlooked lender underwriting deficiencies when conducting post-endorsement reviews of HUD-insured loans and failed to review all of the initial loans submitted by new lenders after unconditional approval. As a result, HUD was not assured that all underwriting problems were identified so that corrective action could be taken. The Chicago Office also failed to ensure that lenders submitted the required pre-endorsement loan status documentation and there was no assurance that HUD staff adequately reviewed the documentation when it was provided. (Report No. 92-CH-121-0005)

Tulsa and San Antonio Field Offices

The quality of HUD Field Office reviews needs to be improved to ensure lenders approved for the Direct Endorsement Program satisfactorily underwrite mortgages insured by HUD. We attributed Field Office performance deficiencies primarily to a need for better guidance and supervision. Without quality reviews, unsatisfactory underwriting by lenders goes uncorrected which can lead to increased defaults and claims. We also found that sanctions were not imposed although poor underwriting was detected. Without appropriate and timely remedial action, HUD is placed at a greater risk that poor underwriting will lead to increased mortgage defaults with corresponding claims against the insurance fund. (Report No. 92-FW-121-0004)

Santa Ana and Phoenix Field Offices

Field Offices did not perform adequate post-endorsement reviews. As a result, errors and irregularities in the processing of loans were not identified and appropriate corrective action was not taken to improve underwriters' performance. These inadequate reviews were due to a lack of staff training and placing greater emphasis on numbers goals than on the quality of reviews. Field Offices had not implemented procedures to ensure that timely and effective sanctions were taken when appropriate. Additionally, there were no controls to ensure that the quality of a lender's underwriting improved prior to their removal from pre-closing review. As a result, poorly performing lenders were allowed to continue to underwrite loans without restrictions and individuals who had abused the program were allowed to continue participation. (Report No. 92-SF-121-0006)

PAYMENT OF CLAIMS FOR SINGLE FAMILY INSURANCE, WASHINGTON, DC

Problem

The Single Family Mortgage Insurance Claims Branch did not effectively and efficiently resolve suspended claims, process supplemental claims, or collect accounts receivable.

Discussion

Overall, the Single Family Mortgage Insurance Claims Branch processed mortgagee claims timely and correctly, and the contractor that reviewed mortgagee claims for eligibility was performing acceptably. However, improvements should be made to resolve suspended claims, process supplemental claims, and collect accounts receivable from mortgagees. Unpaid suspended claims valued at $171 million were pending manual reviews, there was a backlog of 6,200 supplemental claims and the Branch did not aggressively pursue collection of $19 million owed to HUD by mortgage companies. The Branch staff lacked written procedures regarding their duties, and failed to maintain adequate record-keeping systems to track claims and claim related problems. As a result, unnecessary interest costs have been incurred by not paying suspended claims promptly, and HUD has been denied the use of funds it is owed by not aggressively pursuing collection of accounts receivable.

We recommended that the Branch: (1) revise or eliminate computer edits based on dollar limits to eliminate the unnecessary suspension of claims; (2) pay supplemental claims if a cursory review indicates there is no missing information; (3) assure that staff in the Review and Compliance Sections are adequately trained and have desk guides to use when reviewing claims; (4) revise the initial demand letter to include the assessment of interest, penalties, and administrative costs; (5) assure collection letters are sent at required intervals; and (6) streamline the offset process to make it more efficient. (Report No. 92-TS-121-0013)

PILOT PROGRAM FOR ACQUIRED PROPERTY SALES - EXCLUSIVE LISTING BROKER (ELB) PROGRAM

Problem

Certain systems and procedures need to be improved at the Fort Worth and New Orleans Offices to ensure contract compliance and adequate performance by property disposition service contractors.

Discussion

The ELB Program is an alternative to Area Management Brokers (AMBs) for the management and sale of acquired single family properties. The program was designed to increase the private sector role and lessen

HUD staff workloads. Our review of the program's implementation in the Fort Worth Regional Office disclosed that properties were selling faster and at a lower cost in the ELB area than in areas where AMBs were used. Although the ELB in New Orleans was costing HUD less than AMBs, the ELB was not complying with contract terms and not performing as well as the AMBs. We concluded that both Offices needed to improve their monitoring of contracted property managers. We also concluded that neither Office was adequately complying with Departmental requirements to monitor and assess the performance of the firm supplying property appraisals under a national contract. As a result, in listing HUD-acquired properties for sale, the Offices were relying on appraisals which, in certain instances, were of poor quality and did not reflect the true market value.

In addition to the deficiencies cited above, we found that the New Orleans Office was not complying with established requirements of the ELB Program and ensuring that list prices were properly controlled and sale prices were reasonable. This resulted in: (1) inadequate protection of HUD's interests; (2) numerous contract violations; (3) negative affects on the program's goal of expediting property sales; and (4) no assurance that HUD was receiving a reasonable sales price for properties sold under the ELB contract. We recommended that the Regional Office ensure that Field Offices establish and implement certain systems and procedures to improve the monitoring of ELB and AMB operations and improve the quality of appraisals supplied by the appraisal contractor. We also recommended that the Regional Office give proper coverage of the ELB Program during its reviews of Field Office operations. (Report No. 92-FW-123-0003)

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, or withdrawal of FHA participation. During this reporting period the MRB took the following actions in response to recommendations made in previously issued audit reports.

NAME OF LENDER	STATUS OF ACTIONS TAKEN
American Western Mortgage Company Scottsdale, Arizona (Report No. 92-TS-221-1003) 1/29/92	Settlement Agreement that includes indemnification for HUD's claimed losses of \$78,018; agreement to indemnify HUD and/or not submit future claims in connection with 61 overinsured mortgages; and a \$200,000 payment to HUD to settle proposed administrative action against an affiliated building company.
Clarence A. Marshall Mortgage and Investment Company, Inc. Kansas City, Missouri (Report No. 90-TS-221-1017) 8/6/90	Proposed mortgagee approval withdrawal for 1 year.

NAME OF LENDER	STATUS OF ACTIONS TAKEN
First Commerce Mortgage Corporation Independence, Ohio (Report No. 92-TS-221-1006) 3/6/92	HUD-FHA mortgagee approval withdrawn.
Federated Mortgage Associates, Inc. Pembroke Pines, Florida (Report No. 92-TS-221-1012) 3/31/92	HUD-FHA mortgagee approval withdrawn.
Freedom Mortgage Corporation Independence, Ohio (Report No. 92-TS-221-1007) 3/17/92	Issued letter of reprimand.
Sibley Mortgage Corporation Rochester, New York (Report No. 92-TS-221-1011) 3/31/92	Negotiating settlement agreement in lieu of administrative sanction.

The Board also withdrew the HUD-FHA mortgagee approval of Heritage Mortgage Company, Chicago, Illinois, for failure to comply with the terms and conditions of an agreement that was entered into to settle our 1990 audit of the company. The withdrawal was also based on other, more recent, violations of HUD-FHA single family program loan origination requirements identified by the Office of Housing's Monitoring Division. (Report No. 90-TS-221-1015)

Mortgage Lenders Reviewed Through Joint Efforts

During January and February of this year, we teamed with the Office of Housing's Monitoring Division for a targeted review of home mortgage lenders in Southern California. Eight lenders were selected for review because of their high claims and mortgage default rates, and indicators of possible violations of HUD-FHA lending requirements. Four of those lenders were referred to the Mortgagee Review Board with recommendations for administrative sanctions because of the severity of problems uncovered. The other four lenders were also cited for violations of HUD-FHA requirements, but of a lesser magnitude. Housing is working to ensure proper corrective action is taken by these lenders to resolve all findings. The Board has entered into a settlement agreement with one of these lenders in lieu of imposing an administrative sanction. Under the settlement, the lender has: paid HUD $144,799 in indemnification of HUD's insurance claim losses on eight loans; taken corrective action to assure compliance with HUD-FHA requirements; and agreed not to submit claims on seven other loans.

The following table provides an overview of the status of these eight reviews.

MORTGAGE COMPANY	RESULTS OF REVIEW
California Financial Corporation Colton, California	Referred to MRB for administrative sanction and/or civil money penalty. Board action is pending.
Finlay Financial Corporation Cerritos, California	Referred to MRB for administrative sanction and/or civil money penalty. Board action is pending.
The Mortgage Network, Inc. Anaheim, California	Referred to MRB for administrative sanction and/or civil money penalty. Board action is pending.
Marble, George and McGinley, Inc. Orange, California	Referred to MRB. Settlement agreement accepted in lieu of administrative sanction.
Directors Mortgage Loan Corporation Riverside, California	Findings letter sent by Monitoring Division.
Occidental Mortgage Corporation West Covina, California	Findings letter sent by Monitoring Division.
Western Bank Mortgage Company Costa Mesa, California	Findings letter sent by Monitoring Division.
Performance Mortgage Company Santa Ana, California	Findings letter sent by Monitoring Division.

The joint review also identified 13 individuals who participated in schemes to induce HUD to provide insurance on ineligible loans. The HUD Offices in Los Angeles and Santa Ana, California, are taking, or have already completed, actions to deny twelve individuals further participation in HUD's housing programs. Information developed on the thirteenth individual was turned over to the FBI for consideration in their previously started investigation of this individual.

DEFICIENT LOAN ORIGINATION PRACTICES, Commonwealth Mortgage Company of America, Philadelphia, PA

Problem

As a result of the company's deficient loan origination practices and failure to provide necessary oversight to enforce minimal underwriting standards, HUD expects mortgage insurance claims to exceed $1.9 million.

Discussion

The mortgagee did not use prudent lending practices in underwriting and originating HUD-insured loans processed under the Direct Endorsement Program. Failure to adhere to minimum underwriting standards were evidenced by:

- using invalid compensating factors in approving loans with high monthly housing expense and/or total fixed payment ratios;
- approving mortgagors with poor credit histories;
- failing to verify mortgagor funds for closing the loans;
- making loans that exceeded maximum insurable limits set by HUD;
- failing to perform adequate property appraisals;
- failing to verify if mortgagors had stable incomes; and
- failing to conduct face-to-face interviews with mortgagors.

The mortgagee discontinued operations in Philadelphia during our audit and the Resolution Trust Corporation has taken control of the company. We recommended that the Department pursue affirmative litigation to recover losses on approximately 40 loans that were deficiently underwritten and originated. (Report No. 92-TS-221-1017)

FINANCIAL STATEMENT AUDIT

Problem

HUD's internal control structure and systems do not provide reasonable assurance about whether amounts included in the Department's consolidated financial statements are fairly stated in all material respects. In addition, the effects on the financial statements of uncertainties regarding FHA's Mutual Mortgage Insurance Fund's ability to achieve capital ratio requirements and the magnitude of additional losses that might be incurred by FHA's General Insurance Fund, are unknown. As a result of these factors, Price Waterhouse and we were unable to express an opinion on the Department's consolidated financial statements.

Discussion

Under the provisions of the CFO Act of 1990, OIG is required to conduct, or select an independent external auditor to conduct, an annual audit of HUD's financial statements. To fulfill this responsibility, we contracted with Price Waterhouse to conduct the audit of the Department's Fiscal Year 1991 consolidated financial statements. We monitored Price Waterhouse's progress at key points and performed other procedures as we deemed necessary to ensure that their work was performed in accordance with *Government Auditing Standards*. We concur with Price Waterhouse's audit findings.

In addition to disclaiming an opinion on the financial statements, our report presented a total of 16 internal control reportable conditions, 8 of which were also classified as material weaknesses. Seven of the reportable conditions were previously reported in the FHA and GNMA audits which were completed during the last reporting period. Four of the nine "non FHA/GNMA" reportable conditions were also reported as material weaknesses. These focus on the need for HUD to:

- improve automated financial systems to comply with Section 4 of the

Federal Managers' Financial Integrity Act (FMFIA);

- improve the disbursement review process for Section 8 Housing Assistance Payment requisitions;

- improve monitoring of multifamily housing projects; and

- improve monitoring of public housing agencies.

The remaining "non FHA/GNMA" reportable conditions pertain to: developing more meaningful performance measures, developing a systematic process for determining staffing needs, improving monitoring of CDBG recipients, refinancing Section 235 mortgages with high interest rates, and implementing adequate access controls over HUD's major financial systems. Recommendations addressing corrective actions are provided throughout the report.

On compliance with laws and regulations, Price Waterhouse reported that HUD is not in compliance with Sections 2 and 4 of FMFIA.

- Section 2 requires that an agency's internal controls provide reasonable assurance that obligations and costs are in compliance with applicable laws, that property and assets are adequately safeguarded, and that revenues and expenditures are properly and reliably accounted for and reported.

- Section 4 requires that accounting systems conform to the accounting principles and standards mandated by the Comptroller General of the United States.

The Chief Financial Officer generally concurred with the findings and recommendations. (Report No. 92-TS-179-0011)

HOMELESS PROGRAMS

Title IV of the Stewart B. McKinney Homeless Assistance Act, as amended, established the Supportive Housing Demonstration Program (SHDP) and the Emergency Shelter Grants Program. The SHDP is comprised of two elements: Transitional Housing Program and the Permanent Housing for Handicapped Homeless Program. Transitional Housing provides temporary housing and supportive services, for a period of no more than 24 months. Permanent Housing provides long-term housing and supportive services. The Emergency Shelter Grants Program provides grants for safe, sanitary shelter, supportive services and other assistance to homeless people and families. This is a cost-shared program. By regulation, a grantee must match the funding provided by HUD with an equal amount of funds. During this reporting period we focused on the Transitional Housing Program, the Permanent Housing for Handicapped Homeless Program, and the Emergency Shelter Grants Program. The following are the major audits of these programs.

FAMILY LIFE EDUCATION, INC. SUPPORTIVE HOUSING DEMONSTRATION PROGRAM

Problem

Approximately 55 percent of the families assisted by Family Life Education, Inc., of

Cambridge, Massachusetts, were not homeless. They had been living in overcrowded housing when they were accepted into the program.

Discussion

The intent of the Transitional Housing Program is to assist homeless families. Family Life Education, Inc., a nonprofit corporation, was formed to operate a transitional housing facility for homeless persons. In 1988, HUD awarded a $1.1 million grant which provided for rehabilitation and operational costs. We found Family Life did not fully meet the intent of the program since approximately 55 percent of the families it assisted were not homeless but were living in overcrowded housing contrary to HUD program guidelines. We recommended requiring Family Life to strengthen its procedures and redesign the program to include outreach in order to identify eligible homeless families. While the grantee did not fully agree with our finding, they initiated a corrective action plan which, if fully implemented, should cure the deficiency. (Report No. 92-BO-259-1009)

Permanent Housing for Handicapped Homeless Program in the State of California

Problem

Program funds were prematurely drawn and the grantee did not monitor, provide adequate technical assistance, or obtain reports from subgrantees.

Discussion

The State of California, in administering the Permanent Housing for Handicapped Homeless (PH) Program, prematurely drew down over $1.6 million because it did not have procedures to ensure that their subgrantees requested funds only for immediate cash needs. At the time of our audit, over $198,000 of the premature drawdowns had not been expended for immediate cash needs. In addition, the State did not monitor or provide adequate technical assistance to their subgrantees. We found numerous deficiencies involving fund matching and cost eligibility, incorrect rents, and verifications of resident incomes on our site visits to the subgrantees. Our recommendations included establishing the necessary procedures and systems to assure that these deficiencies do not continue to occur. (Report No. 92-SF-259-1011)

As a result of our audit of the State's PH Program, we found that HUD's San Francisco Regional Office improperly approved over $2.5 million in drawdowns requested by the State. Approvals were based on the assumption that the State would not request a drawdown without supporting documentation. This was an erroneous assumption, resulting in the government's incurring unnecessary borrowing costs for the funds. We recommended that the HUD program office be required to comply with HUD regulations and instructions for any future drawdown requests. (Report No. 92-SF-156-0802)

San Jose, CA Emergency Shelter Grants Program

Problem

Unmatched funding and unsupported expenditures affected the administration of the San Jose, California Emergency Shelter Grants Program.

Discussion

The San Jose City Council established the Housing Department to confront the growing shortage of affordable housing. The Department received from HUD over $550,000 from 1987 to 1991. We found that the City could not provide evidence that the 1990 grant totaling $166,000 was properly matched and was used to support eligible activities of a subgrantee. This occurred because City officials were not sufficiently familiar with the program requirements and resulted in a reduction of assistance to the homeless. The City provided evidence that the new program director has the pertinent Federal regulations, agreed that the subgrantee activities were ineligible and would provide documentation to support its activities involving matching costs. If this is not done, the City should reimburse HUD so that HUD pays no more than one-half of the costs for each grant year. All ineligible costs should also be reimbursed.

The City's controls over its subgrantee award process need improvement. They lacked formal criteria for evaluating applications and adequate documentation of the award decision, and unnecessarily limited solicitation for subgrantees. As a result, assurance that the most worthy activities were funded was reduced and the fairness of the award process was subject to criticism. Insufficient emphasis on internal controls also caused reduced assurance that the monitoring was adequate or matters raised from on-site visits were resolved. Written policies and procedures need to be developed and implemented. City officials indicated that they would consider implementing our recommended changes. (Report No. 92-SF-251-1010)

AUDIT STATISTICS

	04/01/92-09/30/92	FY 1992
Cash Recoveries[1]	$16,974,066	$40,906,310
Cost Efficiencies Realized[1]	$9,603,034	$22,922,902
Commitments to Recover Funds[1]	$44,968,613	$90,636,976
Cost Efficiencies Sustained[1]	$8,741,921	$18,568,126
Suspensions of Persons/Firms Doing Business with HUD	16	34
Debarments of Persons/Firms Doing Business with HUD	5	19
Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board	6	9
Subpoenas Served	23	35
Material Weaknesses Reported	3	4
Reports Issued:		
• Internal Audit Reports	23	56
• External Audit Reports	68	139
• Audit-Related Memoranda Issued	25	49
• Non-Federal and other Agency Reports Accepted	2,596	5,459

[1]Includes amounts due to HUD program participants

Results of Investigations
for April 1 through September 30, 1992

	OIG/Joint Cases	Others Alone	Total 4/01/92-9/30/92	Fiscal Year 1992
Cash Recoveries/Savings to HUD			$406,960	$839,888
Other			$348,251	$7,269,235
Court-Ordered Restitution			$9,562,582,	$44,023,117
Total Cash Recoveries/Savings			$10,317,793	$52,132,240
Commitments to Recover Funds			$322,982	$506,732
Cost Efficiencies			0	$173,484
Total Fines Levied	$270,681	$549,633	$820,314	$1,312,107
Indictments	254	31	285	556
Convictions	118	33	151	345
Investigations Closed	344	175	519	866
Total Years Suspended/Probated Sentences	286	119	405	980
Total Year of Prison Sentences	94	56	150	346
Suspensions of Persons/Firms Doing Business with HUD			57	137
Debarments of Persons/Firms Doing Business with HUD			27	99
Personnel Actions Initiated Against HUD Employees			21	34
Subpoenas Served			92	175

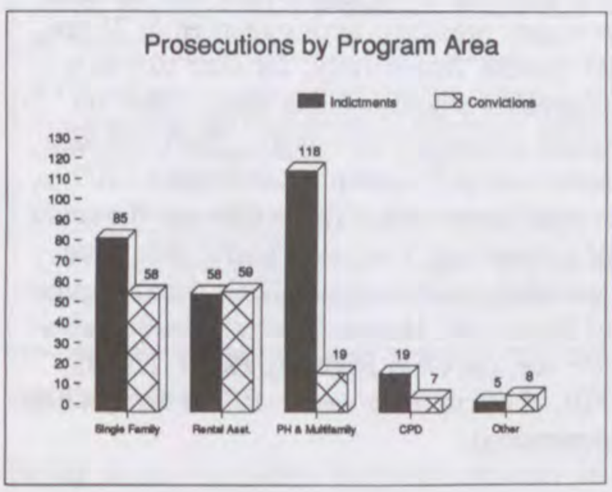
Investigations Pending as of 9/30/92

OIG	772
FBI/Other	362
U.S. Attorney	219
Total Investigations Pending	1,353

Chapter 2 - Investigation

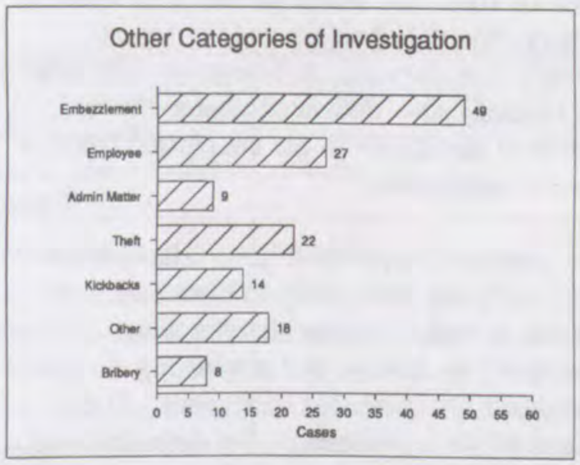
The Office of Investigation is responsible for pursuing allegations of irregularities or abuses in HUD's programs and activities, as well as violations of law or misconduct on the part of HUD employees. In carrying out these responsibilities, we work very closely with other Federal agencies and State and local law enforcement officials.

Our resources have been focused on fraud through the submission of false statements to obtain Federal assistance. We opened 423 investigations with 276 involving false statements. The majority of the problems in the Single Family Programs have been with loan origination and equity skimming. The primary offenders are real estate investors, speculators, and brokers. We also investigated public housing agencies/Indian housing authorities and the Community Development Block Grant Program where the foremost problem is management's inadequate controls that allow such crimes as embezzlement to occur.



Overall, we had 285 indictments and 151 convictions during the past 6 months.

The other categories of investigation are:



SINGLE FAMILY HOUSING

Fraud in loan origination is the largest category of investigation in Single Family Housing Programs. Other problem areas are equity skimming and strawbuying. Individuals received over 62 years imprisonment and 127 years of probation. In addition, fines totaled over $185,000 and court-ordered restitution amounted to over $5.5 million.

LOAN ORIGINATION

Eligibility for HUD-insured home mortgages depends on various criteria including income, the down payment, and owner occupancy. Fraud in the origination of these loans usually involves false statements being made to HUD in order to meet the 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:

In Chicago, Illinois, a theft scheme involved approximately $l million in mortgage insurance claims diverted to personal accounts of officials at a Chicago lender. The U.S. Treasury checks were identifiable with single family insurance fund claims made payable to lending companies. Nine defendants have been charged in this scheme by a Federal grand jury after a joint investigation by the OIGs of HUD and the Department of Veterans Affairs, Postal Inspectors and the United States Secret Service. A December 1992 trial is expected. One defendant pled guilty and agreed to participate in the anticipated trials of the co-conspirators.

The president/owner of a Long Island, New York company pled guilty to one count in a scheme in which he was charged with conspiracy to defraud and originating fraudulent HUD-insured mortgages. In the course of the investigation, the defendant was identified in the origination of in excess of $3 million in fraudulent mortgages, of which $2.6 million were HUD-insured.

As a result of a joint investigation by HUD-OIG, the FBI, and local police officials, three individuals pled guilty to one count each of submitting false statements to HUD in a loan origination/arson scheme in Atlanta, Georgia. The defendants were charged with 21 counts of submitting false statements to HUD in order to obtain FHA-insured mortgages and one count of conspiracy to defraud HUD. The scheme involved properties which have gone into default and have resulted in a loss to HUD of over $3 million. Several of the properties were later burned to collect the insurance benefits. Three additional defendants were indicted on September 2, 1992, on State charges relating to the arson of the FHA-insured properties.

As an outgrowth of a joint investigation with the Postal Service, the Internal Revenue Service and the FBI into FHA fraud on Long Island, New York, to date 24 individuals have either pled guilty or been indicted, and restitution and fines have totaled over $24 million. Investigations have identified approximately 75 fraudulent mortgages valued at over $10 million. The schemes involve fraudulent mortgage and real estate activity by banks and mortgage company officials, real estate agents, attorneys, appraisers, and others, causing large financial losses to both HUD and Federally insured financial institutions. During this period, two officials at a mortgage company and a title company were indicted for laundering money for organized crime figures, receiving and paying $500,000 in kickbacks for title and mortgage business, and defrauding HUD, financial institutions, and private investors out of over $25 million. In addition, a New York real estate investor pled guilty to conspiring with a mortgagee in evading income taxes by investing $100,000 in mortgages. The mortgagee structured the investor's money to obscure the source of the funds.

In Sarasota, Florida, a former property investor was sentenced to 36 months probation and $30,000 restitution for her involvement in fraudulent origination of single family home loans and the misuse of social security numbers involving approximately four properties.

A Cleveland, Ohio loan officer and mortgage company president were sentenced to 21 and 24 months, respectively, for their part in a scheme to originate single family loans on behalf of unqualified buyers. Each was also sentenced to 2 years probation and a $300 special assessment. The action was the result of a combined State and Federal task force operation which included OIG, the Department of Health and Human Services, the Secret Service, the Ohio Highway Patrol, and the FBI. Loss to the government has not yet been determined.

An attorney/mortgagor in Norfolk, Virginia, was sentenced to 1 year imprisonment on bank fraud charges for making false statements on at least 28 FHA mortgages. Net loss in mortgage insurance was $550,000.

A Nashville, Tennessee builder was sentenced to 21 months imprisonment, 3 years probation, and ordered to pay $210,000 in restitution for submitting false sales contracts on HUD-insured properties.

The following table describes other examples of cases for this reporting period:

DESCRIPTION	STATUS	OTHER AGENCIES
A MN property investor misrepresented his true personal income in order to qualify for three insured loans resulting in losses to HUD of approximately $153,000.	Guilty	
A VA attorney made false statements to HUD on 28 different FHA-insured mortgages. Loss to HUD exceeds $1.5 million.	Pled Guilty	
The President of a SC mortgage company forged the names of HUD employees on FHA Firm Commitments for 16 mortgages, causing the banks to incur a loss of over $70,000 to refinance the loans.	Pled Guilty	FBI
In FL three individuals were indicted for arson on 6 FHA-insured properties. Two of these individuals were previously indicted for submitting false information to obtain FHA-insured loans on 21 properties	Indicted	
A FL investor was involved in a conspiracy to fraudulently obtain two FHA loans. The indictment ordered the forfeiture of one of the properties and $330,000.	Indicted	FBI
A NY attorney submitted false Federal tax returns which resulted in the issuance of a $117,000 HUD-insured mortgage. A NY mortgage broker was involved in this same scheme which included failing to report a pre-existing mortgage on an application.	Pled Guilty Convicted	FBI
A FL real estate broker, a mortgage broker and a CPA were ordered to forfeit $98,839 due to fraudulently obtained HUD-insured loans.	Indicted	FBI
An OK speculator assumed at least 16 properties which later went into foreclosure at an estimated loss in excess of $520,000.	Indicted	FBI
A CA real estate agent conspired with two partners to circumvent HUD regulations by transferring eight triplexes among his partners and relatives, and getting new HUD loans at inflated values. The properties were later transferred to a fourth partner who defaulted on the loans resulting in a $380,000 loss to HUD. He also pled guilty to a similar scheme involving conventional loans.	Pled Guilty	
A NY loan officer originated over $1 million in fraudulent mortgages during his employment with a savings bank. His plea included the receipt of over $25,000 in kickbacks from a title company.	Pled Guilty	

Equity Skimming

Equity skimming occurs when rent receipts are taken or skimmed by an investor/owner or assumptor of a home with a HUD-insured mortgage who does not make mortgage payments. When the property goes into default, HUD must pay the balance of the mortgage to the lender. For example, an investor in Fresno, California, assumed HUD-insured properties and collected rent on the properties while allowing the mortgages to go into default. The loss to HUD totaled over $417,000. The investor has been indicted by a Federal grand jury.

The following table describes other examples of cases for this reporting period:

DESCRIPTION	STATUS	OTHER AGENCIES
Two IL property investors assumed 17 mortgages, which were insured by HUD and guaranteed by Department of Veterans Affairs, and did not make the mortgage payments. HUD also paid Sec. 8 subsidies on some of the units.	Indicted	USPS, DVA
After purchasing several homes in LA a real estate investor converted over $100,000 from sellers and their tenants to his personal use instead of paying mortgage notes.	Indicted	
A property manager was indicted for using a power-of-attorney to assume multiple VA-guaranteed and FHA-insured properties in CO in the name of an investor without his knowledge. The properties were rented but no mortgage payments were made, resulting in losses of $283,000 to HUD.	Indicted	DVA

STRAWBUYING

Strawbuying is the use of a stand-in buyer who qualifies for a HUD-insured mortgage, but has no intention of occupying the property or making payments. The strawbuyer is usually paid by the agent, real estate company, or investor. When the mortgage is foreclosed, HUD must pay off the insured loan. For example: a Long Island, New York attorney was charged in an 11-count indictment on charges of both HUD and bank fraud. The indictment charged the attorney with conspiring with others in the origination of 15 HUD-insured mortgages to strawbuyers, valued at $1.2 million. The strawbuyers did not qualify for the mortgages or make down payments. The attorney certified in official HUD documents that the downpayments had been made. The strawbuyers then deeded the properties back to the attorney and his co-conspirators and were paid up to $1,000 for each mortgage they "assisted" in obtaining. The properties eventually went into default. A trial is scheduled for the end of 1992.

The following table describes other examples of cases for this reporting period:

DESCRIPTION	STATUS	OTHER AGENCIES
A MN mortgage company president was indicted for her part in a strawbuying scheme that involved at least $100,000 in losses to the government.	Indicted	
A VA developer was indicted on various charges for using strawbuyers and submitting false documents in order to acquire at least 10 townhouses in Chesapeake, Va. His partner has been convicted of fraud.	Indicted	FBI
An AZ real estate agent and self-proclaimed minister was charged in a scheme in which the agent solicited strawbuyers to purchase properties with false information, then conveyed the properties to the minister and his church. Subsequent default and foreclosure resulted in a HUD loss of approximately $215,000.	Indicted	IRS

MULTIFAMILY HOUSING

HUD insures mortgages to finance construction or rehabilitation of multifamily housing projects. Areas of fraud and mismanagement include contracting improprieties, embezzlement, equity skimming, bribery, and extortion. The majority of the multifamily housing cases involved management agents. One case resulted in an agent being sentenced to perform 240 hours of community service, 5 years probation, and to pay $15,000 in court-ordered restitution.

Examples of other types of cases include a former real estate agent who pled guilty to defrauding the Department of $270,000 through an equity skimming scheme of acquiring multifamily properties, renting the properties and collecting rent and not making mortgage payments. Another case involved a former bookkeeper for a management agent who was sentenced to 6 months confinement, 5 years probation, 240 hours of community service, and ordered to pay $15,000 in restitution for embezzling over $56,000 from a rental agent managing HUD properties.

PUBLIC HOUSING

Local public housing agencies and Indian housing authorities (PHAs) develop, own and operate public housing developments. HUD furnishes technical assistance in planning, developing and managing these developments and gives three kinds of financial assistance: funding for development costs, annual contributions for operating subsidies, and modernization funds. Examples of the types of cases include: two former employees of the PHA in Florence, South Carolina, who pled guilty to conspiring to embezzle over $40,000. They were previously indicted along with three Section 8 tenants who conspired to fraudulently obtain Section 8 rental assistance benefits. The former executive director of the Mound, Minnesota Housing and Redevelopment Authority pled guilty to the embezzlement of $50,000. A PHA employee in Memphis, Tennessee, was sentenced to 6 months of confinement and 3 years probation for mail fraud and bribery relating to the sale of thermostats to the Housing Authority. A former executive director of the American Falls, Idaho PHA was sentenced to 60 days confinement, 180 hours of community service and $13,000 in restitution for theft of funds and misuse of PHA property.

The following table describes other examples of cases for this reporting period:

DESCRIPTION	STATUS	OTHER AGENCIES
A SC PHA manager embezzled $62,000 by issuing checks to 17 fictitious tenants and two fictitious landlords he created.	Indicted	Greenville Police Dept.
A former Sec. 8 coordinator for an IL PHA diverted over $78,000 in PHA funds for personal use.	Indicted	District Attorney for Perry County
20 individuals were indicted for narcotics violations at public housing complexes in the area. This brings the total to 26. This is part of the Weed and Seed Program sponsored by the Department of Justice.	Indicted	

RENTAL ASSISTANCE

Low- and moderate-income families are eligible for rntal asistance subsidies by virtue of their income and family status. The most repetitive crime in the Rental Assistance Programs is falsifying income and employment information on both the original application and the recertification forms.

In an effort to curtail this type of activity in central Illinois, Operation Welcheat, a combined Federal/State multiagency task force, was designed to investigate fraud against the government. In its continuing investigation 182 individuals have been indicted since it began 3 years ago. Losses to the government total nearly $1.5 million. Nineteen individuals, including three State employees, were indicted during this reporting period.

The following table describes examples of cases for this reporting period:

DESCRIPTION	STATUS	OTHER AGENCIES
Husband and wife Section 8 tenants from IA concealed employment and income, resulting in over $19,000 in excess assistance.	Indicted	
A Section 8 tenant violated the GA State Racketeering Influenced Corrupt and Organization Act by making false statements to HUD to obtain over $23,800 of assistance.	Indicted	HHS, Georgia Bureau of Investigation
An OH Section 8 tenant failed to disclose significant earnings in order to get rental assistance totalling over $48,000 over a 10-year period.	Pled Guilty	
A WI Deputy Sheriff failed to report income to get rental assistance through the Bad River Indian Housing Authority. Subsidies amounted to over $22,000.	Indicted	FBI
A former CA Sec. 8 recipient concealed the fact that she was the owner of her subsidized unit and that she was married to a person who was employed by the State. Ineligible payments amounted to over $32,000.	Charged	
Failure to report employment as a parole officer with the State of California resulted in a Sec. 8 recipient receiving over $22,000 in rental assistance.	Charged	
The owners of a demolished OH multifamily building collected over $40,000 in rental assistance for ghost tenants.	Indicted	
A TN Section 8 tenant received over $24,000 in ineligible rental assistance. He is an illegal alien and is awaiting trial on immigration fraud, passport fraud, and education grant fraud as a result of the OIG investigation.	Indicted	
A Veterans Affairs employee in IL failed to report her Federal income, receiving $45,000 in overpaid assistance.	Indicted	

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. Crimes encountered with the CDBG Program include falsified claims by contractors and embezzlement or misconduct by employees. Examples of these types of cases include: a contractor who was sentenced to 2 years probation and 100 hours of community service following his plea of guilty to mail fraud relative to the submission of false performance and payment bonds in an effort to obtain project construction contracts valued at $275,000.

Another case involved a rental rehabilitation contractor who was sentenced to 6 months in confinement, 5 years probation, and ordered to pay restitution of $48,000 for his role in falsifying repair invoices in a local CDBG Program. A former executive director was sentenced in Philadelphia, PA, to 5 years probation, a $4,000 fine and $37,188 in restitution for diverting $327,313 in Federal housing funds for his personal and political use.

The following table describes other examples of cases for this reporting period:

DESCRIPTION	STATUS	OTHER AGENCIES
A NY City employee, serving as engineer for several communities, was involved in purchasing property and reselling it at inflated prices to the City, without revealing the ownership. One of the properties, acquired for $45,000, was purchased by the Town of Southhampton for $108,000, and paid for with HUD CDBG funds.	Indicted	
A former bookkeeper for a CO Emergency Housing Coalition embezzled approximately $15,000. The Coalition is a HUD-funded, non-profit group which provides shelter for the homeless.	Pled Guilty	

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. During this reporting period, a joint investigation with the FBI charged a prominent Washington, DC attorney in a $2 million conspiracy to defraud a now defunct Long Island, New York bank, its wholly owned subsidiary which was a HUD-approved lender, and a GNMA-approved servicer. The defendant conspired with the bank owner/officer to defer $510,000 in interest payments due the bank on a $12 million loan. Further, the defendant assisted the bank owner in illegally obtaining a $1.3 million personal loan from the bank. As part of the plea agreement, the defendant has forfeited property, and his law firm has agreed to repay $24 million to the Federal Deposit Insurance Corporation for claims incurred as a result of a civil cuit for his participation in improper activities regarding the Long Island bank.

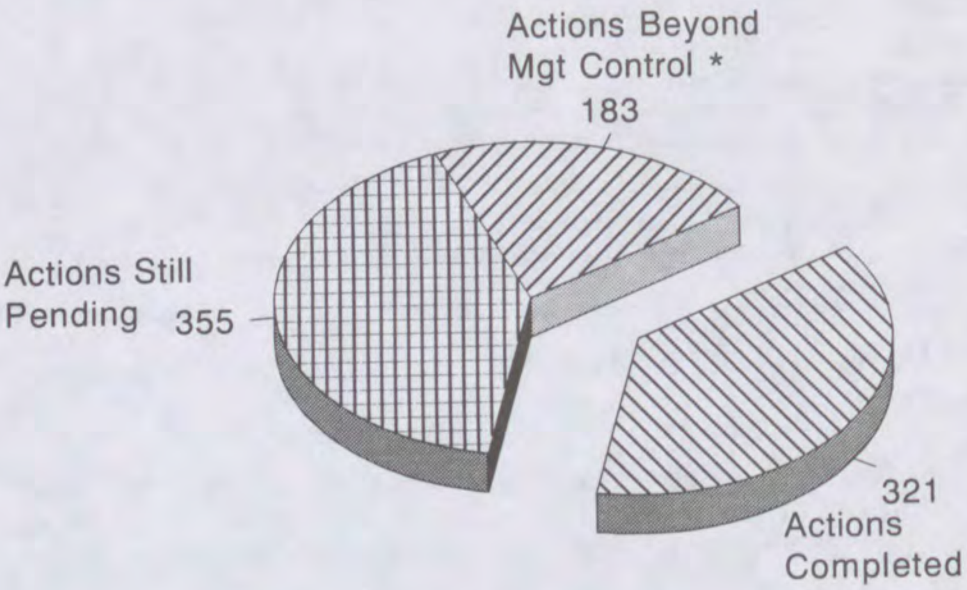
The president of a Dallas, Texas mortgage company was sentenced to 46 months in prison, 3 years probation, and a $100 fine for wire and bankruptcy fraud regarding the illegal transfer of over $2 million of company assets, which included a portfolio of GNMA funds.

Chapter 3 - Audit Follow-up

INTRODUCTION

This Chapter summarizes the Department's progress in implementing corrective actions stemming from significant OIG audits reported in previous Semiannual Reports to Congress. While certain corrective actions are long-term in nature, timely and effective improvements in some areas were impacted by a lack of sufficient resources and the President's moratorium on new regulations. The chart below shows the progress the Department has made on recommendations described in previous Semiannual Reports.

Progress on Significant Recommendations Described in Previous Semiannuals

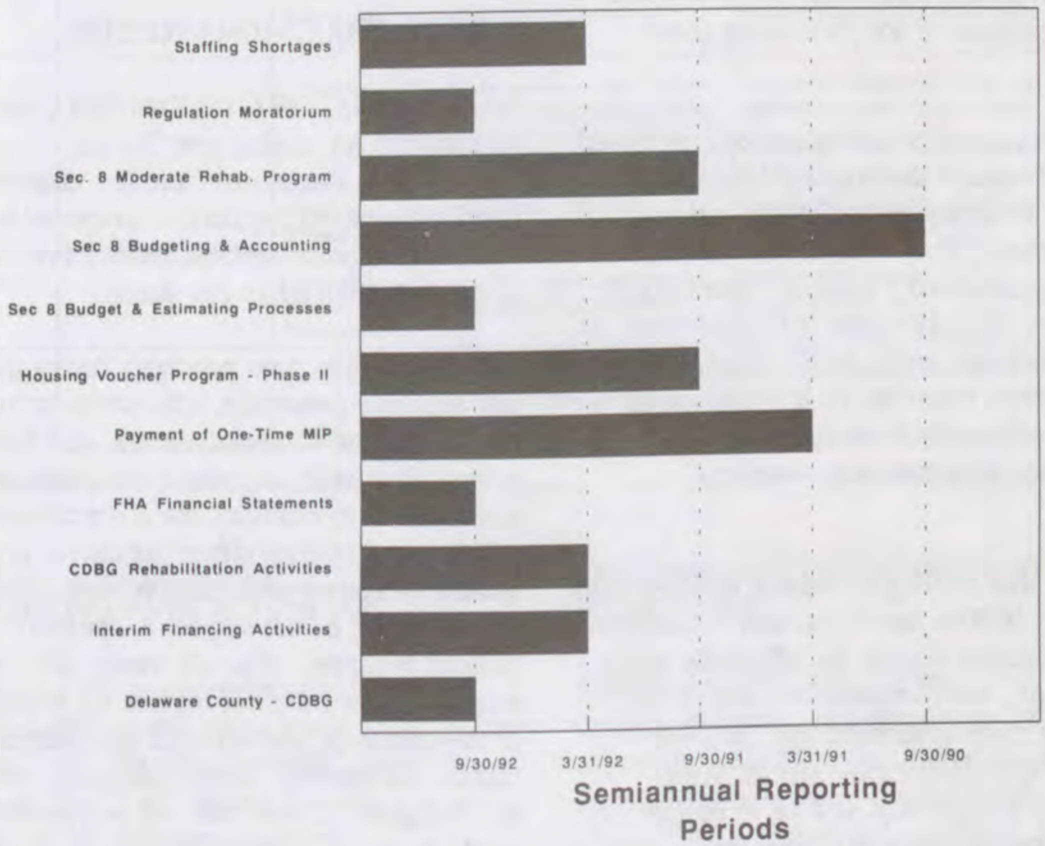


Total 859
As at April 1, 1992

* Recommendations under formal judicial review, investigation, or legislative solution, and recommendations under formal repayment plans.

Once a specific audit or problem area is discussed in this Chapter, it continues to be reported until all pertinent recommendations are finally resolved. The following chart lists the audits or problem areas discussed in this Chapter, and identifies the semiannual reporting periods in which they were originally reported. Seven of the items were reported previously, and four of the problem areas are being presented for the first time.

Progress on Significant Unresolved Audits/Issues



STAFFING SHORTAGES

The audits on the Housing Development Grant Program (April 1990) and Approval and Monitoring of Management Agents for Multifamily Projects (April 1991) remain open because the Office of Housing needs to develop and implement a resource strategy.

In June 1992, the Deputy Secretary met with OIG and Office of Housing representatives based on a referral of a disagreement on audit resolution for his decision. At the meeting, the Office of Housing agreed to develop a staffing strategy for Multifamily Housing. This action was acceptable to the OIG, pending receipt of an acceptable plan to develop the staffing strategy. Consequently, the Deputy Secretary did not make a final decision on the matter. During the current reporting period, the Office of Housing identified all of their functional responsibilities for Multifamily Housing. However, a management decision has not yet been reached because Housing and OIG are negotiating the nature and depth of the resource evaluation that needs to be performed.

We believe the strategy needs to identify the staff necessary for each function and the training and travel resources necessary to perform each function. For any identified shortages, the Office of Housing should determine what can be done to compensate for shortages, such as using contractors to perform functions, targeting higher risk activities, and/or scaling back less critical functions. We also believe that Housing should identify and advise the Secretary, OMB and the Congress of functions that cannot be performed without additional resources, and the consequences of not performing those functions.

During the current reporting period, we issued other audit reports that highlight the need to assess the adequacy of staffing in various program areas. For example, our audit of HUD's Consolidated Financial Statements for Fiscal Year 1991 disclosed indications that, on a departmentwide basis, HUD either does not have sufficient resources or is not using its resources efficiently to carry out essential financial and programmatic oversight functions.

To ensure that staffing is aligned with the risks inherent in HUD's programs, and to establish an accountability system for efficiently using existing staff, we recommended that HUD establish a more systematic approach for determining staffing requirements. One method for doing this would be to prepare an annual resource plan that defines the experience level and numbers of staff needed to perform HUD's primary tasks. HUD Field Offices and Headquarters should be held accountable for work accomplishments in line with available resources and established standards. Once greater efficiencies are implemented, through improved automated systems, staffing standards should be realigned consistent with the revised workload. The Chief Financial Officer is responsible for coordinating the Department's proposed corrective actions pertaining to recommendations in the Consolidated Financial Statement Audit and responding to the OIG. The Department's decision is expected by November 1992. (Report Nos. 90-TS-112-0015; 91-TS-111-0014; and 92-TS-179-0011)

REGULATORY MORATORIUM

On January 28, 1992, the President placed a moratorium on issuing new Federal regulations. The moratorium has adversely impacted pending regulations proposed by HUD managers to address serious systemic problems identified in our audits.

The moratorium does not apply to regulations that agencies determine, after consultation with the Council on Competitiveness, will foster economic growth, respond to an emergency, are essential to criminal law enforcement or military and foreign affairs functions, are related to agency organization, management, or personnel, or are subject to statutory or judicial deadline. If a rule meets this criteria, agencies must submit a request for exemption to the Office of Management and Budget (OMB) for review. Rules submitted without an exemption request will not be cleared by OMB during the moratorium.

Timely and effective improvements on several recommendations described in previous Semiannual Reports have been impacted by the President's moratorium on new regulations. Listed on the next page are the audits and recommendations affected. The moratorium expired on August 28, 1992. However, on September 11, 1992, the Deputy Secretary informed staff that the moratorium was extended for another year and the Department is processing regulations based on this advice.

REPORT NUMBER	NUMBER OF RECOMMENDATIONS	PROGRAM AREA	PROPOSED REGULATION	STATUS
88-TS-0013	1	Community Planning and Development	Final rule to assure projects benefit low and moderate income persons (FR-2772).	Submitted to OMB 6/3/92. Department requested exemption from moratorium.
* 90-TS-0002	1	Housing	Final rule to provide mortgagee approval reform and direct endorsement expansion (FR-2854).	Submitted to OMB 8/4/92. Department requested exemption from moratorium.
* 90-TS-0012	1	Community Planning and Development	Final rule to require correction of health and safety violation (FR-2772).	Final Rule withheld from Departmental clearance due to Regulatory Moratorium.
91-AO-0001	1	Community Planning and Development	Proposed rule to provide regulations on Emergency Shelter Grants (FR-3005).	Withheld by the Department due to Regulatory Moratorium.
91-TS-0012	1	Public and Indian Housing	Final rule to provide regulation on Major Reconstruction of Obsolete Projects Program (FR-2865).	Final Rule in Departmental Clearance.

*These audits are discussed in individual write-ups in this Chapter. Previous delays occurred on these audits and the regulatory moratorium is causing further delays.

SECTION 8 MODERATE REHABILITATION PROGRAM

Our April 1989 multi-regional audit report disclosed widespread abuse in all phases of the program. During this reporting period, the Office of Public and Indian Housing completed reviews of all coinsured moderate rehabilitation projects. These reviews were performed to determine if contract rents are excessive and, if applicable, rent reductions and the amount of overpaid assistance to be recovered from public housing agencies and/or owners through repayment and offsets against future subsidy payments.

The Assistant Secretary for Public and Indian Housing issued letters to a number of public housing agencies advising them of rent reductions in coinsured moderate rehabilitation projects. These letters prompted litigation in several Federal court jurisdictions. As a result, the Assistant Secretary has delayed the issuance of additional letters until the initial litigation is resolved. (Report No. 89-TS-103-0005)

SECTION 8 ACCOUNTING AND BUDGETING

Final action on one of the ten recommendations included in our 1990 audit report on accounting and budgeting for Section 8 Funds remains to be implemented. In our report for the period ending March 1992, we reported that final action on the one remaining recommendation would be completed in February 1993.

The recommendations in this report were the initial steps to be taken to correct the accounting and budgeting for Section 8 funds. 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 as reported in our April 1992 report (Report No. 92-TS-103-0008). The follow-up efforts on this report are discussed below.

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 the Certificate and Housing Voucher Programs, incorporating the best features of both programs and eliminating as many administrative differences 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. The proposed regulations were developed and placed into Departmental clearance in August 1992. The Assistant Secretary now anticipates that the revised rule will not be issued until August 1993. (Report No. 90-TS-103-0010)

HUD's Budget Estimating Processes for Contract Renewals and Amendments 1992 Report

Congress requested an audit of the adequacy of the financial information in support of HUD's funding estimates for Section 8 contract renewals and amendments. Our audit report on HUD's Fiscal Year 1992 and 1993 Budget Estimating Processes for Section 8 Contract Renewals and Amendments disclosed that HUD continued to experience problems in submitting reliable Section 8 budget requests to Congress.

The report pointed out that: (1) budget estimates for Section 8 tenant-based contract renewal funding continued to be unreliable; (2) HUD's Fiscal Year 1992 and 1993 Congressional Budget Request for Section 8 project-based (Loan Management Set-Aside) contract renewals may be substantially overstated; (3) HUD's Fiscal Year 1992 and 1993 original Congressional Budget Request estimates for Section 8 certificate amendments may be materially overstated; (4) HUD's Fiscal Year 1992 and 1993 Congressional Budget Request for amendments to Section 8 project-based (project reserve) contracts are based on questionable financial data; and (5) HUD's Section 8 financial data systems are incapable of generating reliable data for budgetary purposes.

Our report contained 15 recommendations to improve HUD's overall management and control of the Section 8 budget development process. During the period, the Department took action on 12 recommendations. Actions to improve management over the development of the CFS/TRACS--HUD's new multi-phased assisted Housing/Section 8 database and software system--were completed, including quality assurance reviews of the CFS/TRACS developmental process. These actions were taken in response to eight of our recommendations.

The Office of Inspector General assisted the Offices of Housing and Public and Indian Housing in performing quality assurance reviews. Based on our participation, we have concerns about the quality goals for the Department's December 1992 goal date for verification and locking of CFS data. Additionally, we question if the goal date is realistic given the quality considerations. The OIG suggested and Departmental management agrees that data quality should be the overriding concern in decisions to undertake subsequent system development phases.

Actions pertaining to four recommendations are planned. Planned actions scheduled for completion in November 1992 include formalizing discrepancy resolution procedures and performing quality control reviews of field surveys.

Three recommendations requiring issuance of instructions for estimating project-based contract renewals, issuance of a work plan for the Fiscal Year 1994 project reserves estimates and issuance of a consolidated handbook on the Section 8 budget process remain open with no action yet taken. (Report No. 92-TS-103-0008)

HOUSING VOUCHER PROGRAM - PHASE II

In our previous Semiannual Report, we reported that three of the thirteen recommendations included in our report on public housing agencies' (PHAs') compliance with processing requirements and use of voucher authority remained open. Our audit showed that PHAs were subsidizing households on the basis of incomplete or improperly used application data. During the current reporting period, final actions were completed on two recommendations. One recommendation requiring issuance of implementing regulations on the portability feature still remains to be implemented.

The Assistant Secretary for Public and Indian Housing published guidance on verification of income, family composition and other related factors for the Section 8 Rental Certificate and Voucher Programs in September 1992. This guidance addressed two of the three open recommendations.

The final recommendation that remains to be implemented requires comprehensive regulatory revisions to the Rental Voucher Program. The original target date, September 1990, has been extended three times, due to staff reassignment to develop regulations for the HOPE Program. 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. The Assistant Secretary has advised us that a final rule will be issued in August 1993, if the regulatory moratorium does not delay it further. (Report No. 90-TS-103-0005)

PAYMENT OF ONE-TIME MORTGAGE INSURANCE PREMIUMS

Final action on two of the nine recommendations included in our October 1989 audit report continues to experience delays. These recommendations concern the maintenance of a reasonable level of mortgagee fidelity bond coverage and increasing lender net worth requirements. In our report for the period ending March 1992, we discussed that final action on three recommendations was delayed. During this reporting period, the Department took corrective actions to improve controls over mortgage insurance certificates, resolving one of the three recommendations.

Implementation of the two remaining recommendations requires publication of new lender reform regulations. Originally, the Assistant Secretary for Housing advised that final regulations would be published in January 1991. However, the proposed rule was not published in the Federal Register for public comment until June 1991, because of disagreements concerning the content of the rule within the Department. Over 180 public comments were received, resulting in a 6-month delay for final publication. The revised final action target date for the final rule was June 1992. However, the moratorium on new regulations has further delayed publication of the final rule. (Report No. 90-TS-121-0002)

FEDERAL HOUSING ADMINISTRATION - AUDIT OF FISCAL YEAR 1991 FINANCIAL STATEMENTS

The Office of Inspector General is required to conduct an annual audit of FHA under the provisions of the Chief Financial Officers Act (CFO) of 1990. Our audit report on the Fiscal Year 1991 FHA Financial Statements disclosed uncertainties relating to FHA's Mutual Mortgage Insurance and General Insurance Funds. The audit scope was restricted by material internal control weaknesses in FHA's Single Family and Multifamily systems which could cause material errors in the financial statements. As a result of the uncertainties, we did not express an opinion on the FHA financial statements.

The Fiscal Year 1991 audit disclosed five internal control reportable conditions, three of which are classified as material weaknesses. The material weaknesses include a need to: (1) improve monitoring of mortgagors and mortgagees by placing more emphasis on default and loss prevention; (2) improve accounting and financial management systems; and (3) curb losses in the resolution and management of defaulted Single Family and Multifamily loans. The remaining two reportable conditions concern: (1) FHA's policy of not collecting loan-to-value information on certain refinanced mortgages; and (2) the need to continue implementation of a new Single Family property system.

As of September 30, 1992, the Assistant Secretary for Housing had initiated action on all recommendations in our report. This includes actions to mitigate losses in the FHA program through improving oversight of single family loan delinquencies and stronger multifamily project monitoring. Actions include counseling borrowers, enhancing automated systems, improving management reporting and targeting resources based on risk assessment. Several of the corrective actions initiated are long-term in nature. Progress on these actions, as well as interim measures, will be reevaluated during our audit of the Fiscal Year 1992 financial statements. (Report No. 92-TS-119/129-0007)

CDBG REHABILITATION ACTIVITIES

Our multi-regional audit of CDBG rehabilitation activities at entitlement grantees was issued in April 1990. We found that the same types of substandard conditions previously reported in a 1980 audit continued. As a result, health and safety violations were not corrected 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 has taken timely final action on eight of the nine recommendations in our report. Those actions included issuing instructions to grantees to emphasize the program's essential policies and procedures, and providing training and instructions to grantees on quality control systems.

The remaining recommendation requires issuance of program regulations that will require health and safety violations to be identified and corrected when Federal Funds are used for property improvements. The issuance of these regulations has experienced significant delays. The original target date of November 1991 was not met because of Departmental priorities on developing regulations and guidance on the HOME and HOPE Programs. The proposed regulations were published for public comment in February 1992. In our last Semiannual Report, the Assistant Secretary anticipated issuance of final regulations by August 1992. Due to the moratorium on new regulations, the Assistant Secretary has withheld the final rule from Departmental clearance, further delaying its issuance. (Report No. 90-TS-144-0012)

INTERIM FINANCING ACTIVITIES

MULTI-REGIONAL AUDIT

Our multi-regional 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. Remedial actions to address deficiencies were inadequate and appropriate sanctions to deter noncompliance were not available.

On June 7, 1991, the former Assistant Secretary for Community Planning and Development promised to issue guidance and regulations to implement the six recommendations contained in our report. In September 1992, the Assistant Secretary issued instructions to provide Field Offices guidance for implementing risk analysis in monitoring entitlement grantees, resolving one recommendation contained in our report. Final actions in response to five recommendations were still pending at the end of the period.

Implementation of four recommendations requires publication of program income regulations. Originally, the former Assistant Secretary anticipated issuance of final regulations in December 1991. Delays occurred because the proposed regulations were placed in Departmental clearance 5 months later than originally scheduled. Further delays were experienced during this reporting period to resolve disagreements within the Department. Publication of the proposed regulations is expected by November 1992, if the regulatory moratorium does not delay them further. Currently, the Assistant Secretary anticipates that final regulations will be issued in February 1993.

The fifth recommendation requires issuance of interim financing guidelines to grantees, originally planned to be completed in August 1991. However, drafting of the guidance was delayed to make it more comprehensive. Further delays occurred in the Departmental clearance process. The Assistant Secretary issued interim guidance in September 1992, and issued guidance to Field Offices in a revised handbook. Based on the two documents we considered the recommendation resolved in October 1992. (Report No. 91-TS-141-0006)

San Francisco Regional Office

Our regional report, issued on September 28, 1990, noted that the City and County of Los Angeles used principal and interest payments from float loans to establish revolving loan accounts. In previous Semiannual Reports, we reported that management decisions had not been reached because a Comptroller General Decision was requested which would be the basis for management decisions. Although the Comptroller General Decision was issued in May 1992, the Assistant Secretary for Community Planning and Development has not made a management decision on two recommendations.

Our office took the position that interest earned on ineligible float loans must be returned to the U.S. Treasury as miscellaneous receipts in accordance with applicable appropriations and accounting laws. The Assistant Secretary for Community Planning and Development believed that it was within the Department's discretion to determine the disposition of the funds earned. The Assistant Secretary believed the interest earned should be treated as program income and retained by the grantees for grant-related use.

On May 11, 1992, the Comptroller General ruled that interest earned on unauthorized loans of grant funds must be deposited in the U.S. Treasury as miscellaneous receipts. Further, HUD does not have the discretion to permit grantees to retain interest earned on loans deemed ineligible under the Community Development Block Grant Program. The Comptroller General stated that the authority to require grantees to deposit interest earned on grant advances in the Treasury is not discretionary. Agencies do not have authority to agree to allow grantees to earn and retain interest on grant funds prior to their expenditure for authorized purposes unless such authority is expressly provided by the Congress.

Although we advised the Assistant Secretary to initiate the necessary collection actions as required by the May 1992 Comptroller General Decision, collection action has not been initiated. The Assistant Secretary is still considering the matter and has not made a management decision. (Report No. 90-SF-141-0006)

DELAWARE COUNTY, PA CDBG PROGRAM

Our regional audit report on the County of Delaware, Pennsylvania Community Development Block Grant (CDBG) Program administration was issued in June 1990. We reported that the County and its subgrantees completely disregarded HUD regulations, resulting in $5.6 million being used for ineligible or questionable activities. The report contained 39 recommendations that included requiring repayment of improper expenditures, and because of the severity of the problems, termination of all CDBG-funded economic development programs within the County.

Despite the former Assistant Secretary for Community Planning and Development's advising the Employment and Housing Subcommittee of the House Government Operations Committee, in March 1992, that a demand letter would be sent to the County and that patience with the County's slow response was waning, final action on the 23 recommendations is still pending. The County has repaid less than $500,000 and still has an outstanding balance of $5.1 million.

The Department has sent several letters to the County demanding repayment of the remaining balance. In the last demand letter sent in March 1992, the County was advised to resolve the outstanding findings within 15 days. Because action was not completed as requested, the Regional Administrator proposed, in April 1992, that the Assistant Secretary take legal actions to require the County to repay, or have its line of credit reduced by the outstanding balance. The original final action target date of October 1991 was extended once to March 1992. The Assistant Secretary, along with the General Counsel, is still reviewing the Regional Administrator's proposal and has not estimated when actions on the recommendations will be completed. (Report No. 90-PH-249-1014)

REQUIREMENTS OF THE INSPECTOR GENERAL ACT AMENDMENTS

As required by the Inspector General Act Amendments of 1988, the following pages contain information on disagreed significant management decisions and significant revised management decisions, and four tables showing the status of management decisions and final actions on audit recommendations. In addition to the listing of significant audit reports described in previous Semiannual Reports where final action has not been completed as of September 30, 1992 (Table B), we have shown the Department's progress by fiscal year on the recommendations that were previously described.

DISAGREED SIGNIFICANT MANAGEMENT DECISIONS

During the reporting period, there were no final management decisions with which the OIG was in disagreement.

SIGNIFICANT REVISED MANAGEMENT DECISIONS

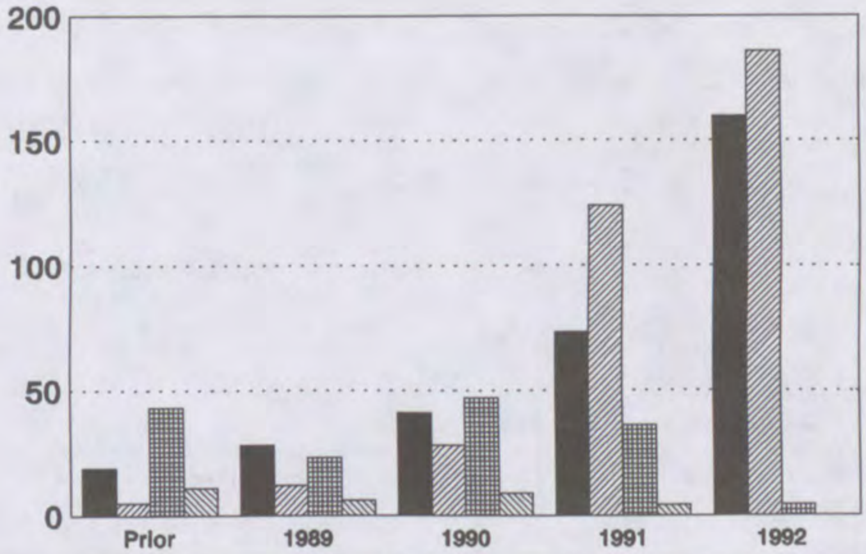
During the reporting period, there were no significant revised management decisions.

TABLE A Audit Reports Issued Prior to Start of Period with No Management Decision at 9/30/92

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. The remaining issue has been under review by the Office of General Counsel. The General Counsel has issued two legal opinions in September 1991 and March 1992. The OIG's Counsel completed a response to the General Counsel's opinion in August 1992. Because the issue is still in dispute, the OIG referred the matter to the Deputy Secretary for final decision on August 25, 1992.	10/30/92
*90SF0006	Interim Financing Activities Community Development Block Grant Program San Francisco Regional Office	09/28/90	Management decisions made on 29 of 31 recommendations. A Comptroller General Opinion was requested to resolve the remaining recommendations. The Comptroller General Opinion was received in May 1992; however, the Office of Community Planning and Development is still reviewing the matter and has been unresponsive.	11/30/92
*91TS0014	Multiregion Audit of the Approval and Monitoring of Management Agents of Multifamily Projects	04/30/91	Management decisions made on 5 of 6 recommendations. Based on negotiations between OIG, Housing and the Deputy Secretary, it was agreed that the Office of Housing would prepare a staffing strategy. Management decision has not been reached because the Office of Housing and the OIG are negotiating the nature and depth of the resource evaluation that needs to be performed.	11/30/92
*92KC1002	Department of Housing and Community Development Section 108 Loan Guarantee Program Kansas City MO	01/10/92	The Office of Community Planning and Development has not been responsive to the 1 recommendation contained in the report.	11/30/92
*92CH1010	Detroit Housing Department Section 8 Existing Housing Certificate, Voucher and Moderate Rehabilitation Programs	01/30/92	Management decision on the 17 recommendations contained in this report is being deferred. The Assistant Secretary for Public and Indian Housing is reviewing the available and appropriate actions to be taken.	11/30/92
*92AT1009	Paris Housing Authority Public Housing Drug Elimination Program Paris TN	03/25/92	Management decisions on the 2 recommendations contained in this report were suspended pending receipt of a legal opinion. The legal opinion was received in September 1992, resolving 1 of the 2 recommendations. The remaining recommendation is being referred back to the Field Office for management decision.	11/30/92

Note to Table A: * Significant audit reports described in previous Semiannual Reports.

Status of Actions on Recommendations Described in Previous Semiannual Reports
By Fiscal Year of Report Issuance



	Prior	1989	1990	1991	1992
Final Actions	19	28	41	73	160
Actions Pending	5	12	28	124	186
I, J, L (1)	43	23	47	36	4
Repayment Plans	11	6	9	4	0

1) Recommendations under formal judicial review, investigation, or legislative solution.

TABLE B

Significant Audit Reports Described in Previous Semiannual Reports where Final Action Has Not Been Completed as of 9/30/92

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
88TS0013	Review of Economic Development and Public Facility Grants in State Community Development Block Grant Program	08/29/88	01/23/89	Note 1
89SF1004	Las Vegas Housing Authority Low-Income Housing Program Las Vegas NV	01/20/89	07/18/89	12/31/93

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
89PH1011	District of Columbia Community Development Block Grant Program Subrecipient Monitoring Washington DC	03/31/89	09/20/89	Note 1
89PH1013	City of Philadelphia Community Development Block Grant Program Subrecipient Monitoring Philadelphia PA	07/17/89	01/12/90	Note 1
90TS0002	Multiregion Audit of One-Time Mortgage Insurance Premiums	10/19/89	09/05/90	Note 1
90TS1007	Dade County Department of Special Housing Programs Dade County FL	01/19/90	08/10/90	Note 1
90CH1006	New Center Hospital Multifamily Mortgagor Operations Detroit MI	01/22/90	06/19/90	07/01/93
90AT1008	City of Atlanta Community Development Block Grant Program Use of Program Income Atlanta GA	03/09/90	Note 3	Note 3
90TS1010	Maryland Community Development Administration Section 8 Moderate Rehabilitation Program Annapolis MD	03/09/90	08/10/90	Note 1
90TS0012	Multiregion Audit of Community Development Block Grant Rehabilitation at Entitlement Grantees	04/26/90	09/21/90	Note 1
90TS0015	Multiregion Audit of Housing Development Grants	04/30/90	08/06/90	Note 1
90PH1014	Delaware County Community Development Block Grant Program Partnership for Economic Development and Other Selected Areas Media PA	06/12/90	11/01/90	Note 1
90BO1012	Farwell Mill 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	Note 4	Note 4
91TS0001	Limited Review of HUD's Process for Determining Undue Concentration of Assisted Persons	10/19/90	10/01/91	Note 1
91PH1002	City of Chester Community Development Block Grant Program Chester PA	12/27/90	07/22/91	Note 1

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
91AO0001	Multiregion Audit of the Emergency Shelter Grants Program	12/28/90	07/05/91	Note 1
91TS0006	Multiregion Audit of Interim Financing (Floats)	01/17/91	06/07/91	Note 1
91TS1004	Waterford Associates Coinsured Retirement Service Centers Melbourne FL	02/20/91	03/30/92	03/12/93
91PH1005	Pittsburgh Housing Authority Comprehensive Improvement Assistance Program Pittsburgh PA	03/21/91	09/20/91	Note 1
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	Note 1
91TS0014	Multiregion Audit of the Approval and Monitoring of Management Agents of Multifamily Projects	04/30/91	Note 3	Note 3
91BO1014	City of Burlington South Meadow Housing Development Grant Burlington VT	05/22/91	12/05/91	12/05/92
91NY1008	Burton Towers Multifamily Mortgagor Operations Newburgh NY	05/31/91	10/01/91	11/15/92
91NY1009	Varick Homes Multifamily Mortgagor Operations Newburgh NY	05/31/91	10/01/91	Note 1
91KC1008	Sunjay and Company Multifamily Management Agent Kansas City MO	06/12/91	11/13/91	11/12/92
91AT0006	Special Economic Development Activities Community Development Block Grant 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	12/04/92
91BO1021	First Hartford Realty Co. Multifamily Management Agent Manchester CT	08/09/91	12/26/91	08/09/97
91BO1022	HEDCO Ltd. Multifamily Management Agent Central Falls RI	08/14/91	03/31/92	03/30/93
91CH1015	Leech Lake Reservation Housing Authority Low-Income Housing Program Cass Lake Reservation MN	08/16/91	12/10/91	12/09/92

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
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	Note 2
91AT1020	Florida Servicing and Management Corporation Multifamily 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	12/04/92
91KC1009	City of St. Louis Community Development Agency Community Development Block Grant Program Benefits to Low and Moderate Income Persons 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
91PH1014	Urban Redevelopment Authority Housing Development Grant Davison Square Apartments Pittsburgh PA	09/19/91	01/13/92	01/07/93
91SF1009	County of Los Angeles Housing Authority Review of Procurement of Additional Protective Services Los Angeles County 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	Note 2
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
92TS0001	Public Housing Authorities Compliance with Rent Reasonableness for Section 8 Existing Program	10/10/91	06/08/92	05/31/93
92KC1801	City of St. Louis Community Development Agency Community Development Block Grant Program St. Louis MO	10/22/91	03/12/92	12/31/92
92TS0002	Review of Fiscal Year 1990 Resident Management Technical Assistance Grant Awards	10/29/91	05/28/92	01/30/93

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	05/28/92	03/31/93
92TS0004	Multiregion Audit of the Housing Counseling Assistance Program	10/31/91	06/09/92	03/01/93
92CH1003	Chicago Mental Health Foundation, Inc. Supportive Housing Demonstration Program Chicago IL	11/07/91	01/10/92	11/07/92
92TS0804	Material Weakness Verification Review Hospital Insurance Program	11/15/91	09/01/92	11/30/92
92CH1006	Springfield Housing Authority Low-Rent Housing Program Springfield IL	11/29/91	03/31/92	03/06/93
92AT1005	City of Charlotte Community Development Block Grant Program Rental Rehabilitation Program Activities Charlotte NC	12/04/91	03/31/92	03/15/93
92PH1001	National Housing Partnership Property Management, Inc. Multifamily Management Agent Reston VA	12/05/91	04/03/92	Note 2
92CH0801	HUD's Servicing Of Multifamily Projects Chicago Regional Office	12/19/91	03/06/92	10/30/92
92KC1002	Department of Housing and Community Development Community Development Block Grant Program Section 108 Loan Guarantee Kansas City MO	01/10/92	Note 4	Note 4
92FW1002	City of San Benito Community Development Block Grant Program San Benito TX	01/14/92	04/28/92	04/17/93
92BO1005	City of New Bedford Community Development Block Grant Program New Bedford MA	01/22/92	05/18/92	02/28/93
92CH1010	Detroit Housing Department Section 8 Existing Housing Certificate, Voucher, and Moderate Rehabilitation Programs Detroit MI	01/30/92	Note 4	Note 4
92CH1011	Columbus Metropolitan Housing Authority Section 8 Existing and Housing Voucher Programs Columbus OH	01/31/92	05/29/92	05/29/93
92SE1004	Lutheran Homes and Hospitals, Inc. Multifamily Mortgagor Operations Gresham OR	02/12/92	06/09/92	11/30/92

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
92TS0005	HUD's Implementation of the Federal Managers' Integrity Act of 1982	02/28/92	09/23/92	01/15/93
92NY1004	Asbury Park Housing Authority Low-Income Housing Program Asbury Park NJ	03/03/92	07/01/92	07/01/93
92PH1002	B'rith Sholom House and B'rith Sholom Addition Multifamily Mortgagor Operations Philadelphia PA	03/03/92	05/21/92	10/15/92
92TS1005	J & B Management Company LaClede Management Corporation Multifamily Management Agent The Woodlands TX	03/03/92	09/30/92	09/30/93
92AT1008	Chattanooga Housing Authority Chattanooga TN	03/04/92	06/23/92	02/12/93
92PH1003	Baltimore DHCD Community Development Block Grant Program Baltimore MD	03/04/92	06/23/92	06/20/93
92NY0001	Section 202 Elderly Housing Project Management Newark NJ and New York Regional Offices	03/09/92	09/30/92	08/31/93
92NY1005	City of Utica Community Development Block Grant Program Utica NY	03/13/92	07/10/92	12/30/92
92AT0002	Section 202 Elderly Housing Program Management Columbia SC, Greensboro NC and Louisville KY Offices	03/17/92	07/06/92	07/06/93
92TS1007	Freedom Mortgage Corporation Nonsupervised Mortgagee Independence OH	03/17/92	09/30/92	11/30/92
92CH1015	Presidential Towers Multifamily Mortgagor Operations Chicago IL	03/20/92	09/17/92	02/26/93
92TS1009	Insignia Management Group Multifamily Management Agent Greenville SC	03/20/92	08/11/92	05/01/93
92AT1009	Paris Housing Authority Public Housing Drug Elimination Program Paris TN	03/25/92	Note 4	Note 4
92TS0006	Audit of Fiscal Year 1991 Financial Statements Government National Mortgage Association	03/25/92	07/15/92	11/16/92
92TS0007	Audit of Fiscal Year 1991 Financial Statements Federal Housing Administration	03/27/92	09/29/92	09/30/98

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
92BO0004	Administration of Section 8 Certificate Project-Based Assistance Program Vermont State Housing Authority Manchester NH Office	03/31/92	07/24/92	12/01/92
92BO0005	Public Housing Authorities' Use of Fee Accountants in the States of Massachusetts and Rhode Island Boston Regional Office	03/31/92	07/24/92	12/31/92
92BO1008	Boston Financial Property Management Multifamily Management Agent Boston MA	03/31/92	07/22/92	07/01/93
92CH1018	Leclaire Courts Resident Management Corporation Resident Management Operations Chicago IL	03/31/92	06/25/92	06/24/93
92SF0005	Evaluation of Protective Services Costs Incurred by Large Public Housing Agencies Los Angeles CA, Sacramento CA and San Francisco Regional Offices	03/31/92	06/23/92	10/20/92
92TS1011	Sibley Mortgage Corporation Nonsupervised Mortgagee Rochester NY	03/31/92	09/30/92	11/30/92
92TS1012	Federated Mortgage Associates, Inc. Nonsupervised Mortgagee Pembroke Pines FL	03/31/92	09/30/92	11/30/92
92BO0006	Public Housing Development Processing Boston Regional Office	04/17/92	07/22/92	07/15/93
92TS0008	HUD's Fiscal Year 1992 and 1993 Budget Estimating Processes for Section 8 Contract Renewals & Amendments	04/21/92	Note 5	Note 5
92AO0003	Access Controls and Transaction Logging of the Single Family Notes Servicing System	04/29/92	Note 5	Note 5
92TS0009	Multiregion Audit of Special Economic Development Activities	04/29/92	Note 5	Note 5
92AT0004	Limited Review of Public Housing Drug Elimination Program Grant Processing Atlanta Regional Office	04/30/92	Note 5	Note 5
92TS0010	Post Implementation Review of Single Family Accounting and Management System	04/30/92	Note 5	Note 5
92PH0802	Consolidation of Unresolved Audit Recommendations - Philadelphia Housing Authority Philadelphia PA	08/27/92	08/27/92	05/07/93 Note 6

NOTES TO TABLE B:

Audits Excluded:

18 audits under repayment plans.

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

Notes:

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

[2] Management did not meet target date. Management decision is under 1 year old.

[3] No Management Decision. Decision expected by October 1992.

[4] No Management Decision. Decision expected by November 1992.

[5] Under 6 months old no Management Decision due.

[6] Report consolidates recommendations from four prior audit reports (87PH2240, 88PH1006, 91PH2018, and 91PH0004); two of the reports (88PH1006 and 91PH0004) were described in previous Semiannual Reports. When the consolidation report was issued the previous recommendations were closed. The three recommendations in this report address long outstanding systemic problems. Since the Department took control of the Administrative Operations of the Housing Authority in May 1992, correction of the problems is to be made on a systemic approach rather than an individual recommendation approach.

Table C:

Inspector General Issued Reports with Questioned and Unsupported Costs at 9/30/92

(Dollars in Thousands)

REPORTS . . .		Number of Audit Reports	Questioned Costs	Unsupported Costs
A1.	For which no management decision had been made by the commencement of the reporting period	54	$159,578	$37,698
A2.	For which litigation, legislation or investigation was pending at the commencement of the reporting period	18	19,768	8,274
A3.	For which additional costs were added to reports in beginning inventory	0	3,670	925
A4.	For which costs were added to non-cost reports	7	4,401	215
B1.	Which were issued during the reporting period	77	59,268	38,347
B2.	Which were reopened during the reporting period			
	Subtotals (A+B)	156	$246,685	$85,459
C.	For which a management decision was made during the reporting period	76[1]	$68,573	$41,371
	(1) Dollar value of disallowed costs:			
	• Due HUD	30[2]	10,536	1,432
	• Due Program Participants	46	34,861	18,614
	(2) Dollar value of costs not disallowed	29[3]	23,176	21,326
D.	For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	15	21,113	8,069
E.	For which no management decision had been made by the end of the reporting period	65 (202)[4]	$156,999 ($56,754)	$36,019 (35,657)

NOTES TO TABLE C:

1 7 audit reports also contain recommendations that funds be put to better use.

2 9 audit reports also contain recommendations with funds due program participants.

3 20 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 65 for an explanation.

Table D:

Inspector General Issued Reports with Recommendations that Funds Be Put To Better Use at 9/30/92

(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	10	$4,324
A2.	For which litigation, legislation or investigation was pending at the commencement of the reporting period	3	730
A3.	For which additional costs were added to reports in beginning inventory	0	4,280
A4.	For which costs were added to non-cost reports	0	0
B1.	Which were issued during the reporting period	14	56,839
B2.	Which were reopened during the reporting period	0	0
	Subtotals (A + B)	27	66,173
C.	For which a management decision was made during the reporting period	13[1]	8,092
	(1) Dollar value of recommendations that were agreed to by management		
	• Due HUD	5	6,034
	• Due Program Participants	6	593
	(2) Dollar value of recommendations that were not agreed to by management	4[2]	1,465
D.	For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	4	757
E.	For which no management decision had been made by the end of the reporting period	10 (13)[3]	$57,324 ($51,751)

NOTES TO TABLE D:

1 7 audit reports also contain recommendations with questioned costs.

2 2 audit report also contains recommendations with funds agreed to by management.

3 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 or final action. Although management may have taken timely action on all but one of many recommendations in an audit report, the current "all or nothing" reporting format does not take recognition of their efforts.

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

Chapter 4 - Prevention and Other OIG Activities

In addition to audits and investigations, which deal with past events, 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
- -- President's Council on Integrity and Efficiency
- -- Tenant Integrity Program
- -- Single Family Direct Endorsement
- -- Management Consultant Project
- -- Awareness Publications
- -- Computer Matching
- -- Monitoring Audit Quality
- -- HUD Hotline

OIG Budget for FY 1993

Establishment of the OIG Performance Review Board

SWAT Team on Civilian Agency Contracting

REVIEW OF LEGISLATION, REGULATIONS AND POLICY DIRECTIVES

During this reporting period, we continued to devote a great deal of time and attention to monitoring numerous Departmental programmatic and operational reforms and improvements as well as new programs that have resulted from the National Affordable 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 306 documents, including 62 proposed or final regulations, 52 legislative proposals, and 192 policy directives.

LEGISLATION

As we reported in the last Semiannual Report, we had recommended two items for the Department's legislative submission to the Congress for FY 1992. However, the Department did not submit a legislative package for FY 1992 but did agree to include our proposals in the package for FY 1993. The bill cleared within the Administration included one, "Rental Assistance Fraud Recoveries." The Housing and Community Development Act of 1992, was passed by the House and the Senate and signed by the President on October 28, 1992. The Act included one of the items that we recommended. Section 129, Rental Assistance Fraud Recoveries, permits public housing agencies (PHAs) to retain a portion of amounts recovered from Section 8 tenants resulting from fraud and abuse pursuant to various collection efforts. Current law only permits PHAs to retain a portion of judgments ordered by a court. This new initiative will: (1) provide an incentive to PHAs 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.

REGULATIONS AND POLICY DIRECTIVES

Moratorium

On January 28, 1992, President Bush ordered a 90-day moratorium on the issuance of certain regulations in an effort to create jobs and stimulate economic growth. On April 29, the President ordered a 120-day extension of that moratorium. We have had several discussions with program offices as well as with the Office of General Counsel over our concern that the moratorium has delayed the publication of proposed and final regulations that our audits and other reviews have recommended as being necessary for effective and efficient conduct of Departmental programs.

The Department's Regulation Review Committee has developed a priority list of 25 documents that are presently under development. Several of these regulations are critical to addressing numerous weaknesses that we have identified. While the moratorium has slowed the publication of all HUD's rules and has stopped some altogether, we are hopeful that the rules that were placed in the top 25 category will be determined to qualify for an exemption to the moratorium and capable, under the moratorium procedures, of being cleared by OMB and published.

Regulatory Initiatives

During this reporting period we developed a proposed rule clarifying certain provisions pertaining to the Privacy Act of 1974. We were also involved in supporting a Departmental rule that would effectively reduce the operating subsidy that is paid by the Department to public and Indian housing authorities for housing units that are vacant. The details of these two initiatives are outlined below.

Implementation of the Privacy Act of 1974

We proposed a new regulation to implement the requirements of the Privacy Act of 1974 as it relates to the Office of Inspector General. The regulation incorporates the Department's existing Privacy Act with modifications which conform those regulations to the OIG's organizational structure. In addition, the regulation addresses needed changes in the OIG's Privacy Act exemptions. These changes include clarification of exemptions and set forth exemptions that are applicable to two new OIG record systems. The proposed regulation was published in the Federal Register on August 27, 1992.

Low-Income Public and Indian Housing Vacancy Rule

This proposal was published in the Federal Register on September 6, 1991. It would effectively reduce the operating subsidy that is paid by the Department to public and Indian housing authorities for housing units that are vacant. Implementation of the rule was expected to save approximately $5 million and $55 million in Fiscal Years 1992 and 1993, respectively. However, language in the Department's 1992 Appropriations Act abrogated the rulemaking process before the 60-day comment period had expired by prohibiting the use of appropriated funds to implement the rule. On March 20, 1992, the President requested that appropriations language be adopted to repeal the prohibition.

We reviewed the proposed rule at the request of the Ranking Minority Member of the Committee on Banking, Finance and Urban Affairs and we informed him that we believe the proposed rule is responsive to the need to increase occupancy levels in public housing. We recommended that the rulemaking process be permitted to go forward.

The Housing and Community Development Act of 1992 provides for a new statutory procedure associated with the public housing vacancy issue. By implication, this provision will suppress the current HUD rulemaking effort in favor of the new procedure. In the interest of sound fiscal policy and a means to seek assurance that PHAs will address the issue of vacancy reduction, we strongly support a proposal that will be responsive to excessive vacancy rates and one that will address increasing occupancy levels in the Nation's public housing stock.

Outlined below are several other significant items that we reviewed during this reporting period.

Proposed Rule - Miscellaneous Revisions to Part 570, Community Development Block Grant Program

This proposed rule was discussed in detail in the last Semiannual Report which highlighted the fact that OIG nonconcurred with its issuance in its present form. The Rule was developed to clarify the eligible activities that can be carried out by certain subrecipients. It also proposed changes to the grantee performance report and the method for accounting for revolving loan funds. We recommended that certain portions of the proposed rule be further clarified that pertain to general policies, ineligible activities and the disposition of assets acquired by subrecipients.

We subsequently amended our nonconcurring comments to recommend that CPD consider addressing the issue of "float loans" that we had identified as a serious material weakness for several years. CPD agreed with our position and substantially revised their original proposal incorporating language to address our expressed concerns.

However, on September 4, 1992, the Deputy Secretary issued a ruling that the proposed regulation was overly prescriptive and that issuing guidance implementing statutory changes enacted by Congress would add to the administrative burden already imposed under existing regulations. We understand that CPD has been instructed to seek implementation by other means. We will work closely with CPD in order that these important program provisions are implemented to address our expressed concerns.

Chapter 8 of Handbook 1840.1 - Departmental Management Control Program

This proposed change was developed to establish an acceptable process for completing the Front-End Risk Analysis (FERA). We did not concur with the original submission. Among other concerns, we believed that:

- The responsibilities outlined for HUD officials were often optional and sometimes overlapped those of other officials;
- There was a lack of substantive criteria on which to make key determinations including whether to perform a FERA and how to make essential determinations in the evaluative process;
- The use of standardized risk factors did not address specific program or operational requirements. Moreover, it was unclear how to use such risk factors prospectively, since they were designed for existing systems;
- Important terms and concepts were either not defined or incompletely described; and
- The level of documentation for management controls appeared to be discretionary, relying on the judgment of FERA preparers.

The Office of the Chief Financial Officer agreed with our comments and the proposed handbook was revised to address our concerns. We concurred in the proposed handbook in the revised form. However, there are still implementing procedures that need to be addressed in order to be assured the FERA process will be effective. We have been assured by the CFO-Designate these concerns will be resolved as the handbook is implemented.

Interim Notice--Release of Excess Reserves in the Section 202/8 Projects with Automatic Annual Adjustment Factors

This Interim Notice would allow certain owners to obtain the use of excess reserves in Section 202/8 Projects. It was proposed that Headquarters would approve releases of excess reserves on a case-by-case basis if certain conditions were met.

We nonconcurred with this Interim Notice because we believed it would constitute a major change in HUD policy that would require OMB clearance and publication in the Federal Register. The following were our reasons for believing this was a major policy change:

- The Interim Notice would have permitted one project's reserves to be used in conjunction with another project. HUD has traditionally restricted the use of project reserves to the projects that generated them.

- The implications of the policies promulgated by the Interim Notice would have been significant because they would have permitted millions of dollars in reserves to be used to benefit elderly or disabled persons of low or very low income without the need for an appropriation of funds by Congress.

We also were concerned that there would be problems monitoring this provision and that no cost/benefit analysis was conducted. Moreover, there were no provisions for accounting and controls over interproject transactions involving reserve funds. The concerns that we expressed have not been adequately addressed and as a result, the Interim Notice has not been issued.

Proposed Information System--Multifamily National System

This information system proposal was developed to provide for monitoring and tracking Multifamily Housing Programs within HUD.

We nonconcurred with this proposed system because it did not include milestones for reconciling data between the existing and proposed system or contain realistic milestones for implementing the second phase of the program. We were also concerned that there was a lack of essential cost benefit data for evaluating whether the benefits justified the start-up costs, operating costs, and maintenance costs to support the proposed system. The program staff considered our concerns and revised the proposal accordingly. We subsequently concurred with the revised proposal.

PREVENTION ACTIVITIES

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

OIG is an active participant of the President's Council on Integrity and Efficiency (PCIE) and a member of several of its committees. As a member of the Audit Committee, we participated in a study of the use of contractors by OIG. The study was based upon the survey by Majority staff of the Subcommittee on Federal Services, Post Office and Civil Service of the Senate Governmental Affairs Committee. The Subcommittee raised several issues involving the Inspector General contracting practices. Although the Office of Management and Budget concluded that it did not believe there were serious or pervasive problems in the Inspector General community, there was opportunity to seek greater uniformity. As a result, the PCIE issued guidance which would foster uniformity in contracting practices.

We also co-chaired an Executive Management Training Seminar as a member of the PCIE's Executive Development Committee. This Committee prepares specialized training designed for the PCIE as well as other Inspectors General throughout the government. The half-day executive management training seminar presentation was entitled "Compliance with Inspector General Report Recommendations - Audit Follow-up and How It Should Work." The Deputy Secretary gave a presentation of the follow-up process at HUD.

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.

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. 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. During this reporting period, we continued to provide on-site technical assistance to those PHAs to ensure that this tenant fraud initiative is institutionalized.

Single Family Direct Endorsement

One area vulnerable to risk is HUD's Direct Endorsement (DE) Program. This program allows approved lenders to originate and endorse FHA-insured loans without prior HUD approval. Chapter 1, "Audit, Single Family Housing Programs," discusses the results of a number of audits that were carried out during this reporting period in several HUD Field Offices. In Fiscal Year 1991, approximately 700,000 DE loans were endorsed, representing approximately \$48 million in insurance commitments. The primary quality control process is the in-depth review of a sample of DE loans after endorsement. Because HUD's staffing constraints limit the number of loans reviewed, it is critical that its resources be focused to ensure the highest underwriting quality.

The Direct Endorsement Post Endorsement Technical Review project was developed jointly by Housing and OIG as a quality control initiative to increase awareness of underwriting quality and fraud detection issues, and to test whether a standardized checklist could be used effectively by HUD staff to identify problems when conducting post endorsement reviews.

Three conclusions were reached by OIG and senior program managers:

- Use of a standardized checklist results in the detection of many additional problems and it should be used nationally;

- The current high numerical goal for post-endorsement reviews precludes quality in-depth reviews and should be replaced with a proactive quality control effort. The effort should target limited staff resources on high risk participants; and

- Administrative sanctions, a critical part of quality control, are not being consistently used by field managers; and revised guidance and closer monitoring by Headquarters is needed.

Full implementation of the report's recommendations should result in more effective use of the Department's limited staff resources, as well as improve oversight of the Direct Endorsement Program. OIG and Housing are working together to implement the recommendations.

Management Consultant Project

OIG joined with the Office of Housing to undertake a project to assess methods to reduce indebtedness to HUD associated with unearned single family mortgage insurance premiums. Housing staff are leading the project with our assistance.

This project was initiated following reports and media attention on the nonpayment of monies due former mortgagors for a refund of mortgage insurance premiums or payment of distributive shares under the Mutual Mortgage Insurance Fund. At September 30, 1992, HUD's debt totaled approximately $300 million dollars after showing a steady increase. The unpaid monies not only did not get to the former mortgagors, but they also created increased demands on HUD staff to respond to public and Congressional inquiries and provided means for private companies (referred to as Tracers) to prey on former mortgagors to collect monies due them for a fee.

During the next 6 months, staffs of both offices will be exploring ways to reduce the indebtedness. Some avenues being considered are increased public awareness of monies due them and who to contact to generate payment, changes to the processes of refunding unearned MIPs to get them to the former mortgagors faster, and legislative authority to transfer the unpaid amounts into a revenue account after 6 years following unsuccessful efforts to locate former mortgagors.

Awareness Publications

During this reporting period we completed the awareness publications listed below. A complete listing of all the OIG awareness publications can be found in Appendix 2.

Travel. This bulletin emphasizes to HUD employees the need for prudent decision making when travel is planned or incurred. It addresses the decision of whether traveling is necessary, impact of the government-issued charge card, the modes of transportation, computation of per diem, and submission of travel vouchers.

Program Fraud Civil Remedies Act. This Investigative Resource Guide provides OIG Special Agents with a general understanding of the implementation of the Program Fraud Civil Remedies Act of 1986 (PFCRA). The guide outlines the administrative procedures for investigating, recommending and referring cases of false claims for the imposition of civil penalties and assessments against persons who knowingly file false claims or statements while applying for certain benefits provided by HUD.

OIG Communique on Computer Matching. This document provides an update on the activity that has been occurring in the OIG computer matching efforts. Status is given on the Regulations, the consent form, and several projects that are underway. Also included is advice on how to organize and get State wage data, advice on planning time for follow-up on cases identified, and a computer matching code of ethics.

Computer Matching

Computer matching is another effective tool that can be used in verifying income for rental assistance programs. During this period OIG staff used, for the first time, tenant data included in the Department's recently established Multifamily Tenant Characteristics System (MTCS) in computer matching. The MTCS contains information on over 1 million families participating in HUD's assisted housing programs. The MTCS data was compared to wage and retirement data. Verification of the resultant "hits" currently is in process.

The matching done with MTCS data during this period involved 17 public housing agencies in the District of Columbia, Maryland and Virginia. The use of the MTCS database represents a major step forward for the Department in computer matching. Previously our staff had to obtain automated files directly from each public housing agency participating in computer matching.

OIG staff participated actively in reviewing the functional requirements document for the Tenant Rental Assistance Certification System (TRACS). This System will eventually contain tenant data for all assisted housing programs of the Department. Our involvement has helped to ensure that TRACS will contain the tenant data needed for future computer matching.

As previously planned, our Office transferred the computer matching and tenant income verification functions to the Assistant Secretary for Public and Indian Housing. These functions, including the assigned staff, were transferred to the Assistant Secretary in October 1992.

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 5,000 reports are controlled and issued by the OIG. The majority of non-Federal audit reports are submitted directly to HUD program managers. HUD relies on these audits to provide financial and compliance information necessary for proper administration and oversight of its programs.

OIG's monitoring of A-128 Single Audit activities and its Quality Control Review (QCR) activities are carried out by the National Review Center for Non-Federal Audits in Cherry Hill, New Jersey.

Desk Reviews

Desk reviews are performed by OIG staff of all A-128 Single Audit Reports where HUD has cognizant or general oversight responsibility. Other HUD program audits are reviewed by HUD program managers and the reports receive a detail review by OIG staff when the audit is selected for a QCR. During the 6-month period, 3,649 reports were processed by the OIG. The following is a summary of the reports processed.

DESK REVIEW	INDEPENDENT AUDITOR	STATE AND LOCAL AUDITOR	TOTAL
REPORTS ACCEPTED			
No Changes Needed	2,054	99	2,153
Minor Changes Needed But Report Accepted Without Change	311	20	331
Major Changes Needed - Report Revised	85	0	85
TOTAL	2,450	119	2,569
REPORTS NOT ACCEPTED			
Major Changes Needed - Report Returned to Auditee	112	0	112[1]
Not an A-128 Audit or No HUD Funds in Report	488	33	521[2]
Suspended - CAFR or Single Audit Needed	427	20	447[3]
TOTAL	1,027	53	1,080
TOTAL PROCESSED	3,477	172	3,649

[1] 78 reports were revised and resubmitted. These reports were accepted.
[2] 21 reports were revised and resubmitted for processing.
[3] Information needed for 207 of these reports was submitted for processing.

Quality Control Reviews

A QCR is a process where an extensive on-site review is made of the non-Federal auditor's working papers supporting the audit report. QCRs are performed by OIG staff of audit reports submitted directly to HUD program managers and of Single Audit reports submitted to the OIG.

During the 6-month period, we completed action on 50 QCRs. The following table summarizes the results of our reviews.

QCR RESULTS	A-128 SINGLE AUDITS	HUD PROGRAM AUDITS	TOTAL
Acceptable	10	16	26
Minor Deficiencies	-	14	14
Substandard	5	5	10
TOTAL	15	35	50[1]

[1] All QCRs were performed on Independent Auditors; none on State and local auditors.

The letters sent to the Independent Auditors evidenced a variety of deficiencies. However, the following deficiencies were the most frequently identified:

- Reporting standards were not met because required statements were missing from the Internal Control Reports, Compliance Reports, or the Schedule of Federal Financial Assistance.
- Working papers did not fully support or contradicted conclusions drawn by the Independent Auditor.
- Study and evaluation of Internal Controls was not fully documented.
- Engagement letter was not prepared or was incomplete.
- Tests of compliance were not documented in the working papers.
- Management representation letters were not prepared or were incomplete.
- Inquiries of the clients' attorneys were insufficient.
- Documentation of supervision of the audit work was inadequate.

Suspensions and Debarments

During the reporting period, one practitioner was suspended pending his debarment for substandard work on an insured multifamily mortgage audit.

In another case, a hearing judge rendered a decision on an administrative hearing held in a prior period relating to a practitioner's debarment for his work on three separate housing authority audits. The judge upheld the suspension which was imposed in the prior period, but did not impose debarment. She cited the more recent work of the practitioner, which was acceptable as more representative of his present capabilities.

There are currently 16 practitioners who are suspended, debarred, or have voluntarily excluded themselves from performing audits of HUD programs.

Referrals to State Boards of Accountancy

In this reporting period we referred one practitioner to a State Board for substandard work. The audit performed by the auditor was of two HUD-insured projects under Sections 231 and 232 of the National Housing Act. The purpose of these sections is to increase the supply of rental housing for elderly persons, and to assist the development of nursing homes or intermediate care facilities.

Our review disclosed problems in both the working papers and in the report. We found deficiencies in the evaluation of internal controls, audit planning, and reporting.

Also during the period, five State Boards took action against practitioners referred in prior periods. A variety of penalties was assessed by the Boards in these cases, including a monetary fine of $2500, reimbursement of investigation and prosecution costs, suspension and revocation of both the CPA certificate and permit to practice, probation, and additional hours of continuing professional education.

HUD Hotline

During the 6-month period, 169 new hotline complaints were opened and the evaluation controlled by the Hotline Staff. Of these cases, 59 percent of the allegations involved program administrators and participants; 26 percent involved HUD employees; and 15 percent involved miscellaneous issues. Additionally, over 407 allegations were provided to the responsible program staff in HUD's Regional and Field Offices for direct handling.

Of the 195 complaints closed during this period, 34 percent were valid and corrective actions were taken. Monetary actions, which consisted of fines, claims collections, restitution and repayments to HUD and/or HUD program participants, totaled $81,332. Other actions included employee counselling and admonishments, suspended prison sentences, probation, debarment, etc. Examples of actions taken on various complaints closed this period are:

Monies Recovered

A former resident manager is being sought on a felony warrant for grand theft and embezzlement in connection with the disappearance of project funds. Similar funds totaling over $24,000 had been repaid to the project by a banking establishment since it had accepted two checks improperly written on the project funds without the required signature.

Three former mortgagors were refunded unearned mortgage insurance premiums under HUD's Single Family Insurance Program in the amounts of $807, $1,432 and $3,146.

Program Participation Impacted

A bookkeeper of a public housing authority was convicted of embezzlement of rent receipts, sentenced to 1 year in prison (suspended), ordered to serve 30 months probation, ordered to make $2,600 in restitution, and debarred from participation in HUD programs for 2 years.

A former Section 235 mortgagor was removed from the program following verification that rental income from a second property was concealed by placing it into a daughter's bank account. Claims collection action has been initiated for $3,105.

An executive director and the Board of Commissioners of a public housing agency were issued a limited denial of participation (LDP) for refusal to make documents available to HUD-FHEO investigators. They also illegally used authority funds for legal expenses in defense of the LDP and to pay for expenses to attend unauthorized conventions.

Employment Affected

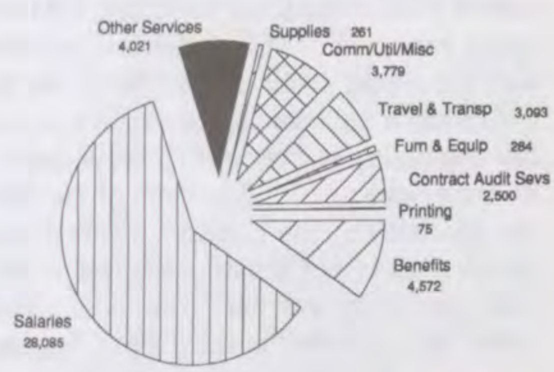
A contract employee was released from employment after substantiation of allegations that he was accepting additional fees for obtaining listings of persons entitled to a refund of unearned mortgage insurance premiums.

The manager of a HUD-subsidized project was fired for carrying a firearm around the complex and intimidating the tenants.

Four HUD employees were verbally cautioned against intimidating co-workers and HUD clients.

OIG BUDGET FOR 1993 - $46,670,000

(In Thousands)



A breakdown of the FY 1993 OIG budget is depicted above. The major categories of funding (salaries, benefits, other services, travel and transportation, and contract audit services) represent 90 percent of the budget. The remaining 10 percent consists of support and administrative services including communications, utilities, furniture and equipment, and supplies. The table below depicts the FY 1993 authorized staffing level of 572 full time equivalent employees. However, our appropriation will only support a staff of 560.

Staffing Distribution			
OFFICE	HQ	FO	TOTAL
Inspector General	8		8
Audit	43	334	377
Investigation	25	110	135
Management & Policy	52		52
	128	444	572

ESTABLISHMENT OF THE OIG PERFORMANCE REVIEW BOARD

On August 10, 1992, a separate OIG Performance Review Board (PRB) was established to review and make performance related recommendations regarding OIG career senior executives. This decision is consistent with the unique status of the OIG in that the Office has a separate appropriation and already had appointing and recertification authority for its senior executives. Members of the PRB are appointed by the Inspector General and drawn from career senior executives in the OIG community and the Department. Their names are published in the Federal Register.

SWAT TEAM ON CIVILIAN AGENCY CONTRACTING

During July and August, our Office participated in a joint effort with OMB and HUD's Office of Procurement and Contracts examining ways to improve contracting practices and management controls on cost-type contracts. Our effort was part of a review at 12 Federal agencies. The review team was charged with determining the nature of existing weaknesses, finding ways of improving the administration of cost-type contracts and, ultimately, assuring that the Federal Government was not reimbursing its contractors for unallowable costs.

We provided HUD's team report to OMB on August 25, 1992. The reported included several recommendations for improving the procurement process in HUD. A summary report of the work in all 12 agencies is being prepared by OMB.

Chapter 5 - Actions Against HUD Employees

During this reporting period, administrative actions were imposed as a result of OIG investigations against individuals who violated laws, rules or regulations. These actions may be applied concurrently or separately from ongoing civil or criminal proceedings. The following are examples of personnel actions taken against HUD employees which include terminations, formal reprimands and suspensions.

- A Realty Specialist was terminated for attempting to assist his daughter in purchasing a HUD-owned property without disclosing the purchase to HUD. The employee also made false statements to his supervisors in connection with the investigation of this matter.

- A Supervisory Equal Opportunity Specialist received a 120-day suspension and voluntary lower grade for false statements, misusing a government vehicle, submitting a false claim on a travel voucher, failing to conserve travel resources, and failing to request and charge time to leave for unauthorized absences. An Equal Opportunity Specialist received a 30-day suspension for misusing a government vehicle, submitting a false claim on a travel voucher, making false statements, and failing to request leave for unauthorized absences.

- A Supervisory Loan Specialist was terminated from employment for sexually harassing female employees, utilizing his supervisory position to provide preferential treatment to a job applicant, exhibiting unprofessional conduct and behavior unbecoming of a supervisor, attempting to interfere with a HUD/OIG investigation, and failing to carry out proper orders issued by his supervisor.

- An Equal Opportunity Specialist was terminated from employment for unacceptable performance of duties and unauthorized use of government-owned or -leased vehicles.

- A Clerk-Typist was terminated from employment for falsifying her Standard Form-171, Application for Federal Employment, regarding her academic qualifications. This was a violation of the Department's Standards of Conduct.

- A temporary Management Information Specialist was terminated from employment for falsifying his Standard Form-17l, Application for Federal Employment, regarding his criminal record, academic qualifications, and employment history.

- A former HUD employee was sentenced to 6 months imprisonment, 240 hours of community service, and 3 years probation for the theft of government identification cards from a HUD Regional Office. The stolen cards were used to obtain false credit cards.

- A Loan Management Clerk was arrested and charged with making false statements regarding her total income in order to obtain Section 8 rental assistance to which she was not entitled.

- A Regional Administration Division Director was suspended for 30 days without pay for improperly using HUD equipment and subordinate employees in non-HUD related activities, assisting in obtaining employment for his son with a contractor doing business with HUD, and claiming excessive costs on his travel voucher.

- A Supervisory Construction Analyst received a 5-day suspension for improperly accepting compensation from a developer who was doing business with the Department.

- A former OIG employee was suspended for 3 days because of inappropriate behavior while conducting an official investigation. The agent acted improperly and used poor judgment during an interview of a subject.

- A Contracting Officer received a letter of reprimand and was removed from oversight of procurement contracts. He improperly utilized the services of contractors doing business with HUD to perform work at his personal residence. Also, his personal relationship with a bidder and actions during the request for "Best and Final Offer" procedures gave the appearance of improperly influencing the bidding on a contract.

Appendix 1 - Audit Reports Issued

INTERNAL REPORTS ISSUED 04/01/92-09/30/92					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
HOUSING					
92-AO-121-0003	04/29/92	Access Controls And Transaction Logging of the Single Family Notes Servicing (SFNS) System			
92-AT-101-0004	04/30/92	Limited Review of the Public Housing Drug Elimination Program Grant Processing Atlanta Regional Office			$4,741,720
92-AT-123-0005	07/30/92	Single Family Accounting Management System (SAMS) Property Disposition Branch Greensboro NC Office			
92-BO-101-0006	04/17/92	Public Housing Development Processing Boston Regional and Selected Field Offices			
92-CH-112-0003	05/12/92	Servicing of Insured Multifamily Projects Loan Management Branch Grand Rapids MI Office			
92-CH-112-0004	06/26/92	Servicing of Insured Multifamily Projects Loan Management Branch Detroit MI Office			
92-CH-121-0005	08/27/92	Direct Endorsement Program Single Family Branch Cleveland OH and Chicago Regional Offices			
92-CH-101-0006	09/11/92	Monitoring Cooperation Agreements Public Housing Division Cleveland OH, Columbus OH, Detroit MI and Chicago Regional Offices			
92-DE-108-0003	09/21/92	Monitoring Activities of the Office of Indian Programs Indian Housing Authorities Denver Regional Office			
92-FW-123-0003	09/10/92	Pilot Program for Acquired Property Sales Exclusive Listing Broker Program New Orleans LA and Fort Worth Regional Offices			
92-FW-121-0004	09/18/92	Direct Endorsement Program Single Family Branch Tulsa OK and San Antonio TX Offices			
92-SF-121-0006	08/24/92	Direct Endorsement Program Single Family Branch Phoenix AZ, Tucson AZ, Las Vegas NV, Santa Ana CA and Sacramento CA Offices			
92-TS-103-0008	04/21/92	HUD's Fiscal Years 1992 and 1993 Budget Estimating Processes for Section 8 Contract Renewals and Amendments			

INTERNAL REPORTS ISSUED					04/01/92-09/30/92
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
92-TS-123-0010	04/30/92	Multiregion Audit Single Family Accounting and Management System (SAMS)			$580,000
92-TS-111-0012	07/16/92	Multiregion Audit of Section 8 Loan Management Set-Aside Program			
92-TS-121-0013	07/27/92	Payment of Claims For Single Family Insurance			
92-TS-112-0015	09/24/92	Contractor Incentive Payments for the Section 202 Elderly Housing Program Atlanta Regional Office			
		6 Audit-Related Memoranda			
COMMUNITY PLANNING AND DEVELOPMENT					
92-KC-141-0003	05/12/92	Monitoring Entitlement Grantees for Low and Moderate Income Benefit Claims Community Development Block Grant Program St. Louis MO Office			
92-SE-141-0001	09/30/92	Monitoring of the Municipality of Anchorage Rehabilitation Programs Seattle Regional Office			
92-TS-145-0009	04/29/92	Multiregion Audit of Special Economic Development Activities Community Development Block Grant Program			
92-TS-141-0014	07/30/92	Multiregion Audit of Controls over the Preparation and Use of Grantee Performance Reports Community Development Block Grant Program			
		2 Audit-Related Memoranda			
ADMINISTRATION					
92-DE-163-0002	09/21/92	Solicitation Evaluations, Contract Monitoring and Administration Activities Denver Regional Office	$11,095		
MISCELLANEOUS					
92-TS-179-0011	06/30/92	Audit of HUD's Fiscal Year 1991 Consolidated Financial Statements			
		1 Audit-Related Memorandum			

EXTERNAL REPORTS ISSUED					04/01/92-09/30/92
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
HOUSING					
92-AT-202-1010	04/09/92	South Delta Regional Housing Authority Greenville MS	$23,603		
92-AT-212-1011	04/10/92	Thomaston Elderly Housing, Inc. Development Cost Audit Atlanta GA			$58,760
92-AT-212-1012	04/10/92	Georgia Elderly Housing, Inc. Development Cost Audit Atlanta GA			$145,191
92-AT-201-1014	06/12/92	City of Jacksonville Department of Housing and Urban Development Low Rent Housing Program Jacksonville FL	$25,141		
92-AT-203-1015	07/08/92	Fairfield Housing Authority Section 8 Existing and Voucher Programs Fairfield AL	$2,358	$2,358	
92-AT-212-1016	07/14/92	Heritage Pointe Apartments HUD-Held Multifamily Co-insured Project Smyrna GA	$915,216	$29,606	
92-AT-202-1017	07/30/92	Housing Authority of the City of Mound Bayou Limited Review Of Diversions And Other Matters Mound Bayou MS	$55,433		
92-AT-211-1018	08/06/92	Bayamon Country Club Project Housing Development Grant and Multifamily Mortgage Insurance Program Bayamon PR	$3,099,391	$999,158	
92-AT-201-1019	08/19/92	Belmont Housing Authority Low Income Housing Program Belmont NC	$11,853	$5,211	
92-AT-202-1020	08/19/92	Housing Authority of the City of Boston Limited Review of Comprehensive Improvement Assistance Program Boston GA	$17,852		
92-AT-202-1021	09/03/92	City of Reidsville Section 8 Program Reidsville NC	$369,456	$4,089	$22,217
92-BO-204-1010	07/31/92	Somerville Housing Authority Comprehensive Improvement Assistance and Public Housing Drug Elimination Programs Somerville, MA	$182,832	$182,832	
92-BO-201-1011	08/14/92	New Haven Housing Authority Management Operations Low Income Housing Program New Haven CT	$1,841,713	$1,721,053	

EXTERNAL REPORTS ISSUED 04/01/92-09/30/92					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
92-CH-209-1019	04/20/92	Milwaukee Housing Authority Section 8 Certificate and Housing Voucher Programs Milwaukee WI			
92-CH-215-1021	05/29/92	Diversified Realty Group, Inc. Multifamily Project Manager Chicago IL	$14,897	$13,210	
92-CH-209-1022	05/29/92	Ashtabula Metropolitan Housing Authority Controls for Safeguarding Monetary Assets and Inventory Ashtabula OH			
92-CH-202-1023	06/12/92	Hamtramck Housing Commission Low Income Housing Program Hamtramck MI	$18,902	$18,902	
92-CH-209-1024	07/24/92	The Habitat Company Section 8 Scattered Sites Program Chicago IL			
92-CH-209-1025	07/30/92	Housing and Redevelopment Authority of Douglas County Controls for Safeguarding Monetary Assets and Inventory Alexandria MN			
92-CH-214-1026	08/28/92	Shurtz Management, Inc. Multifamily Management Agent Granville OH	$240,054	$87,894	
92-DE-202-1002	05/08/92	Blackfeet Indian Housing Authority Browning MT	$480,709		
92-FW-212-1005	08/13/92	Lake Como Community of Hope, Inc. Section 202 Elderly Housing Direct Loan Program Fort Worth TX	$248,461	$83,441	
92-FW-215-1006	08/28/92	Midland Property Management, Inc. Multifamily Management Agent Arlington TX	$32,540		
92-FW-215-1007	09/14/92	Republic Management, Inc. Multifamily Management Agent Houston TX	$169,920		
92-FW-212-1008	09/23/92	Lakes at Renaissance Park Apartments Multifamily Mortgagor Operations Austin TX	$727,965		
92-KC-201-1003	08/18/92	Housing Authority of Kansas City Low Rent Housing Program Kansas City MO	$36,999		
92-KC-214-1004	09/21/92	St. Andrew's Management Services, Inc. Northview Village Multifamily Management Agent St. Louis MO	$30,112	$30,112	

EXTERNAL REPORTS ISSUED 04/01/92-09/30/92					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
92-NY-209-1008	08/10/92	Schenectady Municipal Housing Authority Public Housing Drug Elimination Program Schenectady NY	$317,725	$187,067	
92-NY-204-1009	09/24/92	Newark Housing Authority Low Rent Housing Program Newark NJ	$8,434,776	$8,434,776	
92-NY-209-1011	09/25/92	Jersey City Housing Authority Public Housing Drug Elimination Program Jersey City NJ			
92-PH-201-1005	05/26/92	Philadelphia Housing Authority Management and Selected Development Operations Philadelphia PA	$3,318,224	$257,644	
92-PH-212-1006	06/22/92	Carrington Gardens I Multifamily Mortgagor Operations Richmond VA	$211,131	$159,676	
92-PH-209-1007	06/30/92	Housing Authority of the City of Pittsburgh Public Housing Drug Elimination Program Pittsburgh PA	$6,411	$6,016	
92-PH-209-1010	07/22/92	Allegheny County Housing Authority Public Housing Drug Elimination Program Pittsburgh PA			
92-PH-212-1011	08/21/92	Doctors Hospital Section 242 Hospitals South Charleston WV	$727,122	$157,168	
92-PH-212-1012	09/11/92	Woodstock Mutual Homes Multifamily Project Operations Philadelphia PA	$27,109		
92-PH-214-1013	09/22/92	Margaret Court Apartments Multifamily Mortgagor Operations Pittsburgh PA	$100,987	$32,293	
92-PH-201-1015	09/30/92	Department of Public and Assisted Housing Management and Selected Development Operations Washington DC	$7,542,944	$6,147,417	$537,284
92-SE-202-1005	08/31/92	Colville Indian Housing Authority Indian Housing Programs Nespelem WA			
92-SE-203-1006	08/05/92	State of Washington Department of Community Development Section 8 Certificate and Voucher Programs Olympia WA	$119,734	$66,209	
92-SE-214-1007	09/04/92	Northwest Development Multifamily Management Agent Operations Spokane WA	$107,428		

EXTERNAL REPORTS ISSUED 04/01/92-09/30/92					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
92-SF-212-1005	07/23/92	Northridge Cooperative Homes Multifamily Mortgagor Operations San Francisco CA	$315,412	$61,273	$17,094
92-SF-209-1006	08/14/92	Oakland Housing Authority Public Housing Drug Elimination and Comprehensive Improvement Assistance Programs Oakland CA	$6,940		
92-SF-201-1009	09/10/92	San Francisco Housing Authority Low Income Housing Program San Francisco CA	$165,167	$8,400	
92-SF-201-1012	09/25/92	City of Los Angeles Housing Authority Low Income Housing Program Los Angeles CA	$9,553		$7,573,070
92-TS-214-1013	06/10/92	Wilco Management, Inc. Multifamily Management Agent Nashville, TN	$2,064,588		
92-TS-219-1014	07/28/92	Love Funding Corporation HUD Approved Coinsurance Lender Washington DC			
92-TS-214-1015	08/11/92	Interstate Realty Management, Inc. Multifamily Management Agent Marlton NJ	$1,365,467	$144,417	
92-TS-219-1016	08/13/92	Tri Capital Corporation HUD Approved Coinsurance Lender San Francisco CA	$1,500,000	$1,500,000	$41,840,400
92-TS-221-1017	09/11/92	Commonwealth Mortgage Company LP Nonsupervised Mortgagee Philadelphia PA	$734,431		$1,169,893
		2,017 Reports Prepared by Independent Auditors and Other Federal Agencies	$8,969,459	$7,993,120	
		7 Audit-Related Memoranda			
COMMUNITY PLANNING AND DEVELOPMENT					
92-AT-241-1013	05/05/92	City of Chattanooga Limited Review with Emphasis on Financial Management System Community Development Block Grant Program Chattanooga TN	$444,355	$225,375	$20,000
92-BO-259-1009	06/30/92	Family Life Education, Inc. Supportive Housing Demonstration Program, Transitional Housing Cambridge MA			

EXTERNAL REPORTS ISSUED 04/01/92-09/30/92					
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
92-CH-241-1020	04/29/92	City of Kenosha Community Development Block Grant Program Kenosha WI			
92-FW-241-1004	05/22/92	Palm Center Redevelopment Project Community Development Block Grant Program Houston TX	$2,261,174	$1,825,729	$57,462
92-NY-241-1007	07/07/92	City of Troy Community Development Block Grant Program Troy NY	$1,629,110	$1,440,879	
92-NY-242-1010	09/24/92	City of Lockport Community Development Block Grant Program and Urban Development Action Grant Lockport NY	$850,494	$460,363	
92-PH-259-1008	06/30/92	The Northwest Center, Inc. Transitional Housing Grant Philadelphia PA	$9,991		
92-PH-241-1009	07/10/92	City of Huntington Community Development Block Grant Program Huntington WV	$4,681,560	$2,501,999	
92-PH-257-1014	09/25/92	Office of Business and Economic Development Lincoln Theater Project Section 108 Loan Guarantee Program Washington DC	$476,550	$476,550	
92-SE-242-1008	09/30/92	Municipality of Anchorage Section 312, Rental Rehabilitation,and Community Development Block Grant Program Rehabilitation Activities Anchorage AK	$625,902	$66,158	
92-SF-241-1007	08/19/92	City of San Bernardino Community Development Block Grant Program San Bernardino CA	$447,862		
92-SF-251-1008	08/20/92	Housing for Independent People, Inc. Supportive Housing Demonstration Program San Jose CA	$26,918		
92-SF-251-1010	09/23/92	City of San Jose Emergency Shelter Grants Program San Jose CA	$1,507,401	$1,507,401	$27,789
92-SF-259-1011	09/25/92	State of California Permanent Housing for Handicapped and Homeless Persons Program Sacramento CA	$363,494	$348,730	

EXTERNAL REPORTS ISSUED					04/01/92-09/30/92
REPORT NUMBER	ISSUE DATE	REPORT TITLE	QUESTIONED COSTS		FUNDS PUT TO BETTER USE
			TOTAL	UNSUPPORTED	
92-SF-241-1013	09/30/92	City of Vallejo Community Development Block Grant Program Vallejo CA	$870,997	$870,997	
		540 Reports Prepared by Independent Auditors and Other Federal Agencies	$117,425	$96,977	
		4 Audit-Related Memoranda	$10,000		
ADMINISTRATION					
92-AO-262-1001	04/21/92	National Fair Housing Alliance Final Contract Cost Audit Washington DC	$125,950	$26,162	
92-AO-262-1002	09/17/92	Aspen Systems Corporation Final Contract Cost Audit Rockville MD	$162,175	$153,780	
92-AO-262-1003	09/22/92	The Appraisal Foundation Final Grant Cost Audit Washington DC	$39,026	$12,303	
		31 Reports Prepared by Independent Auditors and Other Federal Agencies	$16,787		
		5 Audit-Related Memoranda			$48,030
MISCELLANEOUS					
		8 Reports Prepared by Independent Auditors and Other Federal Agencies			

Appendix 2 - OIG PUBLICATIONS

Publication Number	Publication Title
1026-IG(1)	The Purpose and Benefits of an Internal Audit
1097-IG	Auditing HUD-Approved Mortgagees
1025-IG(1)	OIG External Audit Process
1035-IG(2)	Reporting Fraud and Abuse to the OIG
1034-IG(2)	The Investigative Process
1356-IG	OIG Communique on Computer Matching
1116-IG(1)	You Can Make a Difference
1230-IG	Reviewing Independent Auditors Reports
83-1	Accountability Monitoring
649-IG	Time and Attendance and Leave Abuse
1268-IG	Microcomputer Security and Management
P-86-2	Asset Management
1033-IG	Computer Matching
1209-IG	Integrity in Public Service
1367-IG	Travel Awareness Bulletin
1261-IG	Public Housing Agency Commissioners
1067-IG	Section 8 Moderate Rehabilitation Program
1140-IG	Things You Should Know (English, Spanish, Vietnamese, Chinese and Tagalog)
1117-IG	Locking Out Tenant Fraud and Abuse in Public Housing
998-IG	Indian Housing Authority Commissioners and the Low-Income Housing Indian Housing Programs
892-IG	Conventional Low-Rent Housing Program
1157-ZFC	Avoiding Embezzlement of PHA Funds
905-IG	Tenant Eligibility
1353-IG	Warning: Be Honest When Applying for a HUD Mortgage Loan
1263-IG	Closing Agents
1161-IG	Misuse and Diversion of Funds - HUD-Insured and HUD-Held Multifamily Projects
1323-H	Locking Out Tenant Fraud and Errors in Multifamily Housing Programs
1019-H	Standards of Conduct for Owners of HUD-Insured and/or Assisted Housing
1039-IG	Rehabilitation Activities
1096-IG	Monitoring Subrecipients in the CDBG Program
1349-IG	CDBG Float Loan Financing

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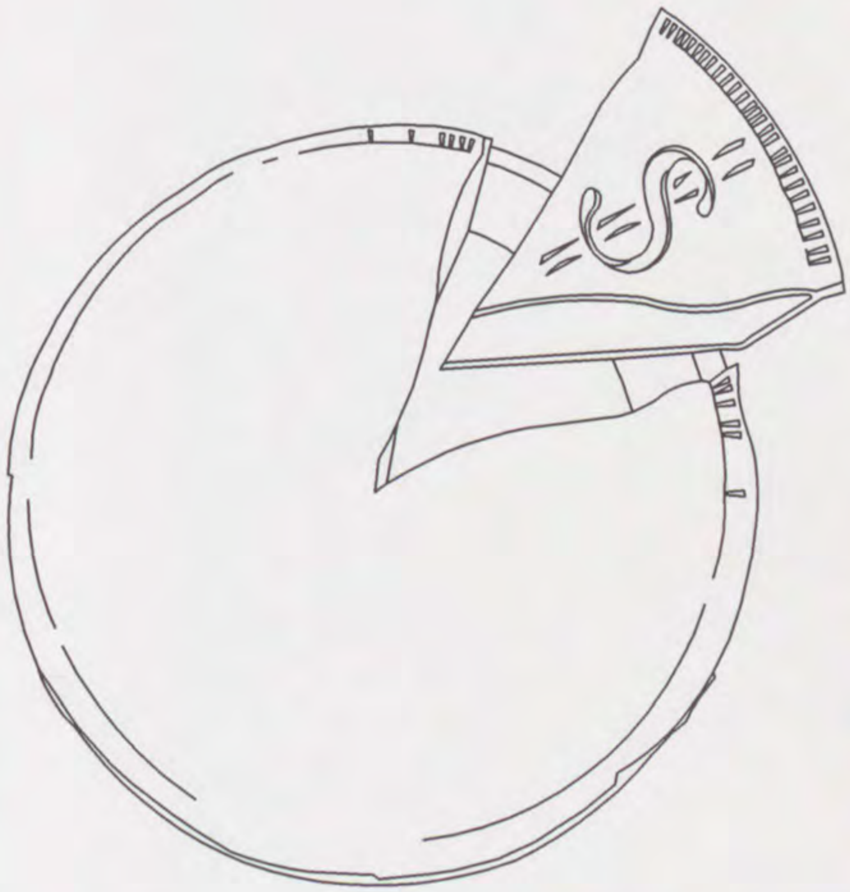

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U.S. Department of Housing and Urban Development
Washington, D.C. 20410-4500

November 1992
HUD-1378-IG

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