U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT

OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO CONGRESS

For the Period Ending March 31, 1993

Number 29

As Required by Public Law 95-452

PROFILE OF PERFORMANCE

Audit and Investigation Activities	10/1/92-3/31/93
Cash Recoveries/Savings [1, 2]	$48,988,760
Cost Efficiencies Realized [1]	$9,654,917
Commitments to Recover Funds [1]	$52,300,648
Cost Efficiencies Sustained [1]	$10,947,390
Total Fines Levied	$738,983
Indictments	227
Convictions	190
Suspensions of Persons/Firms Doing Business with HUD	35
Debarments of Persons/Firms Doing Business with HUD	53
Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board	2
Limited Denials of Participation Issued	1,335
Voluntary Exclusions of Persons/Firms Doing Business with HUD	2
Subpoenas Served	97
Material Weaknesses Reported	5
Personnel Actions Initiated Against HUD Employees	16
Program Integrity Activities	
Awareness Publications Issued	2
Hotline Complaints Received	1,101
Proposed Legislation/Regulations Reviewed	69

[1] Includes amounts due to HUD program participants.

[2] Includes $4.7 million in court ordered restitution.

Inspector General's Message to the Congress

During this semiannual reporting period, Inspector General recommendations and management actions to strengthen HUD programs and operations resulted in Departmental cash recoveries, savings and cost efficiencies totalling $58.6 million. Successful prosecutions in Federal, State and/or local courts of persons and firms that misused HUD funds resulted in 190 convictions and court ordered restitutions and fines of about $5.4 million.

HUD has taken steps to restore its image that was tarnished during the revelations of the *HUD Scandals* in 1989. While it is still an agency in need of significant management reform, progress has been made. In the area of ethics, HUD has established an Office of Ethics and instituted lobbying reforms. Costly and wasteful programs — such as Multifamily Coinsurance, Retirement Service Centers and Section 8 Moderate Rehabilitation — have been terminated. Financial management has benefitted from the creation of an Information Resource Management Board, the resolution of many long-standing audit recommendations, and the preparation of financial statements.

Despite this progress, much remains to be done to eliminate major problems confronting the Department. Chapter 1 of this report provides a status report on what this office considers to be the 10 most significant obstacles to the effective and efficient delivery of HUD programs. While these are not easy issues to correct, relatively little progress has been made in many of these areas since this office first reported them 1 year ago.

Correction of these problems will require both the Congress' and senior management's unrelenting focus on the issues, as well as their commitment to addressing the underlying causes. I am encouraged that, in his first weeks at HUD, Secretary Henry Cisneros asked for and received an OIG briefing on major Departmental problems and ways to solve them. He has made it clear to senior staff that he expects substantive corrective action on these major problems and has tasked the Deputy Secretary with ensuring this takes place. I am further encouraged that Congressional hearings are planned in early May by both the House and Senate to receive an update on the progress with regard to these major problems as well as the Secretary's plans for additional corrective actions.

Secretary Cisneros has also embarked upon a comprehensive review of Departmental operations and programs as a first step in *reinventing* HUD. This office has and will continue to be an active participant in this initiative, which could affect the context in which HUD's major problems are understood and resolved.

Given the budgetary and staffing constraints that have been imposed upon the Department, the Secretary faces a formidable task. *In my opinion, the Department still lacks the necessary staff to achieve its mission effectively*. However, changes in the way the Department conducts its business, which is an expected outgrowth of *reinventing*, could address this concern. We will work closely with the Secretary and his management team to seek ways to improve the effectiveness and efficiency of Departmental programs and operations.

John J. Connors

John J. Connors
Deputy Inspector General

GLOSSARY OF ACRONYMS

CDBG	Community Development Block Grant
CFO	Chief Financial Officer
CFS/TRACS	Control File Subsystem/Tenant Rental Assistance Certification System
CIAP	Comprehensive Improvement Assistance Program
CPA	Certified Public Accountant
CPD	Community Planning and Development
DVA	Department of Veteran Affairs
FBI	Federal Bureau of Investigation
FERA	Front-End Risk Analysis
FHA	Federal Housing Commission/Commissioner
FHEO	Fair Housing and Equal Opportunity
FMFIA	Federal Managers' Financial Integrity Act
GNMA	Government National Mortgage Association
GP	General Partner/Partnership
GPR	Grantee Performance Report
HAP	Housing Assistance Payment
HOME	Home Investment Partnership Program
HOPE	Housing Ownership for People Everywhere
HQS	Housing Quality Standards
HUD	(Department of) Housing and Urban Development
IHA	Indian Housing Authority
IOI	Identity-of-Interest
IRS	Internal Revenue Service
LDP	Limited Denial of Participation
LMI	Low- and Moderate-Income
MBS	Mortgage-Backed Securities
MCR	Management Control Review
MIP	Mortgage Insurance Premium
MRB	Mortgagee Review Board
OGC	Office of General Counsel
OIG	Office of Inspector General
OMAP	Office of Management and Policy
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
PDB	Property Disposition Branch
PFCRA	Program Fraud Civil Remedies Act of 1986
PHA	Public Housing Agency
PHDEP	Public Housing Drug Elimination Program
PHMAP	Public Housing Management Assessment Program
PIH	Public and Indian Housing
QCR	Quality Control Review
USPS	U.S. Postal Service

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2. Resource Management - HUD methods of formulating resource needs and utilizing resources provided are inadequate for ensuring an efficient and effective use of resources towards maximizing program results and minimizing program risk and susceptibility to fraud, waste and abuse.
3. Control Environment - HUD management needs to establish an effective Management Control Program to raise control consciousness and emphasis among its staff, and provide an on-going process for evaluation, improvement and reporting on HUD's internal control and financial management systems.
PROGRAM ISSUES
4. Multifamily Housing Servicing - HUD Insured Multifamily Housing project owners and management agents continue to violate their HUD Regulatory Agreements by misusing or diverting project assets and income from project operations, which adversely impacts HUD and intended low- and moderate-income program beneficiaries through increased loan defaults and physical deterioration of projects.
5. FHA Asset Management - Management controls over HUD's multi-billion dollar Single Family and Multifamily property management and disposition activities are not adequate for preserving housing and safeguarding the financial interests of the government.
6. CDBG Program Benefits - HUD management needs to improve controls for ensuring that CDBG grantees fund eligible activities and provide the required level of activities for the benefit of low- and moderate-income persons.
7. Public Housing Agency Management - Significant continuing problems exist in the management and operation of public housing agencies, precluding HUD from achieving its goal of providing decent, safe, and sanitary dwellings for low-income families.
8. GNMA Contract Management - With a limited staff and history of poor procurement and contract administration practices, GNMA has limited assurance that its extensive contract services are properly performed, and that claims for services are reasonable or valid.
9. Section 8 Budgeting and Accounting - HUD does not have an adequate system for tracking and controlling billions of dollars of long-term Section 8 subsidy commitments, resulting in millions of dollars of incorrect or misdirected subsidy payments and difficulty in establishing program funding needs.
10. New Program Implementation - New programs enacted by recent legislation pose a major challenge to HUD management to timely develop and implement plans for procedural, systems, staffing and other requirements for an efficient and effective program implementation.

The Correction of HUD's Management Deficiencies Is a Secretarial Priority

CHAPTER 1

IG's Perspective on HUD's Top 10 Management Issues

In our March 31, 1992 Semiannual Report to Congress, we discussed our perspective on the ***Top 10*** management issues facing HUD. The table on the opposite page summarizes the 10 issues, 3 systemic and 7 programmatic, as generally agreed to by HUD management, the Office of Management and Budget (OMB), and the General Accounting Office (GAO). Now, 1 year later, we are updating the status of these 10 issues for the benefit of HUD's new management team and decision makers in Congress and at OMB. Although some progress has been made over the past year, substantial effort is needed to effectively address these problems.

Our November 1992 Transition Book for the incoming administration included an update of the Top 10 management issues, along with suggested actions for addressing each of the problem areas. In February 1993, at Secretary Cisneros' request, we identified possible short-term and long-term actions for each problem. We are also active participants in Secretary Cisneros' ***Reinventing HUD*** initiative, which could greatly affect the context in which these management issues are understood and acted on. Our perspective on the 10 problems encompasses the events of the past year, including the audit findings and audit resolution activities discussed in Chapters 2 and 4 of this report.

SYSTEMIC PROBLEMS

Despite considerable Congressional and management attention to addressing the programmatic problems collectively labeled *the HUD scandals*, HUD programs are still at considerable risk of abuse and loss because of:

— delays in developing and implementing adequate integrated financial management data systems;

— insufficient staff levels and resource management problems; and

— a lax control environment that fails to manage risks and hold managers accountable for performance.

These three systemic problems are discussed in greater detail in the following sections.

Data Systems

Problem

HUD's automated data systems preclude effective control and management of its wide range of large, complex programs. HUD currently has over 195 separate, poorly integrated, often duplicative, and generally unreliable, data systems.

Background

HUD's programs entail $379 billion of FHA Insurance in Force; $14.1 billion in property and other assets; $422 billion of GNMA Mortgage-Backed Securities; $100 billion in long-term housing subsidy commitments; billions of dollars of outstanding grant commitments; and an average of $25 billion in annual budget authority. Effective data systems are critical to management of programs of this magnitude.

HUD's systems deficiencies stem primarily from a lack of overall management and long-range planning. Historically, short-sighted, quick-fix decisions, heavily impacted by budget constraints, have been all too common. Systems development has been administered from a parochial sponsor/user perspective, meaning that the systems were created for specific users along organizational rather than program lines. This allowed program and accounting staffs to build separate and often duplicative systems, rather than a more efficient integrated system serving everyone's needs. In addition, staffing constraints and lack of a sense of ownership result in poor support by the largely autonomous regional and field offices for these Headquarters-directed systems. Moreover, the systems often did not satisfy management needs, did not provide adequate control, and lacked credibility. System documentation was inadequate, audit trails were incomplete, security considerations were lacking, and up-front cost-benefit analyses or feasibility studies were nonexistent.

Current Status

HUD's Chief Financial Officer (CFO) and five program Comptroller positions were created in 1990 to provide a framework for sound financial management.

However, full establishment of the CFO and Comptroller functions has been significantly delayed, and HUD's management of its financial management improvement operations still needs much improvement.

Although the CFO function has responsibility for systems integration, it lacks the necessary authority, expertise and resources to effectively carry out its responsibilities. The CFO did oversee the contract for the development of a 5-year systems integration plan, but progress on the plan has been slow. Further, we are concerned about this growing dependency on contractors. HUD is at the point of using contractors to oversee other contractors, who are advising on design projects being developed by yet a third tier of contractors. This process is inefficient and costly in both the short and long run. Permanent in-house capacity would likely have no net effect on HUD's overall budget, as personnel costs would be off-set by reductions in contracted services.

HUD management is also not fully involving its resident program expertise in the systems development process to ensure the new systems will meet program needs. For example, despite the considerable cost and effort already spent developing the CFS/TRACS System for the Section 8 Program, poor planning has led to delays and data quality problems that will require additional cost and effort to correct. There is an inherent risk in designing and developing systems outside of the user's control, and placing excessive reliance on contractors who lack HUD program knowledge.

What needs to be done

Every effort should be made to quickly marshall the resources needed to correct HUD's systems deficiencies. This will require the support and cooperation of both OMB and the Congress. HUD identified $63 million in systems development needs for Fiscal Year 1993, but budget constraints limited funding to $33 million. While OMB has committed to $100 million for financial systems integration over the next 3 years, roughly $33 million a year is simply insufficient to fund normal enhancements and new program systems as well as the major overhaul required by the integration effort. For FY 1991 and 1992, HUD's systems development budget was $37 million and $33 million respectively, exclusive of systems integration. For FY 1993, that figure is down to $21 million. In FY 1994, that figure is down to $16 million.

Secretary Cisneros and his management team are currently assessing HUD's financial management structure, including the role of the CFO in fulfilling HUD's systems development needs.

Resource Management

Problem

HUD does not have sufficient staff to carry out its operations as currently structured. In addition, it does not have a plan for either acquiring additional competent staff or restructuring operations based on the resources it has. Of special concern is the increased risk of fraud and abuse as HUD shifts much of its program delivery functions to others, without the level of monitoring needed to prevent, detect or correct problems. Undetected and uncorrected problems tarnish HUD's credibility, escalate program costs and diminish program benefits.

Background

Over the past 10 years, at the same time that major new programs have been introduced, HUD staff has declined from 17,000 to 13,500 people. The combination of increased need and decreased staff hampers new program delivery, as well as effective monitoring and close-out of ongoing and terminated programs. It has also led to increased reliance on contractors to perform many of the program delivery functions previously performed by HUD staff.

Current Status

Addressed in Chapter 2 of this report is our most recent audit of the management and control of staff resources (Report No. 93-HQ-169-0005). The audit concludes that HUD lacks a uniform and reliable system to identify, request and allocate staff. In addition, a recent capacity study of GNMA concluded that it lacked both the staff and skills mix necessary to effectively manage its significant financial programs. Similarly, the audit of FHA's Fiscal Year 1992 Financial Statements concluded that resource shortages are a material program weakness.

HUD develops annual management plans to prioritize its planned accomplishments. However, these plans typically emphasize new program initiatives over the *nuts and bolts* of major existing programs. Even when goals and objectives are established for existing programs, they tend to emphasize the *production* aspects. Critical activities such as contract administration, technical assistance, systems maintenance, and corrective actions and sanctions are seldom addressed.

The complexity of the staffing challenge is compounded by:

— an unwieldy organizational structure that discourages accountability;

— geographic dispersion of staff and skills not necessarily commensurate with program workloads and needs;

— fragmented program and financial management systems responsibility;

— abandonment of work measurement systems for determining resource needs; and

— hiring limits that prevent FHA and GNMA from responding to changes in economic conditions in a business-like manner.

What needs to be done

As part of his *Reinventing HUD* initiative, Secretary Cisneros is assessing HUD's mission and goals and the manner in which HUD conducts business. HUD management and staff, as well as program participants, are being encouraged to recommend changes and improvements. In line with this effort, HUD has commissioned a Congressionally mandated study of HUD's organizational structure.

In this era of budget austerity, it is unlikely that HUD will significantly increase its resources. Therefore, the challenge is to better utilize existing resources through alternative means of program delivery; more effective coordination of activities; increased use of training and technical assistance; greater utilization of risk based management and monitoring concepts; and stronger program enforcement practices. Again, it is likely that OMB and Congressional support will be needed to significantly improve HUD's resource management.

Control Environment

Problem

HUD does not have an effective Management Control Program to raise staff control consciousness and provide for evaluation, improvement and reporting on internal control and financial management systems. Since 1983, the inception of its Management Control Program, HUD has been unable to report compliance with the Federal Managers' Financial Integrity Act of 1982 (FMFIA). FMFIA requires agency heads to establish and maintain internal control and financial management systems which provide reasonable assurance that:

— assets are safeguarded against waste, loss, unauthorized use and misappropriation;

— programs comply with legislative, regulatory and administrative requirements; and

— financial management and information systems provide management with current, relevant and reliable information for decisionmaking and reporting.

Background

Over the 10-year life of its Management Control Program, HUD has reported 117 material weaknesses, most of which were identified by the OIG or sources other than the responsible managers. Management's failure to identify and act on material weaknesses in a timely manner continues to result in millions of dollars of losses or waste in HUD programs.

Current Status

There are several factors that affect HUD's ability to establish an effective Management Control Program. Assistant Secretaries and Regional Administrators are not held accountable for fulfilling FMFIA requirements. Instead, improvement efforts are generally pursued by Headquarters accounting staff. Further, the process is not fully extended to the regional and field offices where the majority of programs are delivered. In addition, control evaluations are usually contracted out, contributing little to improved program staff understanding for control concepts and relation to their own systems.

The CFO initiated efforts to reform HUD's Management Control Program at the end of FY 1992. Actions planned for FY 1993 include:

— issuing revised management control policy guidance;

— issuing a new assessable unit inventory encompassing both headquarters and HUD's critical field operations;

— performing an updated risk assessment on the inventory of assessable units;

— developing a Management Control Plan for scheduling required evaluations and testing internal control systems;

— training HUD staff to enhance their understanding and appreciation of FMFIA objectives and processes and their ability to fulfill requirements; and

— strengthening FMFIA requirements as part of management's performance plans and annual performance evaluations.

In an effort to show some progress in reforming HUD's Management Control Program, the CFO advanced the internal control evaluation process to Headquarters and regional components without full understanding, support and guidance. Moreover, the CFO still needs authority to enforce compliance with FMFIA requirements throughout the Department.

What needs to be done

Additional reforms are needed before any substantive progress or benefits can be expected from HUD's stated plans to provide ongoing evaluations of its internal control systems. The CFO, as the administrator of HUD's Management Control Program, needs to identify and be able to ensure effective actions are taken on systemic problems adversely affecting internal controls across organizational or program lines. HUD's system of internal control need to be better documented, analyzed, and adjusted as necessary to ensure available resources are effectively utilized to minimize the risk in HUD programs.

In addition to Management Control Program reforms, HUD's control environment would be greatly improved by increased use of program performance measures for all major HUD programs and operations. This would provide the accountability needed to improve many aspects of HUD's program delivery. The development of such measures is currently underway.

PROGRAMMATIC PROBLEMS

Although HUD continues to improve programs through changes to program policies, processes and procedures, other actions are necessary before its most significant problems are satisfactorily resolved. In many cases, effective solutions are dependent on the resolution of the larger systemic problems discussed previously. We believe the following seven program areas continue to present the greatest challenge.

Multifamily Housing Loan Servicing

Problem

Multifamily housing project owners and management agents continue to misuse or divert project assets and income, thereby adversely impacting both HUD and low- and moderate-income persons through increased loan defaults and physical deterioration of projects. The problem persists because insufficient staff and poor systems contribute to ineffective monitoring, thereby prolonging actions to correct problems. Lastly, available sanctions are not used effectively to force corrective action.

Background

HUD administers mortgage insurance programs that insure private lender financing of multifamily housing projects. During the term of the HUD-insured mortgage, the project owner agrees not to use project assets and income for unnecessary operations or unauthorized distributions to owners. Since inception, the programs have assisted in the creation of nearly 4 million affordable rental units with an original mortgage principal balance of over $81 billion. At the close of fiscal year 1992, HUD had over $43 billion of multifamily housing mortgage insurance in force.

Current Status

Our most recent audit work, the loan servicing audit discussed in Chapter 2 (page 17), shows that assets and income continue to be diverted from HUD insured multifamily projects, and projects continue to fall short of meeting HUD's Housing Quality Standards. The impact of these problems can be seen in our report on the audit of FHA's Fiscal Year 1992 financial statements (page 28). That audit reports a $6.4 billion increase in the loss reserves on insured multifamily loans, bringing the total reserve to $11.9 billion, or 27 percent of the $43.6 billion FHA multifamily insurance in force.

To establish a more reliable estimate of loss reserves for loans in troubled categories, the financial data for approximately 13 percent of FHA's insured multifamily loans was reconstructed, including the majority of its large and troubled loans. Although this was an important first step, the financial statement audit shows that HUD still lacks an essential central data base for all insured multifamily loans, and a system that provides reports on the financial and operational status of individual loans at the field, regional and Headquarters levels.

Without such a system, FHA is constrained in its monitoring and loss prevention efforts and senior management is hampered in effectively overseeing the efforts they direct. Compounding the problem is the fact that HUD has only about 560 staff to monitor the servicing of $43 billion of insured mortgages. While FHA management has strengthened servicing policies and procedures, sufficient staff has not been available to effectively carry them out.

What needs to be done

We believe the problems in the multifamily loan servicing area will remain a material weakness until management provides the systems and staffing support necessary to monitor and enforce program requirements, or, alternatively, makes significant changes in the way the Department conducts its operations in this area.

Asset Management and Property Disposition Single Family and Multifamily Housing

Problem

Controls over HUD's single family and multifamily property management and disposition activities are not adequate to preserve the housing inventory and protect the financial interests of the government. While HUD has substantially improved its property management systems support and internal controls, problems of staffing and resource management continue to adversely impact this high dollar program area.

Background

The purposes of the single and multifamily housing programs are to facilitate homeownership, stimulate housing construction, upgrade housing quality, and provide decent, safe, and affordable housing for low- and moderate-income families. HUD contracts with area management brokers or property managers to manage the properties it acquires through mortgage defaults until those properties are sold. Brokers and property managers have limited authority to procure goods and services within the bounds of the Federal Acquisition Regulations, HUD procurement policies and procedures, and the terms of the management contract. HUD field offices contract with closing agents to handle single family property sale settlements, including necessary disbursements and transfers of HUD monies to the U.S. Treasury.

At the end of Fiscal Year 1992, HUD had an inventory of approximately 34,800 single family units and 154 multifamily projects. These numbers will increase because of the 91,397 single family mortgages assigned to HUD, and 249 defaulted multifamily projects awaiting foreclosure. Single family property sales in Fiscal Year 1992 totaled $4 billion.

Current Status

Control over single family property disposition activities has been significantly improved by a major new automated Single Family Asset Management System (SAMS) that tracks receipts and disbursements from assumption to final sale. We believe this system and other controls have eliminated the material weaknesses over closing agents, which resulted in the highly publicized *Robin HUD Scandal*.

Controls on the multifamily side have been less successful. HUD implemented a computerized Property Management System to provide data for monitoring property manager activities. Although HUD reported that the system was fully implemented as of December 1990, subsequent reviews by our office and a contractor found that it was not fully functioning as intended. Also, our audit of the Management of HUD-Owned Projects, as summarized in Chapter 2 (page 18), and the FHA financial statement audit (page 28), show that HUD Field Offices are not implementing repair policies to prevent further deterioration of HUD owned properties.

To improve contract administration, in September 1991, the procurement function for asset management and disposal services was transferred from the Office of Housing to the Office of Administration to capitalize on its procurement expertise. In addition, the separation of duties between Housing and Administration was intended to improve management controls. However, because of resource constraints in some offices, these transfers have not been fully implemented.

What needs to be done

Housing officials must quickly develop revised strategies to deal with the growing asset management problems. These staff intensive activities compound the current staff shortages by diverting attention from the more important loss prevention activities discussed previously in the loan servicing section. Until concrete steps are taken, the dual problems will continue to drain the multifamily insurance fund.

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

Problem

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

Background

The Housing and Community Development Act of 1974, as amended, provides grants to State and local governments to fund programs for decent housing and suitable living environments and to expand economic opportunities, chiefly for low- and moderate-income persons. Activities are funded to achieve any one of three national objectives: benefit low- and moderate-income persons, aid in preventing or eliminating slums and blight, or meet other urgent community needs. By law, at least 70 percent of all CDBG funds are to be used to benefit low- and moderate-income persons. In Fiscal Year 1993, the CDBG Entitlement Program will provide about $2.9 billion dollars to invest in community development.

Current Status

As discussed in greater detail in Chapter 2, our audits continue to disclose problems with program administration and reported program benefits. In those audits, and prior Congressional testimony, we reported the need to:

— develop and disseminate clearer guidance on the propriety of program expenditures;

— implement risk based monitoring to better target resources at the most vulnerable areas; and

— implement better management and accounting systems to provide more timely and accurate information on how program funds are being spent.

What needs to be done

Major changes are needed in the program's structure and Secretary Cisneros' *Reinventing HUD* initiative is focused on HUD's community programs delivery. Early feedback from several sources calls for the programs to be simplified and administered in a way that provides for greater local decision making and choice; corresponding flexibility in HUD programs; increased client service and technical assistance; and improved performance measurement and accountability at all levels of program delivery. Although this new direction appears reasonable, the types of changes being discussed by the new administration would likely require legislative and/or regulatory changes.

Public Housing Agencies

Problems

Significant problems in the management and operations of many public housing agencies (PHAs) continue to frustrate HUD's efforts to achieve its goal of providing decent, safe, and sanitary dwellings to low-income families. The capability of PHAs to manage Federal funds, as well as HUD's oversight of such agencies, must be improved. Increased training and technical assistance, as well as alternative PHA management strategies, are needed.

Background

PHAs can be State, county, municipality, or other public bodies determined eligible to engage in or assist in developing, owning, and operating housing projects. HUD relies on over 3,100 PHAs to manage 1.3 million units as well as about 80 percent of its annual budget allocation. Funds are distributed principally through operating subsidies, Section 8 funding, and development/modernization grants. The Federal investment in public housing is both significant and accelerating. During the early 1950's local governments shared equally in subsidizing public housing; however, the Federal Government is now assuming most of the direct subsidy costs.

Current Status

Although many PHAs are suffering severe crises, the solution is not just more money. For example, public attention was recently focused on an estimated $6 billion of unused public housing modernization funding that is in the pipeline from prior years. We have found that some PHAs, particularly those with more than

1,250 units, often lack the administrative capacity to effectively manage the substantial sums of Federal and other funding they already receive.

Only 5 percent of the PHAs are considered *large*, but those PHAs manage nearly 60 percent of the public housing stock. Our audits, as discussed in Chapter 2, continue to report serious operating and management problems at large PHAs. The result is the ineffective expenditure of millions of dollars due to inefficient maintenance, tenant mismanagement and poor energy conservation practices. Also, many of these PHAs are not providing their residents with housing that meets HUD's Housing Quality Standards. In many instances, properties are deteriorating, vacancies are increasing, operating expenditures are unchecked, rents are uncollected, and administrative and financial practices and controls are inadequate.

These financial and management problems can be traced to a variety of causes. Some are statutorily based, such as the limit on rents that can be charged very low-income families. Other causes are poor management, increased responsibilities, complexity of program regulations, and lack of effective HUD monitoring.

HUD is pursuing new alternatives in many large troubled PHAs. The alternatives include allowing residents to vote for new management or exercising HUD's statutory authority to seek court-appointed receivers for poorly managed projects by declaring a PHA in breach of its Annual Contributions Contract. In addition, the Housing and Community Development Act of 1992 contains numerous provisions addressing PHA management and operational problems, but it will take time for full implementation.

HUD is in the process of implementing the legislatively mandated Public Housing Management Assessment Program (PHMAP). PHMAP's goal is to improve PHA management and performance by establishing performance goals and related incentives and sanctions. To support and expand on the PHMAP effort, HUD is in the final testing phase of a four-phase $1.2 million contract for Program Management Assessment, tasked with developing and field testing a Public Housing mission statement; new functional responsibilities for HUD staff; a risk based staffing allocation model; a revised field monitoring handbook strategy; and several other key elements.

What needs to be done

These efforts will help to better focus HUD's public housing program resources on PHA problems, but effective implementation is a large undertaking that warrants continued Congressional and HUD attention.

Government National Mortgage Association
Contract Management

Problem

With a staff of only 68 people, GNMA relies heavily on contractors to carry out the asset management and program responsibilities associated with its $422 billion Mortgage-Backed Securities Program. With a small staff, GNMA has difficulty in overseeing all the various contracts necessary to perform its primary mission and assure that claims for services are reasonable.

Background

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

Current Status

GNMA has for several years experienced a significant increase in issuer defaults. In 1989, GNMA experienced a serious problem with issuer defaults in its single family program. With its subservicers, GNMA manages individual pools by collecting delinquent loans, following aggressive foreclosure actions and filing claims with FHA and VA. GNMA's acquired portfolio peaked with a total servicing balance of $15 billion in Fiscal Year 1991. This was reduced to a servicing portfolio of $8 billion at the end of FY 1992, due to an aggressive asset sales policy. However, it is possible that additional servicing rights will default to GNMA due to difficulties in the FHA coinsured multifamily program.

In 1989 we recommended GNMA's oversight of subservicer contracts be considered a material weakness. Since that time, GNMA has improved its subservicer selection and established standard performance requirements. Perhaps the most important action was hiring a contractor to monitor subservicer activities and contract compliance. The contractor was selected in September 1991, with plans to complete reviews of many of GNMA's largest service contracts in Fiscal Year 1992. However, the audit of GNMA's Fiscal Year 1992 Financial Statements, dated February 1993, reported that the contractor performed monitoring reviews were still not complete and the material weakness on subservicer monitoring was not fully resolved. The report recommended additional improvements to GNMA's administration of subservicers, as well as the need for contract compliance or internal control reviews of GNMA's significant central paying and transfer agent contractor and its issuer monitoring contractor.

What needs to be done

Using a contractor to monitor other contractors raises questions as to whether GNMA has been forced to abandon an inherently governmental function. It may be more prudent for GNMA to hire its own permanent staff to administer its contracts, thereby strengthening its control over its programs.

GNMA needs to evaluate its servicing policies to ensure that every reasonable effort is made to protect the government's interests as a whole, including FHA. Our audits have reported the need to better coordinate related GNMA and FHA activities to include:

— following up with owners to correct adverse conditions disclosed in site review reports and financial statement reviews;

— determining causes of delinquencies and defaults, and evaluating the likelihood of reinstatement;

— providing notice of significant Regulatory Agreement violations and indicators of possible fraud; and

— initiating enforcement actions against project owners or managing agents.

A recent GNMA capacity study concluded that GNMA needs additional staff and an improved staff skills mix to perform essential services. HUD supported the recommendation for 10 additional staff. GNMA's problems could be severely compounded if additional resources do not accompany the new GNMA programs being supported by the current Administration.

Section 8 Budgeting and Accounting

Problem

HUD does not adequately track and control billions of dollars of long-term Section 8 subsidy commitments. As a result, millions of dollars of subsidy payments are made incorrectly, and HUD has difficulty establishing program funding needs.

Background

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

Current Status

Reports by OIG and GAO and Congressional hearings have all identified three principle problems in Section 8 accounting and budgeting. These problems are:

1. Ineffective and inefficient processes resulting in millions of dollars of incorrect and misdirected subsidy payments.

2. Division of major financial and accounting functions between field, program and accounting staffs which contribute to HUD's inability to track its various financial operations and provide accurate budget information.

3. Insufficient HUD resources and systems to effectively and economically administer Section 8 Programs as they are currently structured.

Our 1990 audit of Section 8 budgeting and accounting focused on HUD's inability to produce accurate and reliable data. To illustrate, Section 8 funding needs were underestimated by $1.2 billion in the initial Fiscal Year 1992 budget request. Consequently, OMB initiated a *SWAT Team* to develop a last minute budget revision. This need created considerable concerns on the part of the Appropriations Committees.

What needs to be done

In response to a 1990 study, HUD is developing an integrated subsidy budgeting and accounting system, referred to as the CFS/TRACS System. HUD is attempting to implement the Control Files Subsystem (CFS) and has begun to develop the Tenant Rental Assistance Certification System (TRACS). In compliance with a legislative mandate, we reviewed the accuracy of the Fiscal Year 1992 and 1993 Section 8 Program budget estimates, as well as the progress of CFS/TRACS. Although improvements have been noted in HUD's methodology for estimating its Section 8 requirements, we cannot attest to the accuracy of HUD's budget estimates. We also found that progress on CFS/TRACS was impeded by planning, administrative and technical problems. As detailed in Chapter 4 of this report, several of our audit recommendations to improve HUD's budget estimates and CFS/TRACS development have yet to be satisfactorily addressed.

HUD's ability to administer the Section 8 Program has been further eroded by the need to assign staff to the labor intensive reconstruction of data for the CFS/TRACS Project. HUD, OMB and the Congress need to consider the lessons learned from the CFS/TRACS experience, and assure that sufficient planning and resources are provided for the remainder of the critical systems overhaul needed at HUD.

Implementation of New Programs

Problem

Implementation of the HUD Reform Act of 1989, the National Affordable Housing Act of 1990, and the Housing and Community Development Act of 1992 poses a major management challenge for HUD. The challenge is to develop and implement plans for the efficient and effective implementation of widespread program changes, as well as significant new programs such as the HOME, HOPE, Multifamily Prepayment/Preservation, and Public Housing Management Assessment Programs.

Background

In 1983, HUD established a Front-End Risk Analysis (FERA) requirement, as part of its FMFIA program, to ensure that adequate internal controls are built into all new or substantially revised programs. The process called for:

— identification of program risks and control objectives;

— description of control techniques to minimize risks; and

— action plans identifying milestones and responsible officials for ensuring that adequate controls are established as a critical part of program implementation.

Current Status

In light of the many new and revised programs at HUD, the prior Secretary and Deputy Secretary placed a renewed emphasis on HUD's FERA process. This emphasis was reflected in the 1991 transfer of responsibility for FERA to the CFO. However, implementation of FERA has continued to be problematic.

The CFO initially failed to establish adequate requirements and guidance for conducting FERAs and did not plan adequate control systems for new programs. Although improved requirements and guidance were issued in September 1992, stronger efforts are needed to ensure they are carried out for new programs enacted by the Housing and Community Development Act of 1992 and legislative initiatives of the new Administration and Congress.

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

What needs to be done

The OIG continues to monitor management's implementation of HUD's major new programs, and is initiating audit work as each major program activity comes on line. Our 1992 survey of automated systems support for HUD's largest new program, HOME, reported staffing and systems concerns to effectively monitor the use and benefits of this multi-billion dollar program. HUD has since come under considerable criticism for its inability to timely and effectively implement the HOME Program. Recently, Secretary Cisneros announced plans to simplify program requirements, expedite program benefits, and provide training to communities.

Auditing is an Effective Control to Aid Management in Achieving Efficient Operations

CHAPTER 2

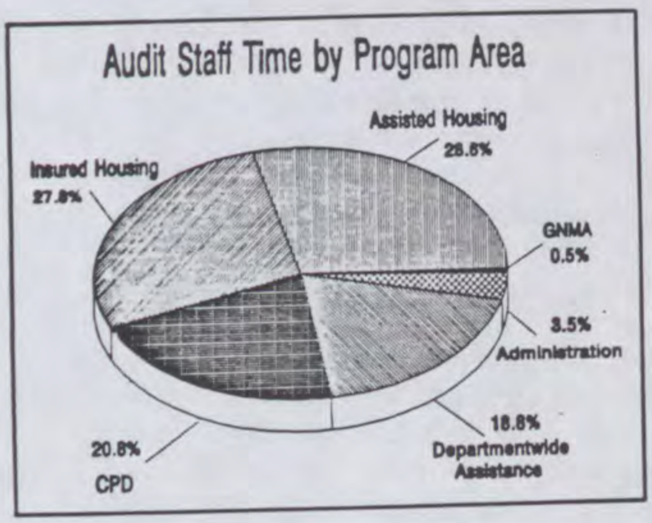
AUDIT

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

Among the problems discussed in this Chapter are a number of issues that have plagued HUD for many years and which we have reported in numerous Semiannual Reports to the Congress. An example is the need for HUD to provide effective multifamily loan servicing in order to protect millions of HUD dollars and to prevent the continued deterioration of housing projects. Another example is ineffective management and the quality of housing administered by some public housing agencies across the Country. Yet another is the Department's lack of control over grantees' expenditures of Community Development Block Grant funds that are intended to benefit low- and moderate-income persons. This Chapter also discusses deficiencies disclosed in our audits of Single Family Housing Programs, Section 8 assistance to low-income families, and the Homeless Programs, all of which impact on HUD's ability to carry out its mission to provide decent, safe, and sanitary housing to those in need.

Also discussed are various financial management issues at HUD. In addition to our audits of FHA and GNMA financial statements, conducted in accordance with the Chief Financial Officers Act of 1990, we report that the existence of material weaknesses in many of the Department's programs and activities precludes HUD from complying with the FMFIA. Material weaknesses are those weaknesses of sufficient importance to be reported to the President and the Congress and that significantly impair the fulfillment of the Department's mission. A number of these material weaknesses are also discussed in detail in this Chapter.

During this reporting period, we issued 21 reports on internal HUD operations and 60 external reports on grantees and program participants. We directed the majority of our resources (81.2 percent) to the functional areas depicted on the chart below. The remaining 18.8 percent went to Departmentwide assistance, which includes such functions as follow-up on audit findings and recommendations, quality control and monitoring of independent auditors, and program integrity activities.



Multifamily Housing

We have previously reported a need for HUD to properly service multifamily insured loans in order to halt the diversion of millions of dollars of project assets and to slow the steady deterioration of properties. 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. This pattern demonstrates that controls are not functioning as intended and additional measures are needed to address commonly identified problems.

HUD administers several mortgage insurance programs that finance the construction or rehabilitation of multifamily projects. In addition to projects with HUD held or HUD insured mortgages, the Department also directly owns a number of multifamily projects acquired through its insurance and loan programs. Under the Multifamily Housing Programs, HUD sometimes subsidizes the rents for eligible low-income households through Section 8, Rent Supplement, and Rental Assistance Payments Programs. During this reporting period, we focused our efforts on loan servicing of HUD insured multifamily projects, management of HUD owned projects, bond refunding of Section 8 projects, and certain aspects of the Title II Preservation and Prepayment Program. We also conducted a number of audits focusing on management agent operations.

Servicing of Multifamily Projects

Problem: INEFFECTIVE SERVICING OF MULTIFAMILY PROJECTS INCREASES THE RISK OF SUBSTANTIAL LOSSES TO THE INSURANCE FUNDS.

Discussion: We conducted an audit of HUD's multifamily project loan servicing activities at six field offices within three regional offices. We concluded that low staffing levels, incomplete training, poor supervision and unreliable data systems all contribute to the increased potential for substantial losses to HUD and to substandard living conditions for project tenants.

HUD insures about 15,000 projects containing 1.8 million housing units with insured mortgages of about $48 billion. HUD also provides about $250 million annually in project based rent subsidies to these projects. This audit is the latest in a series of numerous reviews over the past 15 years that disclosed significant weaknesses in HUD's loan servicing. Additional details on these matters are discussed in Chapter 1 of this report and later in this Chapter (page 28) concerning the audit of FHA's financial statements.

This report recognizes the improvements recently made in the guidance and training provided to loan servicers as well as the use of risk based targeting techniques and fee personnel to alleviate staffing shortages. However, these steps have not been sufficient to overcome the systemic material weaknesses associated with this activity. Key among the weaknesses are staffing shortages. The ratio of projects serviced per loan servicer ranged from 105 in Detroit to 28 in Kansas City. We compared these staffing ratios to two State Finance Agencies and noted that their ratios were 16.5 and 12.5 projects per servicer respectively. Because of the excessive workloads, HUD staff was not able to take comprehensive actions to protect HUD's interests in the projects.

The Office of Housing is developing a resource allocation plan in response to several previous reviews. Thus, our recommendations in the report include additional steps that could be taken to improve day to day servicing activities and some alternative means to develop specialized groups to deal with problem projects. Until the staffing, data systems and other control weaknesses are resolved, we recommend that HUD continue to report the loan servicing function as a material weakness under the Federal Managers' Financial Integrity Act. (Report No. 93-HQ-111-0014)

Asset Management

Problem: HUD OWNED PROPERTIES ARE IN POOR PHYSICAL CONDITION.

Discussion: We reviewed HUD's management of multifamily projects in its own inventory at seven field offices within three regions to determine if asset management activities were effective in minimizing HUD losses and maintaining quality housing units. We also audited six property managers that manage the day to day activities at HUD held projects under contracts with HUD. A November 1992 management report shows that HUD's inventory consists of 276 projects with another 187 projects in the foreclosure pipeline. During Fiscal Year 1992, HUD spent about $117 million managing its inventory of multifamily properties.

We concluded that Housing management had developed and initiated several management control improvements including better defined guidance and procedures and upgraded data systems to track project financial operations. In addition, a contractor was employed to perform project reviews and oversight. Despite the improved policies and guidance, our review disclosed that field office staffs had not implemented the new procedures and regional and Headquarters staff had not intervened to assure that implementation was progressing satisfactorily. Consequently, properties held in inventory for several years still were not repaired properly and HUD's risk of insurance losses were increased. We recommended that the Office of Housing further improve their processes by establishing controls that will assure that comprehensive repair programs are established and carried out in a timely manner. Until the controls become fully implemented, we also recommended that the Office of Housing report the deficiencies as a material weakness under the Federal

Managers' Financial Integrity Act. (Report No. 93-HQ-113-0011)

Bond Refundings of Section 8 Projects

Problem: HUD COULD REALIZE AN ADDITIONAL $400 MILLION IN SAVINGS FROM SECTION 8 BOND REFUNDINGS.

Discussion: We reviewed HUD policies, procedures and practices relating to the refunding of bond financed projects that are assisted with Section 8 subsidies at five State or local agencies that issue bonds. Our report identifies several areas where significant savings could be realized and points out the need to report the weaknesses associated with the bond refunding activity as a material weakness under FMFIA.

During the late 1970s and early 1980s, interest rates were at record high levels. To offset increased debt service costs, HUD created a Financing Adjustment Factor (FAF) that increased the amounts of Section 8 assistance provided to the projects. Now in the late 1980s and early 1990s the situation has been reversed. To take advantage of the lower interest rates, most projects are being refunded under statutes passed in 1988 and amended in 1992. About 63,000 assisted units are involved with long-term subsidies of hundreds of millions of dollars.

Our review pointed out the need for HUD to revise practices or procedures in nine specific areas. Among the more important ones are: (1) the need to change the methods of computing and collecting the savings associated with reduced financing costs. We suggested that another $130-350 million could be saved over a 10-20 year period; (2) independent of the bond refunding issue, we noted that annual adjustments are being applied to contract rents that include the FAF. Since this is not an appropriate adjustment, Section 8 subsidies are inflated by as much as $6.5 million annually for the affected projects; and (3) HUD's management controls over the bond refunding accounts receivable need improvement. We suggested other measures to reduce duplicate payments for administrative services, overrides on FAF projects and costs of bond issuances. (Report No. 93-HQ-119-0013)

Title II Preservation and Prepayment Program

Problem: MORE GUIDANCE AND TRAINING FOR FIELD OFFICE STAFF ARE NEEDED TO ASSURE PROPERTIES ARE AWARDED APPROPRIATE INCENTIVES AND ACCURATE VALUATION OF PRESERVATION VALUE.

Discussion: We performed an audit of the Department's processing of Plans of Action (POA) under the Title II Preservation and Prepayment Program at four field offices within two regions with substantial activity in the program. At December 1992, HUD had approved 118 POAs with about 18,500 units. HUD estimates that another 400 projects will be processed under Title II in the near future.

We concluded that the field offices were generally meeting the objectives of preserving low- income housing for families and that adequate management controls were established to monitor and track the processing of applications. However, we found that the cost effectiveness of the program was negatively impacted by several significant weaknesses in program administration. The appraisal review process was inadequate, resulting in significant overvaluations of preservation values which in turn increased the incentive values. For 9 of the 16 projects, we computed the excess values at $41 million which increased Section

8 subsidies by $1.9 million annually and Section 241 loans by $19.5 million.

In addition, we reported that field offices were not making the required determination of the least costly alternative to the Federal Government. Absent such a determination, the owners will be provided with increased Section 8 assistance to cover the debt service on the new mortgages established by the preservation values. For nine projects those increases amount to $16.7 million annually and $530 million over the 40-year term of the mortgages. These amounts do not consider any annual adjustments to the rent levels.

The primary reasons for the inadequate attention to the cost effectiveness measures were the lack of comprehensive guidance and training coupled with a shortage of staff resources to perform the reviews needed to limit costs while still meeting the program objectives. We recommended several steps to improve the staff's capabilities and to evaluate staffing levels. We also suggested that the Department consider pursuing legislative changes for preserving housing in a more cost effective manner. Until such changes are made, we also recommended that the weaknesses be reported under FMFIA as a material weakness. (Report No. 93-HQ-114-0010)

Multifamily Projects and Management Agent Operations

HUD insured multifamily housing project owners and management agents continue to violate their HUD Regulatory Agreements by misusing or diverting project assets and income from project operations. As shown in the following section, such actions adversely impact HUD and intended low- and moderate-income program beneficiaries through increased loan defaults and physical deterioration of projects.

Problem: A MANAGEMENT AGENT DIVERTED OVER $5.2 MILLION.

Discussion: **Carabetta Management Company (agent) of Meriden, Connecticut,** is one of 12 identity-of-interest companies that provide services to projects owned by Carabetta Enterprises, Inc. In response to a request from the Regional Administrator, we performed an audit and determined the agent diverted over $5.2 million of project funds; maintained no supporting documentation for accounting services; engaged a Certified Public Accountant who may not have been independent; and did not maintain accounting records in compliance with HUD requirements. As a result of the diversion, the projects experienced a dramatic increase in accounts payable; Section 236 excess income was not submitted to the Department; and tenant refunds were not promptly returned to tenants. We recommended that all diverted funds be repaid and that other management control deficiencies be corrected. Should the agent not comply, consideration should be given to the agent's removal. (Report No. 93-BO-214-1003)

Problem: FAILURE TO MAINTAIN PROPER ACCOUNTABILITY OVER PROJECT FUNDS RESULTED IN PAYROLL REIMBURSEMENT OVERCHARGES.

Discussion: The project manager, **Lorenzo Pitts, Boston, Massachusetts,** did not properly manage HUD owned projects. Despite the fact that the project manager was paid $588,000 to professionally manage the projects, he conceded that there were severe breakdowns in management practices. We identified overcharges of at least $195,000 for payroll reimbursements on HUD owned projects and about $1.7 million in maintenance payroll remains unaccounted for. In addition, the project manager, as the management agent, disbursed approximately $225,000 to his management company for janitorial services of an outside contractor but the management company did not pay the contractor. The management agent used the funds received for janitorial services for other purposes. We recommended that HUD terminate the project manager's contracts and impose administrative sanctions. HUD should also seek reimbursement for the cited overcharges. (Report No. 93-BO-215-1002)

Problem: OVER $2.5 MILLION IN EXPENDITURES ARE QUESTIONABLE OR UNREASONABLE.

Discussion: The mortgagor and operator, **Cathedral Park Partners, Buffalo, New York,** received significant financial benefits not allowable by the Regulatory Agreement. The operator received at least $1.7 million in management fees and consulting costs that cannot be verified as reasonable. The mortgagor defaulted on the mortgage, an insurance claim of over $5 million was paid, and foreclosure action is pending. The mortgagor sold project assets to a mortgagor partner without HUD approval. The partner of the mortgagor purchased the equipment for $25,000 and immediately leased it to the operator for $50,000 a year. We recommended that the mortgagor reimburse all ineligible expenditures, provide justification for unsupported costs of over $1.9 million and that HUD consider administrative sanctions against the mortgagor. (Report No. 93-NY-212-1001)

Problem: OVER $3 MILLION IN INELIGIBLE AND UNSUPPORTED COSTS WERE INCURRED.

Discussion: We found that **Turabo Medical Center, Caguas, Puerto Rico,** maintained an inadequate accounting system that compromised internal controls needed to safeguard assets, assure reliable financial data, and promote operational efficiency. Specifically, the Center's automated accounting system has not been completely installed and is not operational, and the Center's methods and internal controls for gathering, recording and reporting financial transactions did not properly separate project data from data of other entities. Also, we found there were transactions between the Center and related entities to the detriment of the insured entity and HUD's interests. We recommended that HUD require the mortgagor to reimburse $2 million in ineligible costs to the project, and determine the eligibility of unsupported costs of $1.1 million. In addition, we recommended that the management agent be replaced and sanctions taken against the mortgagor principals and related interests. (Report No. 93-AT-212-1006)

Problem: THE PROJECT OWNER PAID OVER $633,000 IN UNNECESSARY COSTS.

Discussion: **The Belmont, Chicago, Illinois,** paid or accrued over $633,000 in costs which were not necessary for the operation or maintenance of the project. In addition, about $205,000 in project security deposits were depleted when the owner defaulted on a loan collateralized by those security deposits. Finally, the owner did not pay over $89,000 in hotel taxes on the units rented on a transient basis. We recommended that the Regional Administrator require the owner to repay to the project account the costs incurred for non-project operating costs. We also recommended civil money penalties against the owner for violating the terms of the Regulatory Agreement. (Report No. 93-CH-212-1015)

Problem: THE OWNER DIVERTED OVER $760,000 FOR PERSONAL USE.

Discussion: The owner of **Grimmet Drive Apartments, Shreveport, Louisiana,** a 150-unit property which is managed by an identity-of-interest management company, diverted approximately $565,000 of project funds for his personal needs and for his other business operations. We also found that the owner, through his management company, charged the project approximately $203,000 for ineligible or unsupported fees and services. We recommended that HUD require the owner to reimburse the project for all ineligible and unsupported expenditures, initiate administrative actions against the owner and his management company, and require the owner to obtain a new management agent. (Report No. 93-FW-212-1003)

Problem: FELLOWSHIP SQUARE FOUNDATION USED $632,000 IN PROJECT FUNDS TO SUPPORT AN INELIGIBLE PROJECT.

Fellowship Square Foundation, Inc., which owns and manages one insured and four HUD-financed elderly housing projects in **Virginia and Maryland**, submitted claims and was reimbursed more HUD project funds than needed to pay project expenses. The excess funds were used to operate a corporate owned project. Consequently, funds were not available for project needs and immediate recovery of over $632,000 owed the projects is doubtful. Fellowship Square also improperly charged $86,000 in management costs to HUD projects and did not ensure that contractor services costs were reasonable. We recommended that a repayment schedule be negotiated with Fellowship Square, funds spent in excess of need be recovered, and commingling of corporate and HUD project funds be stopped. (Report No. 93-AO-214-1001)

Public and Indian Housing

Significant problems continue to exist in the management and operation of public housing. HUD has not effectively monitored public housing agency (PHA) and Indian housing authority (IHA) operations, and some PHAs have neither assured the quality of housing nor adequately managed their assets. HUD's Public Housing Program provides assistance to PHAs for housing lower-income families and remedying unsafe and unsanitary housing conditions. Such assistance includes funds for operating subsidies and developing and modernizing housing projects. Indian Housing Programs provide similar aid to IHAs to develop and operate rental and homeownership opportunity projects. HUD also provides technical assistance to PHAs and resident organizations to assist in planning, developing and managing projects.

During this reporting period, we focused on HUD monitoring of Indian Housing in the Chicago, Denver and San Francisco Regions. We also audited the Public Housing Management Assessment Program (PHMAP), which assists the Department in identifying PHA management capabilities and deficiencies, and continued our work in reviewing PHA operations. Lastly, PHAs' internal controls over the handling of cash and other monetary assets were reviewed.

Regional Office Monitoring of Indian Housing

Problem: HUD REGIONAL MONITORING OF INDIAN HOUSING AUTHORITIES (IHAS) NEEDS TO BE IMPROVED. IDENTIFIED IHA DEFICIENCIES AND WEAK IHA INTERNAL CONTROLS ARE NOT BEING CORRECTED.

Discussion: We audited the monitoring activities of the Offices of Indian Housing in the Chicago, Denver and San Francisco Regions and at 13 IHAs. We also reviewed improvements made by HUD in the Indian Housing Program since our 1986 multi-regional review. During the 1986 review, we reported that Indian housing development was a slow and costly process and, once developed, was not well-managed. We also found that Indian Housing Programs were susceptible to waste and abuse.

Our current review found that HUD has made progress in improving its management and oversight of Indian Programs. However, more needs to be done. Internal control deficiencies existed at 11 of the 13 IHAs we reviewed. These primarily affected cash assets, including tenant receivables. We also found that, in all three Regions reviewed, corrective actions recommended in monitoring reviews were not implemented and sufficient documentation to support closing of deficiencies was not always available.

HUD's monitoring process and controls over the resolution of HUD-reported IHA deficiencies need improvement. All of the field offices included in our audit were experiencing problems identifying, controlling and resolving IHA deficiencies. We determined that the scope of monitoring reviews should be expanded to include an identification of the causes of deficiencies, and an evaluation of IHA internal controls. Because the causes of deficiencies were not identified, recommendations to correct them may have been ineffective. In fact, we found several instances where deficiencies were reported repeatedly by HUD monitors.

In addition, our review disclosed that field offices were not completing their Administrative Capabilities Assessments (ACAs) properly. The ACA is used by HUD and field offices as one of several means of determining if an IHA has the required capability to administer its housing programs. Management received inaccurate and unreliable information because: responses to ACA questions were not always correct and/or documented; and ratings were inconsistent, often resulting in excessively high ratings. ACAs were often used as the sole factor in determining an IHA's administrative capability. Because of the way in which it was used, the ACA's impact on monitoring and fund allocation was more significant than we believe was intended.

Our current audit recommends that the Office of Public and Indian Housing revise and clarify appropriate monitoring instructions; require documentation of corrective actions; prohibit the closing of deficiencies unless recommended actions are implemented by the IHA; require monitoring staff to evaluate internal controls; develop and implement procedures which will ensure that ACAs are completed properly and consistently; formalize all factors used to determine an IHA's administrative capability and establish the amount of weight to be given each factor in the rating process; and provide training to employees responsible for ratings to assure uniform application of the rating factors. The Office of Public and Indian Housing generally agreed with our findings and has already taken action on several of the recommendations. (Report No. 93-HQ-107-0009)

Public Housing Management Assessment Program (PHMAP)

Problem: THE EFFECTIVENESS OF THE PHMAP CERTIFICATION PROCESS IS LIMITED BY THE QUALITY AND SCOPE OF ON-SITE REVIEWS AND PROCESSING OF PHMAP SUBMISSIONS.

Discussion: We reviewed the PHMAP at the request of the former Assistant Secretary for Public and Indian Housing. We performed our review at HUD's Boston, Philadelphia, Pittsburgh and Atlanta Offices, and 12 PHAs under their jurisdiction. Our goal was to provide the Office of Public and Indian Housing with timely information on the effectiveness of PHMAP for its use in drafting the PHMAP Final Rule.

HUD initiated PHMAP in 1992 pursuant to section 502(a) of the National Affordable Housing Act of 1990. Its purpose is to assist HUD 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 are rated by HUD on the basis of 12 performance indicators. The PHA must actually certify its performance to HUD for six of these indicators.

With some exceptions, the HUD field offices generally implemented the PHMAP in accordance with HUD requirements. However, we did note that: some PHAs are not maintaining adequate documentation to support their certified PHMAP performance indicators; HUD field offices are not applying sound risk analysis procedures to ensure the effective planning and performance of on-site confirmatory reviews of PHAs' certified PHMAP data; HUD field offices are not consistently complying with other PHMAP requirements; and the current PHMAP rule and handbook are lacking adequate guidelines, procedures, and clarification in several key areas of the PHMAP process.

Although we found lack of PHA documentation for one or more of the six certifiable PHMAP indicators at some of the PHAs that we reviewed, the most prevalent unsupported indicators were outstanding maintenance work orders and annual inspection and condition of units and systems. Because of the lack of supporting documentation, we were unable to readily verify the propriety of PHMAP submissions. PHA officials attributed their documentation problems to the insufficient time HUD allowed to complete PHMAP certifications, as well as to the lack of adequate HUD guidance. However, we also noted that some PHAs used PHMAP data from incorrect reporting periods and calculated some performance indicator percentages improperly.

Because of the lack of supporting documentation and related deficiencies, we rescored the 12 PHAs' PHMAP submissions. Our rescoring resulted in lower scores for 9 of the 12 PHAs. The most significant changes resulting from our rescoring were: one PHA's designation changed from "high performer" to "troubled;" two changed from "standard performer" to "troubled;" and another changed from "high performer" to "standard performer." Our rescoring was done solely for audit purposes to illustrate the effect of the defficiencies noted. No individual recommendations for reclassification were made for the PHAs in question.

Of the 12 PHAs we reviewed, only 5 had PHMAP on-site confirmatory reviews by HUD field offices. However, these reviews were either not documented or were inadequately performed. While on-site confirmatory reviews are not mandatory, we believe the field offices need to apply sound risk assessment procedures when determining the need for such reviews. We also found that HUD instructions do not prescribe any standard procedural guidelines for the performance of the reviews.

We made several recommendations to the Office of Public and Indian Housing, including revising the current PHMAP rule and handbook to provide specific guidance designed to correct the deficiencies found in our review and developing guidelines for field offices to use in performing confirmatory reviews of PHAs' PHMAP performance. That Office generally agreed with our findings and recommendations and indicated that appropriate actions would be taken to correct program shortcomings. (Report No. 93-HQ-101-0006)

Public Housing Agencies

Problem: CERTAIN PHAS NEED TO IMPROVE THEIR MANAGEMENT OF PUBLIC HOUSING. POOR MAINTENANCE AND THE QUALITY OF HOUSING CONTINUE TO BE THE MOST PERVASIVE PROBLEMS.

Discussion: Our Semiannual Reports to the Congress over the past several years have reported on major problems at several large PHAs. Our last Semiannual Report disclosed the results of our reviews of eight large "troubled" PHAs, which together managed nearly 70,000 public housing units. We reported that, while millions of dollars were being spent on maintenance, housing quality continued to be a problem; vacancies were increasing despite huge waiting lists; and operating reserves were declining at an alarming rate.

We reviewed several other PHAs during the current reporting period and found that poor maintenance and housing quality issues persist. Other deficiencies we noted were inadequate inspection procedures; incorrect PHMAP ratings; and inadequate procurement and contracting practices. The results of our reviews during this reporting period follow.

The **Cuyahoga Metropolitan Housing Authority, Cleveland, Ohio,** is considered by HUD to be a "troubled" PHA. While our current audit disclosed that the Authority has improved its financial management, stabilized its occupancy level, decreased the percent of delinquent tenant accounts, and rehabilitated some of its units through the use of outside contractors, we believe the Authority needs to do more to improve its operations. We found that 115 of the 145 units we inspected did not meet the Department's Housing Quality Standards (HQS); the Authority lacked an effective maintenance program; and the Authority did not always conduct its procurements through fair and open competition. In addition, the Authority submitted erroneous or questionable information in support of its achievements under its Public Housing Management Assessment Program certification. We recommended that HUD maintain close oversight of the Authority and provide it technical assistance when needed. (Report No. 93-CH-201-1003)

The **Lucas Metropolitan Housing Authority, Toledo, Ohio,** had been designated by HUD as a "troubled" PHA since 1987. However, by 1992, the Authority had improved its operations and was removed from HUD's "troubled" PHA list. In 1987, the Authority's occupancy rate was 78.3 percent. As of May 1992, the Authority's rate had increased to 91.9 percent. This improvement resulted from the Authority's use of special purpose Comprehensive Improvement Assistance Program (CIAP) funds to renovate vacant units. The Authority also increased its rent collections and decreased its tenant accounts written off. Despite these significant improvements, we believe additional steps are needed. For example, the Authority did not assure that needed repairs to its housing units were identified and performed. Of the 145 units we inspected, 109 did not meet HUD's HQS. While most of the violations we found were not major or costly repair items, the Authority's inability to identify and correct them indicates a weakness in its inspection and repair program. The Authority also needs to improve its oversight of maintenance operations; adherence to CIAP requirements; procedures for awarding professional contracts; and compliance with HUD requirements for annual utility allowance reviews. We recommended correction of all HQS violations and corrective actions to remedy the procedural problems identified in our audit. (Report No. 93-CH-201-1007)

The **Housing Authority of the City of Houston, Texas,** generally maintained its public housing units in decent, safe, and sanitary condition, but the Authority's procedures for annual inspections and maintenance could be improved. Eighty-nine percent of the housing units we inspected did not meet HUD's standards. Most of the violations related to a need for general maintenance rather than major rehabilitative efforts. Further, in violation of its Annual Contributions Contract, the Authority improperly used $1.5 million in Low-Rent Program funds to subsidize housing operations of two affiliated corporations. We also found a number of administrative weaknesses, including outdated procurement, cost allocation, and personnel policies and procedures and improperly awarded contracts for legal services. We recommended improved inspection procedures, repayment of the $1.5 million in misused program funds, correction of housing deficiencies, and updated administrative policies and procedures. HUD's most recent evaluation of the Authority indicated that its Low-Income Program operations were only marginally satisfactory. (Report No. 93-FW-204-1006)

We reviewed internal control systems at the **Guam Housing and Urban Renewal Authority (GHURA)** at the request of HUD's Honolulu Office and the Acting Regional Administrator. GHURA did not have adequate accounting and administrative controls to effectively control and account for annual expenditures of over $10 million. GHURA was unable to account for over $1 million of fixed assets; improperly reported over $529,000 in expenditures as payment-in-lieu of taxes; failed to aggressively pursue over $121,000 of delinquent tenant account receivables; lacked written accounting procedures; provided inadequate personnel supervision and oversight; maintained an inefficient manual accounting system; bypassed controls over staff hiring and agency travel; and had inadequate control over cash receipts and disbursements. We recommended that GHURA develop a plan to address our findings and that HUD closely monitor GHURA's efforts to implement the plan. If GHURA does not adequately address the findings, HUD should consider appropriate administrative sanctions. (Report No. 93-SF-202-1007)

Our review of procurement and contracting operations at the **Housing Authority of the City and County of Denver, Colorado,** disclosed that the Authority failed to follow HUD regulations and its own policies. Procurement deficiencies included: accepting late requests for proposals; contracting activities performed outside the procurement department; not obtaining HUD approval for certain contracts; conflicts of interest; contracts exceeding allowable dollar and time limits; and improper influence over selection of subcontractors. Because of procurement and contracting control weaknesses in the construction department, two supervisors were able to divert Authority materials and supplies for their personal use and confiscate money received from the sale of salvage materials. We also found that the Authority's automated financial system had serious limitations that inhibited its use as a management, planning and asset control tool. We recommended that the Authority evaluate its procurement and contracting systems and establish effective internal controls over purchases of goods and services. Based on the diversion of Authority materials and supplies and theft of salvage proceeds, Authority officials have realized the need for improved procedures and controls. Accordingly, they have initiated long overdue changes and improvements in their procurement and contracting activities. (Report No. 93-DE-204-1001)

We audited the **Housing Authority of the City of St. Petersburg, Florida** at the request of the Regional Administrator and because of concerns raised in various HUD reviews. The Authority did not restrict expenditures as required by approved budgets, contracts or other HUD requirements. Our audit found $3.1 million of ineligible costs and $546,000 of unsupported costs, which included over $1 million in partial expenditure of proceeds received from the sale of a low-income housing project to pay for operations and overruns in other programs. In order to fund excessive spending, the Authority submitted erroneous information to HUD and obtained over $1.5 million it was not entitled to receive. It also over-requisitioned Section 8 funds totaling $1.1 million and improperly obtained $389,000 in operating subsidy because its income was understated. In addition to recommending a number of management improvements, we recommended that all ineligible expenditures be repaid. (Report No. 93-AT-202-1004)

We audited the **Springfield, Ohio Metropolitan Housing Authority** at the request of the HUD Columbus Office and found that the Authority generally operated its Low-Income Housing Program efficiently. However, improvements can be made. For example, we found that 36 percent of the 124 occupied units we inspected failed HUD's HQS. We also found that the Authority: (1) did not train those responsible for making annual inspections, carry out a quality control program, or properly monitor its contractors; (2) failed to complete vacant unit turnaround within 30 calendar days, thereby allowing some units to remain unoccupied for excessive periods of time; and (3) did not adequately document its PHMAP certificate submitted to HUD. We recommended that the Authority provide HQS training to its staff; correct all HQS violations; implement a system that assures vacant units are turned around in a timely fashion; assure that PHMAP certificates are accurate; and reimburse HUD for any excess subsidy received. (Report No. 93-CH-204-1016)

PHAs' Controls Over Monetary Assets

Problem: WEAK PHA INTERNAL CONTROLS OVER CASH AND OTHER MONETARY ASSETS CONTINUE TO PROVIDE THE OPPORTUNITY FOR MISUSE OR DIVERSION OF SUCH ASSETS.

Discussion: In our last Semiannual Report, we discussed the results of our multi-regional audit of PHAs' internal controls over the handling of cash and other monetary assets. We reported that for 93 PHA reports issued by our office between Fiscal Years 1987 and 1991, 87 disclosed about $3.4 million of assets that were lost or misused by PHAs.

During this reporting period, we performed additional audits in this area and found that the PHAs reviewed did not maintain effective internal controls over payroll disbursements and inventories, receipts, and petty cash. At one PHA, procurement and contracting practices and controls were insufficient to ensure that management and oversight of modernization funds were effective, nor was there any assurance that the Authority obtained the most efficient and economical service/product for the expenditure of $730,000. At some PHAs, management did not implement effective internal controls and did not recognize the increased risk associated with weak controls. As a result, cash and equipment could be diverted without prompt detection.

PHAs did not comply with their own travel policies, resulting in the use of funds for unauthorized purposes. In one case, the tenant security deposit account was underfunded because funds were used to cover other expenses. In another, assurance was lacking that goods and services were obtained at the lowest reasonable cost because proper procurement practices were not followed. One PHA did not perform timely initial and re-examinations of family income and composition and altered documentation to make the examinations appear on time. The PHA also did not change assistance payments when family circumstances changed. We recommended corrections at each of the PHAs reveiwed. (Housing Authority of the City of Annapolis, Report No. 93-PH-202-1004; North Chicago Housing Authority, Report No. 93-CH-209-1006; Traverse City Housing Commission, Report No. 93-CH-209-1004; Highland Park Housing Commission, Report

No. 93-CH-209-1001; Housing Authority of the City of Del Rio, Report No. 93-FW-202-1002; and Missoula, Montana Housing Authority, 93-DE-202-1002)

Financial Management Issues

The Chief Financial Officers (CFOs) Act of 1990 provides the basis for uniformity in Federal financial reporting by requiring annual audited financial statements. This period financial statement audits of both the Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA) have disclosed material weaknesses. In addition, audit of the Department's internal control program revealed that the Department continues to experience problems in complying with the FMFIA. These audits are discussed in detail below.

Financial Statement Audits

Federal Housing Administration

Problem: FHA NEEDS TO ADDRESS RESOURCE SHORTGAGES, PLACE MORE EMPHASIS ON MONITORING, EARLY WARNING AND LOSS PREVENTION, IMPROVE AUTOMATED SYSTEMS, AND REVIEW SECURITY AND ACCESS CONTROLS.

Discussion: The audit of FHA's financial statements and our review of FHA's performance measures for the year ended September 30, 1992, disclosed that FHA operations resulted in a net deficiency of revenues over expenses of $6.8 billion, compared to a net deficiency of $2.5 billion in FY 1991. This net deficiency can largely be attributed to a $6.4 billion charge to operations with respect to loss reserves for insured multifamily loans. The loss reserve for multifamily insured loans now stands at $11.9 billion, or approximately 27 percent of the outstanding FHA multifamily insurance in force of about $43.6 billion.

The report on the financial statements includes an unqualified opinion on the consolidated statement of financial position as of September 30, 1992. However, the auditor was unable to express an opinion on the consolidated statement of financial position as of September 30, 1991, or on the consolidated statements of operations, government equity (deficiency) and cash flows for the years ended September 30, 1992 and 1991. The inability to do so stems from FHA's prior inability to calculate multifamily loss reserves. For the Fiscal year 1992 financial statements, FHA completed a special project to assess the risk of certain of their multifamily loans and determine a loss reserve. The audit report stresses that this project was temporary in nature and that the project did not correct material systemic internal control weaknesses with respect to multifamily loan information, risk assessment and automated systems.

The audit also presents five internal control reportable conditions, the first four of which are classified as material weaknesses. The first pertains to resource shortages. Staffing constraints prevent HUD from placing more resources on monitoring functions, from properly managing troubled assets and from quickly implementing new automated systems for FHA. If HUD cannot hire more staff with the requisite experience, then it must consider restructuring FHA's operations to free up existing staff resources for deployment to essential program, credit and financial management functions. We issued similar findings in an audit report on the servicing of HUD insured multifamily projects (see Multifamily Housing section of this Chapter).

The second material weakness relates to the need for early warning and prevention activities to reduce the frequency and severity of mortgage defaults. Regional staff must be trained and available to execute a loss prevention program, and systems need to be in place both to provide needed information and to monitor progress and dollar savings. A more effective loss prevention program would also help reduce FHA's asset management burden, and probably pay for itself.

The third material weakness relates to the need to improve FHA's automated systems. Some of FHA's systems either do not provide needed management information or do not provide reliable information. The lack of modern systems tools makes monitoring less productive and staff usage less efficient. An initial investment in resources and staff is needed to improve or replace FHA's systems, and eventually improve staff efficiency.

The fourth material weakness relates to the need to resolve defaulted loans. Over the past few years, there has been a significant increase in the number of defaulted loans assigned to FHA in both the Single Family and Multifamily Housing Programs. Many staff resources are required to service and manage these loans. To the extent these asset management functions use more and more staff, or cause existing staff resources to be used inefficiently, resources are diverted from other important areas.

The final reportable condition relates to the need to perform a complete review of security and access controls for all FHA related computer systems. Both the internal controls surrounding access to FHA's key financial systems as well as key input and processing controls have many weaknesses and expose FHA to loss and misappropriation. FHA relies heavily on computerized information systems to process a large volume of data for accounting applications such as insurance processing, servicing, and asset disposition, as well as a large number of cash receipts and disbursement transactions.

Our review of FHA's performance measurement data concluded that they were consistent with the financial statements. For the performance measures developed for a draft of its annual report, FHA complied with OMB documentation requirements. Much of the performance data originated from the current and prior years' financial statements and related notes. Since the auditor was only able to express an opinion only on the current year's statement of financial position, we cannot provide any assurances with respect to the validity of the data presented. (Report No. 93-FO-131-0003)

Government National Mortgage Association

Problem: GNMA NEEDS TO IMPROVE SUBSERVICER AND CONTRACTOR MONITORING, STRENGTHEN CONTROLS OVER SYSTEMS DEVELOPMENT, OPERATION AND MAINTENANCE, AND STRENGTHEN CRITERIA FOR WITHHOLDING COMMITMENTS FROM FINANCIALLY TROUBLED ISSUERS.

Discussion: We issued a report on the results of the audit of GNMA's financial statements and our review of GNMA's performance measures for the year ending September 30, 1992. We reported that GNMA operations resulted in excess of revenue over expenses of $250 million, an increase of $152 million from Fiscal Year 1991. The increase is associated with a $102 million credit to income for the provision for estimated losses to the Mortgage-Backed Securities Program. This resulted from refinements in GNMA's estimate of future losses from probable defaults. In the auditor's opinion, GNMA's financial statements present fairly, in all material respects, GNMA's financial position and results of its operations and cash flows in conformity with generally accepted accounting principles.

The audit also presents three internal control reportable conditions, the first two of which are also classified as material weaknesses. The first pertains to monitoring subservicers performing loan servicing functions on behalf of GNMA for portfolios of defaulted GNMA security issuers. This condition was classified as a material internal control weakness in this and the last two financial statement audits. Since this matter was first raised, GNMA has taken various actions, which if fully implemented, should correct this weakness. GNMA has standardized subservicer operational and reporting requirements and hired a contractor to perform audits of the subservicers. However, subservicers still are not meeting all reporting requirements nor have the subservicer audits been completed.

The second reportable condition is also a material weakness and relates to the need to strengthen controls over systems development, operation and maintenance. Information and technology gaps exist, as do data redundancy and duplicate processing. GNMA has not assigned overall direction of its systems development and management efforts. Responsibility and authority for systems development and maintenance should be assigned to a central group with the necessary technical expertise.

The third reportable condition concerns the need to prevent financially troubled issuers from obtaining new commitments just prior to defaulting on their obligation to make timely principal and interest pass-through payments to GNMA security holders. This condition was also reported in the last two financial statement audits. GNMA needs to continue its efforts to strengthen the commitment process and take administrative action against issuers when necessary. GNMA has taken various actions to strengthen the disciplinary process, but needs to formally define the duties and responsibilities of the various groups involved in issuer monitoring and loss prevention.

Our review of GNMA's performance measures disclosed a need to assess whether goals and objectives are being achieved. GNMA recognizes the need to enhance its performance measure reporting and has formed a task force to ensure compliance with OMB directives in this area. We recommended development of more meaningful performance measures. GNMA generally agreed with our findings and recommendations. (Report No. 93-FO-171-0002)

Resource Management

Problem: THE DEPARTMENT LACKS A UNIFORM AND RELIABLE SYSTEM TO IDENTIFY, REQUEST, AND ALLOCATE STAFFING RESOURCES.

Discussion: Our audit of HUD's management and control of staff resources — along with other recently completed audit work — showed significant problems in the way the Department hires, allocates staff and uses staff resources in accomplishing its mission. Because there is no uniform and reliable staffing system, it is difficult to determine staffing needs. However, it appears there are individual offices that are not sufficiently staffed to properly carry out their assigned responsibilities. Although this may be attributed, at least partially, to the improper allocation of staff, we believe that the Department lacks sufficient staff, overall, to carry out its responsibilities. We further believe this constitutes a material weakness and that it should be reported under FMFIA.

The Department discarded its detailed work measurement system in the early 1980s. The process now used to prepare staffing needs estimates is based on historical data. The reliability and usefulness of the data vary by program area. Although program offices prepare estimates of staffing needs, staffing levels are ultimately determined by OMB and the Congress. The pattern over the last several years has been to generally reduce requested staffing.

Our review showed that there is genuine concern among program managers about the Department's ability to properly administer its existing workload with current staffing. Managers were concerned about being given new programs to administer without additional staff. In responding to our questionnaire on staffing matters, Regional Administrators and Directors of Administration expressed concerns over staffing and the ability to adequately carry out programs. During 1991 and 1992, we issued 21 audit reports that identified weaknesses caused in part by inadequate staffing, lack of training, decreased monitoring or other higher priority tasks.

We believe HUD needs to develop and implement a strategic plan to deal with its staffing and resource allocation problems. HUD needs to: (1) assess all staffing levels and determine staffing imbalances; (2) prepare work plans based on what can or cannot be accomplished with existing staff; (3) review its workload with a view toward eliminating or consolidating lesser programs; (4) allow for greater regional and field office participation in the budget process; and (5) review allocation methodology to assure staffing is placed where it is most needed. Additionally, to establish satisfactory control, we recommend that an organization, reporting directly to the Secretary or Deputy Secretary, be responsible for coordinating the way resources are allocated and used in completing or accomplishing the Department's workload and mission. We requested comments on our report from a number of HUD Principal Staff. Most agreed with our conclusions and assessments of staff resources at HUD, but some disagreed with or were not optimistic about the effectiveness of our recommendations to correct the problem. (Report No. 93-HQ-169-0005)

Compliance with FMFIA

Problem: HUD'S PROCESS FOR EVALUATING INTERNAL CONTROL AND FINANCIAL MANAGEMENT SYSTEMS CONTINUES TO BE INADEQUATE.

Discussion: FMFIA requires each executive agency to assess the adequacy of its systems of internal accounting and administrative control, and report this assessment to the President and the Congress at the end of each calendar year. Even though HUD's principal organization heads certified to compliance with FMFIA objectives for FY 1992, they generally did not follow prescribed evaluation processes. As a result of the limited evaluation and testing of controls in HUD's operations and the identification of material weaknesses in many of the Department's programs and activities, in 1992 the Secretary continued to report noncompliance with Sections 2 and 4 of FMFIA.

HUD did strengthen its FMFIA Program in FY 1992 by establishing policies and procedures for independent verification reviews, improving financial management systems corrective action plans, and starting to implement HUD's financial management systems integration plan. In addition, the CFO issued some revised guidance on HUD's FMFIA Program. Progress was also made in correcting HUD's 53 material weaknesses.

However, other FMFIA activities were limited. HUD did not provide an ongoing process for evaluating and testing controls in all program and functional areas. This increases the risk that additional or repeat weaknesses will go undetected. Front-end risk analyses (FERAs) were performed with little guidance, raising questions about effectiveness and assurance that new programs were being implemented with adequate controls to minimize risk. Other areas of concern included the limited use of self-assessment guides for evaluating regional/field operations, and insufficient tracking of actions planned and taken on internal control review findings.

In large part we attributed the continuing FMFIA Program problems in FY 1992 to insufficient attention to reforming the program by the CFO's Office, staff constraints, and disagreements over the FERA process. Most of the recommendations from our FY 1991 report on FMFIA had not been implemented, although the CFO's Office had agreed with them. Since the beginning of FY 1993, the CFO's Office has demonstrated a stronger commitment to administering an effective program, but much remains to be done. Although new general program guidance was issued, and control evaluation training initiated, we believe more specific guidance is necessary. Further, similar revisions of HUD's FMFIA Program have failed for lack of program and regional management support. Therefore, we recommended that the Department's FMFIA Program be declared a material weakness until all provisions of the revised and forthcoming guidance are fully implemented, and the Department's FMFIA process substantially complies with OMB requirements. The CFO generally agreed with our evaluation of the status of the Department's FMFIA Program and our recommendations, but questioned our recommendation to report the program as a material weakness. (Report No. 93-FO-177-0001)

Community Planning and Development

One of the most significant problems pervading the CPD area is that program funds do not sufficiently benefit those for whom they are intended, namely, low- and moderate-income persons. This problem, which has been reported in past Semiannual Reports, constitutes a material weakness under the FMFIA. In addition to the CDBG Program, which provides grants to States and local governments to aid in developing and revitalizing communities, CPD Programs include many of HUD's homeless initiatives and Rental Rehabilitation Programs.

During this reporting period, we directed our attention to assessing CPD Programs in terms of meeting national program objectives. We also found ineligible, unsupported and unreasonable costs; inadequate loan administration; and land sales that did not properly benefit low- and moderate-income persons. In addition, audits disclosed that grantees could not document that funds spent on activities to create or retain jobs for low- and moderate-income persons achieved that goal.

Problem: HUD's CLAIMS OF LMI BENEFITS DO NOT REPRESENT THE BENEFITS PROVIDED BECAUSE THE CLAIMS ARE NOT BASED ON REASONABLE AND REALISTIC PRESUMPTION TESTS.

Discussion: We performed a multi-regional review of 18 grantees in four regions to determine if CDBG expenditures benefitted low- and moderate-income (LMI) persons to the extent claimed by the grantees and by HUD. Over the past 8 years, the Department has annually reported to the Congress that about 90 percent of CDBG entitlement funding has benefitted LMI persons. In its 1992 Annual Report to the Congress, the figures amounted to about $2.31 billion or 90.6 percent of the total funding awarded to grantees. Based on our tests, we believe the reported figures are significantly overstated because of the wide latitude allowed in accounting for LMI benefits.

Our LMI audit report is the latest in a series of reports over the past few years in which OIG has pointed out serious difficulties in managing and monitoring the CDBG Program. Chapter 1 of this report contains some details of these long standing problems. Like many other sections of the CDBG Program regulations, certain provisions relating to LMI benefits provide barriers to good control techniques. For example, there are four different categories of activities that can benefit LMI persons with different eligibility criteria for each category. Our tests show that the most overstated category is area benefit activities. The criteria provide that, as long as 51 percent of the residents in the area are LMI persons, the grantee may count 100 percent of the expenditures for that activity as benefiting LMI persons. For the 18 test grantees, we computed the dollar benefits on the basis of the actual number of LMI persons residing in the census tracts covered by the area and noted a 34.5 percent overstatement. The other categories and their overstated percentages were: limited clientele activities--22.9 percent; job creation/retention activities--26.1 percent; and housing activities--2.6 percent. On an overall basis, the 18 grantees spent about 63 percent, not the 86 percent they reported.

We recommended that HUD request that the Congress amend current legislation to require more realistic and reasonable accounting for LMI benefits. We also recommended that until the calculation methods are changed, the control weaknesses be combined with other previously identified weaknesses and reported as a material weakness under FMFIA. (Report No. 93-HQ-141-0008)

Problem: INADEQUATE CONTRACT ADMINISTRATION BY THE CITY OF NEW YORK RESULTED IN OVER $33 MILLION IN INELIGIBLE AND UNSUPPORTED COSTS.

Discussion: At the request of CPD officials, we audited the New York City Department of Housing Preservation and Development's In-Rem Property Management Program and its contractor, Gotham Building Maintenance Corporation. We found $9.8 million in ineligible superintendent costs paid during the period when operating expenses were not permitted. We also found $16.2 million in unsupported costs and more than $814,000 in ineligible insurance premium costs. Not only was the City self-insured, but the contractor was held harmless from any insurance claims. The lack of controls and contract ceiling over the handyman contract resulted in another $1.4 million in unsupported costs and $120,000 of ineligible costs. Unrecovered overpayments for handyman and superintendent activities resulted in $3.3 in unsupported payments and more than $181,000 of ineligible payments. Finally, inadequate internal controls over assets resulted in $700,000 in unsupported and $62,000 of ineligible costs. We recommended the City repay all ineligible costs to the CDBG Program from non-Federal funds and that HUD determine the eligibility of the unsupported and unreasonable costs identified in our report. On February 10, 1993, testimony was provided on this audit before the Subcommittee on General Oversight, Investigations and the Resolution of Failed Financial Institutions. (Report No. 93-NY-241-1002)

Problem: ABOUT $2.7 MILLION IN SPECIAL ECONOMIC DEVELOPMENT LOANS MADE BY THE CITY OF MEMPHIS, TENNESSEE, WERE NOT SUPPORTED AND SUBGRANTEE DISBURSEMENTS WERE QUESTIONABLE.

Discussion: The City of Memphis did not document the eligibility of any of its 22 special economic development loans. The City approved loans without establishing financial feasibility or the need for assistance and, therefore, had no assurance the loans met the national objective of benefitting low- and moderate-income persons. The major problem was that the City council inserted itself in the process and did not permit the City to eliminate applications it considered unacceptable. In addition, City staff was not knowledgeable of HUD requirements and project costs were not evaluated for reasonableness. We found that need was not demonstrated, prudent lending practices were not followed and public benefits were not analyzed. There was also questionable funding of an economic development center that cost nearly $765,000. Although the center claimed that 90 percent of the individuals benefitted were low- and moderate-income, the documentation supported only 10 percent. We also found that a portion of the activity considered special economic development assistance to for-profit businesses was not documented as necessary or appropriate. We recommended the City repay all ineligible amounts and that HUD take action to assure that the deficiencies are corrected and not repeated. Otherwise, the program should be canceled. (Report No. 93-AT-241-1001)

Problem: **THE CITY OF SCRANTON, PENNSYLVANIA, INCURRED OVER $7.7 MILLION OF INELIGIBLE AND UNSUPPORTED COSTS.**

Discussion: Our audit focused on the use of HUD funds for land acquisition, relocation, and other miscellaneous expenses associated with the City's involvement with the Lackawanna Avenue Mall project. The City failed to ensure that costs were eligible and adequately supported; document the eligibility of funded activities; and provide adequate accounting and administrative controls over HUD funds. Failure to comply with program requirements has weakened the City's system of internal control and there is no assurance that program funds are properly safeguarded. We recommended that appropriate action be taken to strengthen the City's administration of HUD programs, that ineligible costs of $1.7 million be repaid, and that unsupported costs of approximately $6 million be documented or repaid. (Report No. 93-HQ-241-1001)

Problem: **THE GUAM HOUSING AND URBAN RENEWAL AGENCY WAS SELLING LAND PURCHASED AND IMPROVED WITH CBDG FUNDS AT OVER $2 MILLION LESS THAN FAIR MARKET VALUE.**

Discussion: We audited the Asan Community Redevelopment Project, funded under the CDBG Program and administered by the Guam Housing and Urban Renewal Agency, and concluded that the agency's land disposition policy unjustly enriched high-income people. The original intent of the project was to eliminate blighted conditions, rebuild the infrastructure and subdivide the property to benefit low- and moderate-income people. However, the agency subsequently requested a waiver of the low- and moderate-income requirement estimating that only 32 percent of the beneficiaries would be low- and moderate-income persons, not the minimum 60 percent required. HUD denied the wavier on the grounds that the property disposition plan favoring sales to former owners did not meet the national objective. When this occurs, HUD regulations require the grantee to reimburse the program the current fair market value of the property.

The agency did not comply with this regulation. Rather, it used two unacceptable methods to price the properties: a 10-year old appraisal report and an average selling price adjusted downward, first 10 percent for location and then 40 percent because the sales were restricted to persons with preference. The result was that land conservatively valued at $50 per square meter was proposed for sale at $4 and other land was sold for $9 to $12 per square meter when comparable land was selling for an average of $19. We recommended that the housing agency immediately stop all sales not in accordance with HUD requirements, reimburse the program for the difference between sales price and fair market value, and revise its disposition policy to be in full compliance with the intent of the program. (Report No. 93-SF-244-1004)

Problem: KING COUNTY, WASHINGTON, USED ABOUT $1 MILLION TO HOUSE FAMILIES WHO WERE NOT OR MAY NOT HAVE BEEN LOW- TO MODERATE-INCOME AND DID NOT DEMONSTRATE JOBS WERE CREATED OR RETAINED FOR LMI PERSONS.

Discussion: Our audit of the CDBG Program administered by King County disclosed that more than half of the properties acquired with interim loan fund (float loan) monies did not meet the low- and moderate-income benefit requirement. The proportionate share of the loan used for ineligible and potentially ineligible families was more than $1 million. King County also did not demonstrate that $6.5 million of CDBG funds used to assist private for-profit businesses met the objective of creating or retaining jobs for low- and moderate-income persons. In addition, without appropriate documentation, the County could not evaluate the effectiveness of its economic development activities either in terms of financial risk or length of time allowed to create jobs. We recommended the County recall the inappropriate loans, require support for the questionable eligibility, and restrict future sales to the appropriate persons. We also recommended the County withhold loans to for-profit businesses until it ensures compliance with HUD requirements and obtains documentation that the assistance met the national objective. (Report No. 93-SE-241-1001)

Problem: THE CITY OF COLUMBUS, OHIO, COULD NOT SUPPORT $5 MILLION OF CLAIMED BENEFITS TO LOW- AND MODERATE-INCOME PERSONS AND OVERSTATED AN ADDITIONAL $2 MILLION ON ITS GRANTEE PERFORMANCE REPORTS.

Discussion: Because the City of Columbus neither enforced documentation requirements nor monitored loan recipients' progress toward meeting program objectives, it could not adequately show that more than $5 million of CDBG funds benefitted low- and moderate-income persons. The $5 million consisted of $1.6 of economic development loans not supported or misclassified; $2.8 million spent for rehabilitation or home repair activities that were either not supported or were for loans to ineligible persons; and nearly $600,000 of City staff costs that were not properly allocated to each national objective. A second problem was that the grantee performance reports for 1989 through 1991 overstated benefits to low- and moderate-income persons by more than $2 million, primarily because the City did not have an effective system to review the accuracy of the reports. We recommended the Columbus Office Manager assure the City implements policies and procedures to correct these problems and then recompute the benefit to low- and moderate-income persons and, if shortfalls occur, reimburse the program the amount of the shortfalls. (Report No. 93-CH-241-1008)

Single Family Housing Programs

Over the years, OIG audits have identified patterns of irregularities and questionable practices with respect to many of HUD's Single Family Housing Programs. HUD's 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. While there has been progress made to address many of the problems that have been identified, we continue to have concerns about the integrity of these programs.

During this reporting period, our audit work focused on HUD's Direct Endorsement Program, and the Single Family Disposition Program. A corrective action verification review of Single Family Property Disposition and closing agent activities was also performed. Lastly, we conducted joint reviews of mortgage lenders for violations of HUD-FHA requirements.

Direct Endorsement Program Administration

Problem: HUD FIELD OFFICES NEED TO IMPROVE POST-ENDORSEMENT REVIEWS TO ENSURE THE QUALITY OF LOANS.

Discussion: Failure to identify and take action on poor mortgagee underwriting could increase foreclosures and costs to the insurance fund. We performed in-depth reviews in Headquarters and 12 field offices in 4 regions and found that in 135 of the 312 post-endorsement cases reviewed, the field offices had not identified existing errors and irregularities or had not properly rated the cases. In addition, we found that the field offices had rated 56 of the 312 loans as being poorly underwritten. However, no action was taken against the lenders or their employees. Serious deficiencies in the underwriter approval process affected 36 percent of the cases reviewed. These weaknesses include experience requirements that are too general in nature, no requirements for underwriters to have training in fraud detection or financial analysis, and no verification of claimed experience.

Most of these same problems were identified in a joint project of the Office of Insured Single Family Housing and OIG. In response to the findings and recommendations of the project, the Office of Housing initiated changes, such as development of a review checklist; reduced performance goals; better targeting of post-endorsement reviews; standardized performance monitoring; and quality control training for staff. Although improvements have been made, we still consider the program a material weakness, and recommended that HUD again report the program as such under FMFIA. We also recommended implementing an improved supervisory review process for post-endorsement reviews, establishing procedures to track and resolve underwriting deficiencies, and establishing specific experience and minimum education requirements for underwriters. In their draft response, Housing generally agreed to the recommendations, but disagreed that the program is still a material weakness. (Report No. 93-HQ-121-0012)

Single Family Disposition Program, Property Disposition Branch

Problem: FUNDS WERE SPENT ON QUESTIONABLE SERVICES AND WERE LOST BECAUSE OF LOW PROPERTY SALES PRICES.

Discussion: The goal of the Property Disposition Branch (PDB) is to dispose of acquired properties at the earliest possible date at the highest possible price. HUD contracts with Real Estate Asset Managers (REAMs) to manage and oversee properties while they are in inventory and the PDB is responsible for monitoring the REAM's compliance with HUD requirements. We found that the Boston PDB did not properly administer the program in accordance with HUD's requirements. For example, the PDB sold properties below the appraisal price without adequate justification. The list prices ranged from less than 1 percent to as much as 57 percent below the appraisal price for a total reduction of $317,800 for 25 of the 69 cases reviewed. In addition, one REAM, acting as broker, received almost $52,000 in sales commission as a result of business that may have been unfairly directed to it by a realty specialist; more than $32,000 for undocumented property maintenance and safeguarding services; and over $8,500 as paying agent for performing wire transfers, which was the PDB's responsibility as the closing agent. We recommended the Boston Office assure that these problems do not exist in the field offices, that established regulations are followed, and that duties are properly segregated to guard against the possibility of fraud and abuse. We also recommended recovery of wire transfer overcharges. (Report No. 93-BO-123-0002)

Corrective Action Verification Review, Single Family Property Disposition/Closing Agent Activities

Problem: PREVIOUS WEAK CONTROLS OVER PROPERTY DISPOSITION ACTIVITIES WERE CORRECTED; WE RECOMMEND THE MATERIAL WEAKNESS BE CLOSED.

Discussion: HUD field offices responsible for the disposition of acquired properties contract with area management brokers to manage inventoried properties and closing agents to handle property settlements. The closing agents collect the monies due HUD and wire transfer these funds directly to the U.S. Treasury. In October 1991, the Single Family Accounting Management System (SAMS) was implemented. SAMS tracks collected funds, controls inventory, accounts for cash, and provides data for performance monitoring and reconciliation of receipts. Based on our testing of SAMS data and related monitoring documents, the present controls were deemed effective to track timely receipt of cash from the sale of single family properties. Therefore, we recommended that the Chief Financial Officer report the SAMS material weakness (No. 87-3) as corrected. (Memorandum Report No. 93-HQ-123-0803)

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 reports.

- **Clarence A. Marshall Mortgage and Investment Company, Inc., Kansas City, Missouri,** agreed to indemnify HUD for mortgage insurance claim losses of $61,934 on two insured mortgages.

- **Sibley Mortgage Corporation of Rochester, New York,** entered into a settlement agreement that includes payment of $80,752 for HUD's losses on two mortgage insurance claims, and $14,067 to buy down four over-insured mortgages. Sibley also agreed to indemnify HUD against any future claim losses on 10 other insured mortgages.

Mortgage Lenders Reviewed Through Joint Efforts

The Office of Housing and the Office of Inspector General continued their joint efforts to target home mortgage lenders for violations of HUD-FHA requirements. The joint reviews are an effective means of identifying and pursuing lenders with high claims and mortgage default rates, and indicators of possible violations.

During this period, three joint reviews were performed in the States of **California, Texas,** and **Virginia.** Twenty-five lenders were selected for review based on problem indicators. Five lenders are being referred to the MRB for administrative sanctions, civil money penalties, and/or indemnification from losses on improperly originated loans. Action is already underway to deny six individuals further participation in HUD's programs. Five other lenders were also cited for violation of HUD-FHA requirements, but a lesser corrective action (issuance of a letter of reprimand) was taken by these lenders to resolve all findings. To date, lenders have agreed to indemnify the Department for $670,000 against losses from default for inappropriate loans.

Section 8 Rental Assistance

During this reporting period, we found that the Section 8 Rental Assistance Program was paying excessive housing assistance payments and many assisted units were not meeting Housing Quality Standards. Section 8 Programs assist low- and very low-income families in obtaining decent, safe, and sanitary housing through subsidies that are provided to tenants or owners, depending on the program involved. We audited the Alaska Housing Finance Corporation and the Youngstown, Ohio Housing Authority.

Problem: THE ALASKA HOUSING FINANCE CORPORATION RECEIVED $4.5 MILLION IN EXCESSIVE HOUSING ASSISTANCE PAYMENTS (HAPS) AND EXCEEDED SECTION 8 CONTRACT RENTS BY ABOUT $654,000.

Discussion: The Alaska Housing Finance Corporation entered into contracts with HUD in the late 1970s under the Section 8 New Construction Program to build five projects as the owner/operator. We reviewed the contract rents and HAPs for the five projects and found that HAPs were based on estimated permanent debt service costs that were higher than actual interim debt service costs. As a result, the Corporation received excessive HAPs totaling $4.5 million. The Corporation did not understand that the HAPs for the projects require adjustment when interim financing is continued for more than 1 year. We also found that Section 8 contract rents exceeded the maximum statutory rates for three of the five projects. As a result, HUD made excessive payments totaling $654,000. The excessive payments resulted from applying an adjustment to contract rents to compensate for high financing costs. We recommended that the Corporation return the $4.5 million in excessive HAPs to HUD, that annual adjustments to HAPs be made, and that contract rents be reduced to an amount that would exist if they had been set at the maximum allowable. (Report No. 93-SE-203-1002)

Problem: THE YOUNGSTOWN, OHIO METROPOLITAN HOUSING AUTHORITY DID NOT MANAGE ITS SECTION 8 PROGRAM EFFECTIVELY.

Discussion: Thirty of the 39 Section 8 assisted units we inspected at the Authority failed HQS. The Authority did not detect existing violations, ensure that owners corrected violations, abate payments when warranted and continually perform quality control inspections. Our audit also disclosed that $1.4 million in project reserves could have been used to provide housing assistance to additional families. Some tenants paid excessive rents because the Authority miscalculated HAPs and some tenants paid an excessive portion of their income for rent because the Authority had not increased the payment standards since the start of the program. We recommended that the Authority provide adequate training to inspectors and administrative staff; improve management supervision and oversight; repay HUD the administrative fees collected since the Authority's last inspection of the units that failed our inspections; and repay tenants who did not receive their full HAPs. (Report No. 93-CH-203-1013)

Homeless Programs

We have been concerned about whether the myriad homeless programs that are administered by HUD are achieving the overall objective of solving the long-term housing needs of the homeless in accordance with HUD requirements. Numerous programs and initiatives have been developed to address the needs of the homeless in obtaining decent, safe, and sanitary housing. As part of a regional review, we audited the Single Family Homeless Initiative Program as it was administered by the **Washington, D.C.** Department of Human Services (District) and the HUD **Richmond** Field Office.

The Initiative Program authorized the leasing of HUD properties to nonprofit providers and local governments to house the homeless. Approved providers pay the Department lease fees of one dollar annually with renewal rights up to 5 years. The providers then sublease the properties to the homeless and arrange counseling and other supportive services.

Problem: THE LONG-TERM HOUSING NEEDS OF HOMELESS FAMILIES WERE NOT MET.

Discussion: The **Washington, DC Department of Human Services** (DHS) did not fully meet the intent of the Single Family Homeless Initiative Program for a variety of reasons including failing to enforce compliance with HQS, leasing properties timely and accounting for funds. We found properties with fire hazards, collapsing bathroom floors, and defective electrical outlets. Although it was asserted that lead based paint had been removed from the properties, no record of the removal was found. Also, properties were not leased in a timely fashion with some remaining unoccupied until returned to HUD. We found that two DHS employees, neither of whom met the definition of homeless, occupied properties for about 2 years without paying rent. Full accountability of the tenant escrow funds could not be assured because DHS did not maintain books of account or always note the receipt of monthly payments from tenants. Funds were not deposited upon receipt nor was there adequate separation of duties. We recommended that DHS eliminate the HQS deficiencies, establish and maintain records of property inspections, immediately repair vacant properties and lease them to the homeless or return them to HUD, and conduct an independent audit of the tenant escrow account. (Report No. 93-AO-259-1003)

The **Richmond** Field Office needs to strengthen its control of nonprofit and local government agencies participating in the Initiative. Staff appropriately approved nonprofit applicants, conducted sufficient outreach, and kept adequate property and provider files. Most homeless families also benefitted from lower rents and supportive services. However, when inspecting 19 homes and reviewing 4 providers, we found that 1 provider did not adequately protect 3 vacant properties. Two were unsecured at our inspection and had been vandalized; the other one was secured, but had also been damaged. Another provider used three properties to house mentally handicapped citizens who required 24-hour supervision. Therefore, they could not achieve the Initiative's goal of becoming self-sufficient. Consequently, homeless families needing temporary housing and supportive services to become independent were not served. Only 1 of the 4 providers set fixed time limits in the sublease agreements to ensure tenants moved to permanent housing after 2 years. Consequently, 1 tenant lived in the property 30 months, although trained and gainfully employed. We recommended that appropriate controls be implemented to ensure provider operations and properties are timely monitored and that time limits for providers be instituted to correct any deficiencies. (Report No. 93-AO-151-0002)

Audit Statistics

	10/01/92-03/31/93
Cash Recoveries [1]	$38,890,535
Cost Efficiencies Realized[1]	$9,654,917
Commitments to Recover Funds[1]	$52,240,319
Cost Efficiencies Sustained[1]	$10,947,390
Suspensions of Persons/Firms Doing Business with HUD	9
Debarments of Persons/Firms Doing Business with HUD	18
Voluntary Exclusions of Persons/Firms Doing Business with HUD	2
Mortgagees/Lenders Sanctioned as a Result of Referrals to HUD Mortgagee Review Board	2
Subpoenas Served	2
Material Weaknesses Reported	5
Reports Issued:	
• Internal Audit Reports	21
• External Audit Reports	60
• Audit Related Memoranda Issued	35
• Non-Federal and other Agency Reports Accepted	2,613

[1] Includes amounts due to HUD program participants.

CHAPTER 3

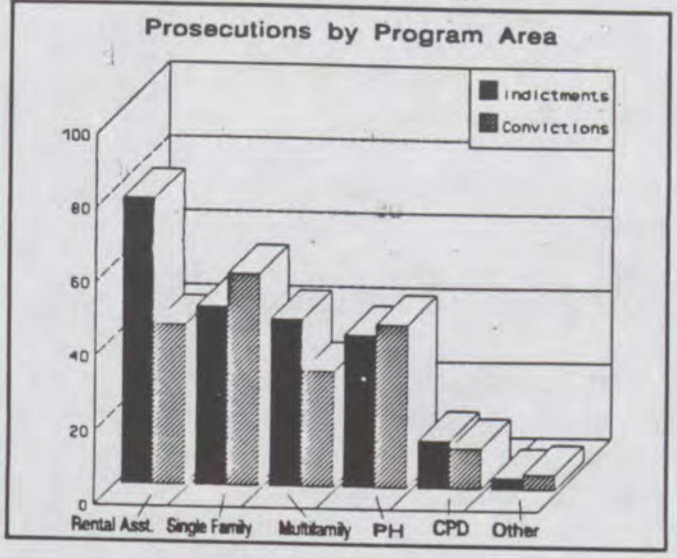
INVESTIGATION

Investigations Provide Facts that Enable Prosecutors and Program Administrators to Effectively Deal with Abusers of HUD Programs

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. Numerous successful investigations have occurred because of the combined efforts of more than one investigative agency. These efforts not only intensify the investigation, but can broaden the scope of the inquiry and jurisdictional range of potential violations.

Investigative results for this 6-month reporting period have been significant. Cumulative results include: $10,098,225 in total cash recoveries, savings, or court ordered restitution; $738,983 in fines levied; 227 indictments; and 190 convictions. As a means of deterring further illicit activity, we continue to seek suspensions and debarments following the judicial results of a criminal investigation. During this period, there were 26 suspensions and 35 debarments of persons/firms conducting business with the Department. The cases discussed below have either resulted in suspension or debarment or are in the process of such administrative action.

Our resources have been focused on cases involving the use of fraud to obtain Federal assistance. Working with other agencies, including task force operations, as well as independently, we opened 365 investigations. The majority of problems continue to be in Single Family Programs dealing with loan origination and equity skimming. The primary offenders are real estate investors, speculators and brokers. OIG is also placing added emphasis on the investigation of Public Housing Programs and programs involving community development. The following chart depicts our overall effort:



Task Force Operations

Task force operations have been utilized to temporarily combine the talents, skills, resources and expertise of several law enforcement agencies. HUD-OIG has historically joined forces in combatting fraud with the Federal Bureau of Investigation (FBI), the Internal Revenue Service (IRS), the U.S. Postal Service (USPS), the Department of Veterans Affairs (DVA), and State and local police departments. Federal and local prosecutors also play an important role in the detection of illegal activities and the subsequent prosecution of cases. This type of joint endeavor has been utilized most successfully in the investigation of fraudulent schemes in HUD's Single Family Programs. Current examples are the Springfield, Illinois Weed and Seed Program, and the Long Island, New York, and Tampa, Florida efforts. Results are illustrated below.

The Weed and Seed Program was introduced in 1991 by the Attorney General as an approach to combat violent crime and drug abuse in high crime neighborhoods. The goal of the program is to "weed" out crime and then "seed" targeted neighborhoods with a wide range of crime and drug prevention programs as well as human services, including housing assistance. This involves the combined efforts of Federal, State and local governments, the community, and the private sector working in partnership to create a safe, drug-free environment.

To address this critical problem in **Springfield, Illinois**, a special Weed and Seed task force was implemented in 1992. It is comprised of the FBI, the Drug Enforcement Administration, the Illinois State and local police and sheriff's offices, the U.S. Marshals Service, and the HUD-OIG, and is focused on the Springfield Housing Authority and surrounding housing sites under the Authority's jurisdiction.

The Long Island Mortgage Fraud Task Force was formed in April 1991 under the direction of the U.S. Attorney's Office in New York to investigate fraudulent mortgages throughout the Long Island area. In addition to HUD-OIG, the FBI, the USPS, and the IRS are participating. Approximately 75 fraudulent mortgages valued at over $10 million have been identified so far. These fraudulent mortgages have caused large financial losses to both HUD and Federally insured financial institutions.

To date, 25 persons have either been indicted or pled guilty to criminal charges. Those convicted include attorneys, mortgage company officials, and bank officers. Prison sentences total over 12 years, with restitution, fines, recoveries and forfeitures exceeding $24 million. The cases cited below exemplify the task force investigations in which we participated during this reporting period.

***With the IRS*:**

For violating the Real Estate Settlement Procedures Act by paying kickbacks to attorneys, real estate agents and mortgage brokers, the president of a mortgage company was sentenced to 15 years in prison, fined $5,000 and ordered to pay the IRS $600,000 in restitution. He was also suspended from participating in HUD programs and terminated by the company.

A real estate investor hid assets in HUD insured mortgages to evade paying income taxes and was sentenced to 5 years probation, received a $50,000 fine and must perform 1,000 hours of community service.

Another attorney pled guilty to originating $600,000 in fraudulent mortgages and evading $100,000 in Federal income taxes. The attorney represented strawbuyers at mortgage closings, sold properties to strawbuyers and provided false information in mortgage origination documents.

A vice president/co-owner of a mortgage company was convicted of defrauding HUD in the origination of $400,000 in FHA insured loans by making false statements on various applications.

***With the USPS and the FBI*:**

An attorney involved in the origination of 15 mortgages totalling $1.2 million purchased properties in the names of strawbuyers who neither made down payments nor qualified for the mortgages. The strawbuyers were paid up to $1,000 for each mortgage with which they were involved. The properties were deeded back to the attorney and his co-conspirators who let the properties go into foreclosure.

There are 15 additional cases currently being investigated by this Task Force.

The Tampa, Florida Task Force involving the FBI and the IRS is producing similar results. This Task Force is also targeting Single Family Program fraud. For example, during this reporting period:

Two real estate investors (husband and wife) were indicted for conspiring with others to defraud three financial institutions in connection with the financing of their real estate investments.

A mortgage broker was sentenced to 3 months imprisonment, 3 years probation and ordered to pay $891,824 in restitution for fraudulent mortgage applications.

Another mortgage broker pled guilty to originating fraudulent mortgage applications.

Single Family Programs

HUD, by insuring commercial lenders against loss, encourages the investment of capital in the home mortgage market. HUD insures loans made by private financial institutions for up to 97 percent of the property value and for terms up to 30 years. The investigation of fraud perpetrated in this program continues to be one of our highest priorities.

For this 6-month reporting period, we opened 97 investigations involving single family fraud. Results include 48 persons indicted, 50 convicted and cash recoveries amounting to approximately $3.6 million. Examples of OIG activities are presented below.

False Statements to Obtain FHA Loans

A Chicago, Illinois real estate appraiser and two strawbuyers were charged with falsely originating HUD and DVA loans and misusing home equity credit lines, causing losses of more than $200,000. This was a joint investigation with the FBI.

Misuse of Funds by Contractor

A former chief executive officer of a **Seattle, Washington** contractor pled guilty to fraudulently misapplying more than $1 million of HUD funds in 1990. Under contract to collect and forward to HUD the proceeds from foreclosure sales and reinstatements, he accumulated, retained and misapplied monies to pay personal debts. In a plea agreement, he agreed to pay $1,076,285 to HUD and to be permanently debarred from further government contracts. As part of the restitution, he forfeited 60 computers and various equipment. The government agreed that no charges would be filed against his wife and mother, who both worked for the business. Potential criminal penalties include both prison and fines.

A few of the pieces of computer equipment forfeited by contractor

Fraudulent Applications

In civil proceedings, a **Virginia** corporation agreed to pay HUD $1.1 million. The agreement resulted from the company's participation in processing fraudulent applications for FHA insurance on an apartment complex in **Las Vegas, Nevada.** Twenty-one mortgagors involved in the scheme paid $750,000 in restitution to HUD in December 1992.

Equity Skimming

A Houston, Texas broker, who assumed 17 properties, rented them to tenants and failed to make the mortgage payments. The broker was sentenced to 18 months in prison, fined $5,000, and ordered to make restitution to HUD in the amount of $559,004. In addition, a civil complaint was filed seeking damages in excess of $1 million.

A **Dallas, Texas** real estate investor and 55 co-conspirators were indicted on charges ranging from engaging in organized crime, theft, forgery and arson. The scheme involved a plan to defraud insurance companies in a variety of ways including filing claims on assumed FHA insured single family properties for fire damage, acts of burglary, or vandalism. Approximately 12 of the 56 persons indicted are connected to FHA insured properties. This is a joint effort with the Dallas District Attorney's Office, and the Bureau of Alcohol, Tobacco and Firearms.

HUD-OIG relayed to the FBI a caller's tip that resulted in the arrest of a fugitive from an indictment for equity skimming in **Anchorage, Alaska.** The indictment resulted from an OIG investigation involving the skimming of $180,000 in rents from 91 properties where HUD and DVA sustained combined losses of approximately $5 million.

Loan Origination Fraud

The President of a **Chicago, Illinois** company created and used false Federal and State tax returns, bogus W-2 wage statements, verifications of employment, applications for credit, credit reports and other documents to establish a credit repair business in support of mortgage loan applications. She was sentenced to 5 years probation, 300 hours of community service and $1,400 restitution.

Other Single Family Activity

During a tax investigation of a **Buffalo, New York** landlord, 20 fraudulent FHA mortgages valued at over $490,000 were found. The landlord used relatives to act as strawbuyers in order to facilitate the scam. He was sentenced to 5 months in prison and fined $125,000 for falsifying the FHA loan applications.

A **Spokane, Washington** real estate investor was found guilty of antitrust violations for making payments to other bidders so they would refrain from bidding at two auctions of HUD insured properties. This permitted the investor to purchase the properties for minimum bid amounts. The investor later sold the properties at a profit. He was sentenced to 1 year probation, fined $20,000, and ordered to pay $4,859 in restitution.

A HUD internal review detected a large number of checks issued to a **Rochester, New York** tracer who was to locate parties to whom HUD owed refunds of mortgage insurance premiums and obtain these refunds for them. The tracer received 116 payments on behalf of 34 claimants totalling approximately $106,000, but our review determined that some claimants never received their payments. The checks to the tracer were made using four variations of his name, located at 19 different firm addresses throughout western New York. OIG, working with Postal Inspectors, determined that the tracer was living in St. Louis, Missouri, and was operating from that location. When found, he pled guilty to mail fraud.

The FBI and Clayton County, Georgia officials were involved in the investigations of several individuals in **Atlanta, Georgia,** on charges that included loan origination fraud and arson. Six investors and mortgagors provided false information to obtain FHA insured mortgages. Charged with 26 counts of submitting false statements, their sentencing totaled over 6 years imprisonment, 20 years probation, 1,000 hours of community service and over $1.2 million in restitution. In addition, three individuals, including two of the original six, were indicted by the State of Georgia for arson involving these same properties. The properties were burned in order to collect the insurance benefits.

Community Planning and Development

Programs within the area of Community Planning and Development have also been under OIG investigative scrutiny. During this reporting period, our efforts produced 13 indictments and 8 convictions. Examples of these are presented in the following paragraphs.

A former rehabilitation administrator and two investors from **Grand Prairie, Texas,** were indicted in a scheme that involved over $673,000 in CDBG funds. The funds were allegedly obtained for the rehabilitation of properties belonging to the investors. Rehabilitation was never completed. The administrator also received kickbacks.

A Delaware County, Pennsylvania Redevelopment Authority employee, responsible for assisting in the awarding of HUD CDBG funding, accepted numerous cash gratuities from a contractor in exchange for speeding up the process for inspection reports and the payment of travel vouchers. The employee also lied to a Federal Grand Jury about this activity. He was sentenced to 10 months in prison.

A **New York, New York** landlord submitted a falsified loan application in an attempt to obtain a $230,000 Section 312 loan. The landlord attached falsified property appraisals from bogus real estate firms to justify the value of the property. When the application was submitted to the New York City Department of Housing Preservation and Development, it was approved and referred to HUD for approval. Irregularities were noted during the HUD review, and HUD did not incur a loss. The landlord pled guilty to State charges and was placed on a conditional discharge.

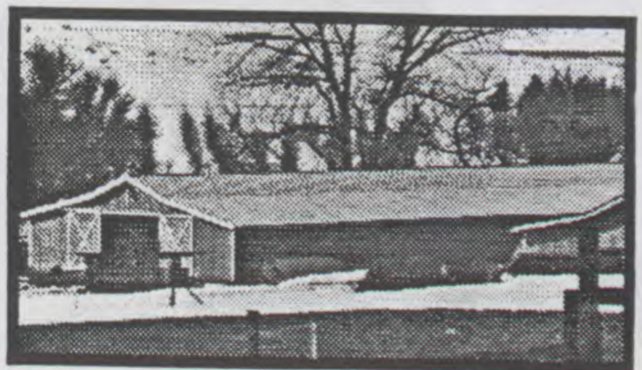
Public Housing

Local public housing agencies develop, own, and operate public housing projects. HUD furnishes technical assistance in planning, developing, and managing these complexes and gives financial assistance in the form of development costs, annual contributions for operating subsidies, and modernization funds.

OIG has 34 cases being actively investigated. Results over this reporting period include 39 persons indicted and 40 convicted. The total amount of monetary recoveries or court ordered restitution was $308,842. Some of the more flagrant abuses are illustrated below.

The former Section 8 coordinator for the Perry County Housing Authority in **DeQuoin, Illinois,** was sentenced to probation and ordered to make restitution of $78,000 after diverting cash rental receipts. She was also dismissed from her position.

Two construction superintendents for the **Denver, Colorado** Housing Authority were found selling scrap materials from project sites for personal gain. One was also found utilizing Authority employees and materials to build horse feeders and a roof at his 17-staff horse barn. At the completion of this investigation with the State of Colorado, one superintendent, the owner of the ranch, was sentenced to 30 days in the county jail work release program, 8 years probation and $12,142 in restitution. The other was sentenced to 100 hours of community service, 2 years probation and $2,635 in restitution.



Contractor's barn roof replaced with Public Housing Funds

The former deputy director of the **Tuscarawas, Ohio** Metropolitan Housing Authority was indicted for illegally receiving Section 8 benefits as a housing owner and falsifying PHA records.

The resident selector supervisor of the **Greenville, South Carolina** Housing Authority was sentenced to 4 months imprisonment, 4 months in-home confinement, 3 years probation, 300 hours community service and $59,958 in restitution for embezzling $60,000 from the Authority and using the funds to purchase various items, including cocaine.

An employee of the St. Francis Housing Authority in **Forrest City, Arkansas,** was indicted for submitting false documents to HUD and failing to deposit $15,759. The employee prepared a fraudulent cash receipts journal, entering amounts less than the actual amounts paid by the tenants, and submitted the fraudulent accounting records to HUD. Instead of depositing the money in the bank, she diverted the funds for her own use.

In a joint investigation with the **Suffolk County, New York** District Attorney's Office, an assistant director and the bookkeeper for the Housing Authority of Huntington, New York, pled guilty to embezzling over $11,000. They falsified records to generate excess and false Section 8 assistance payments in two separate schemes, one with a landlord and one with a tenant. They were ordered to make restitution of $2,000 and released on conditional discharges.

A former **Joplin, Missouri** Section 8 coordinator waived indictment and pled guilty to embezzling $56,052 from the Jasper County Housing Authority. She set up dummy tenant and landlord contracts and diverted the proceeds for her personal benefit. She also falsely claimed taxable income in 1990 that was considerably less than her actual income, resulting in an underpayment of taxes. This investigation was conducted by the FBI, the IRS and the HUD-OIG.

A **Framingham, Massachusetts** Housing Authority employee was sentenced to 10 days in prison, 5 years probation, $36,820 restitution, and a probation fee of $3,000 after funds were discovered missing from various Authority accounts.

A firm with business connections to an organized crime family obtained $23 million in 26 HUD funded contracts with the **New York City Housing Authority** (NYCHA). In a joint investigation with the IRS, the NYCHA-OIG, and the Department of Justice, we found that the firm was a shell company formed immediately after its predecessor was debarred by HUD. We also found inflated costs, unreported funds skimmed off as consultant fees, and Comprehensive Improvement Assistance Program funds rerouted through other businesses in a money laundering operation that were used to finance a horse farm in Florida.

Rental Assistance

The Department, in an effort to assist low- and very low-income families in obtaining decent, safe and sanitary housing, makes up the difference between what a lower income household can afford and the fair market rent for adequate housing. Some persons applying for benefits in this program have made false statements or misrepresented their employment income to take advantage of this Federal assistance. Cited below are a few of the more flagrant violations of the laws regulating this program that were investigated by OIG.

In a joint investigation with the FBI in **Charlestown, Massachusetts,** 22 former and current tenants were charged with either making false statements or conspiring to defraud the government. The total amount of rental assistance to which these tenants were not entitled is estimated at approximately $245,000 over a 3-year period.

A **Los Angeles, California** tenant, charged with obtaining over $12,000 in benefits by failing to report her true income, was sentenced to 450 hours of community service or 45 days in prison, 36 months supervised probation, and ordered to make full restitution. Another tenant failed to report her income as a parole officer and was sentenced to 60 months probation, 400 hours of community service, 6 months home detention, and ordered to make full restitution of $22,258.

A **Nashville, Tennessee** tenant was convicted on 35 counts, including 9 counts of making false statements to HUD to receive over $24,400 in Section 8 benefits. The other charges included immigration, passport, and education grant fraud.

An **Ashland County, Wisconsin** deputy sheriff was charged with failing to report his law enforcement earnings in order to obtain rental benefits. The estimated loss to HUD in overpaid subsidies is more than $22,000.

Multifamily Housing

HUD provides Federal mortgage insurance for a wide range of Multifamily Programs, including the construction or rehabilitation of rental housing, existing apartments or cooperative housing projects. During this reporting period, 44 individuals or firms were indicted and 31 were convicted for illegal activities involving Multifamily Programs. The total amount of monetary recoveries and court ordered restitution was $3,326,915.

An example of fraud in this program occurred in **Greensboro, North Carolina,** where an OIG investigation resulted in a former real estate company bookkeeper's being charged with embezzling over $13,000 from an FHA insured project by issuing checks from project accounts for her own use. She was sentenced to 4 months in prison and 5 years supervised release, and ordered to pay $13,000 in restitution.

In another significant investigation, a vice president of a management corporation in **Lafayette, California,** pled guilty to falsifying HUD approval for rent increases at four multifamily projects. The investigation also determined that this caused HUD to pay $170,000 in increased subsidies and that the management agent benefitted by over $11,000 in increased management fees.

To date, the results of this investigation include charges brought against five principals of a New York based firm and six other indictments.

Homeless Program

The executive director of the Justice Ministries, Inc., a grantee in the HUD House for the Homeless Program in **Memphis, Tennessee,** and an employee were convicted of mail fraud, false statements and perjury. This HUD program allows homeless individuals to rent HUD owned properties at rents calculated under the Section 8 regulations. The executive director allowed individuals who were not homeless to live in the properties and charged the tenants market value rent, keeping the excess rent. She also threatened the tenants with eviction if they did not submit false statements to HUD indicating that they were homeless and eligible for assistance.

GNMA Mortgage-Backed Securities

A former president and corporate secretary/treasurer of a **Carson, California** lending company were indicted by a Federal Grand Jury for fraud. The husband and wife devised and implemented a scheme to defraud GNMA of approximately $1 million by creating and placing 12 fictitious residential mortgages in a pool of mortgage-backed securities. After they received the securities based on the fictitious mortgages, they sold the certificates and retained the proceeds. They then attempted to conceal the scheme by filing false mortgage reports with GNMA and making monthly payments for several years on the fictitious mortgages to give the impression that these were legitimate transactions. The scheme was detected when the borrowers for five of the nonexistent properties applied for loans but did not receive them. GNMA suffered a loss of approximately $500,000 when it was forced to pay off the investors on six of the fictitious mortgage pools.

Results of Investigations

	OIG/Joint Cases	HUD Monitored Cases [1]	Total 10/01/92-03/31/93
Cash Recoveries/Savings to HUD	$4,659,652	$13,380	$4,673,030
Other	$703,616	-0-	$703,616
Court Ordered Restitution	$3,360,331	$1,361.246	$4,721,577
Total Cash Recoveries/Savings	$8,723,599	$1,374,626	$10,098,225
Commitments to Recover Funds	$60,329	-0-	$60,329
Total Fines Levied	$734,308	$4,675	$738,983
Indictments	174	53	227
Convictions	155	35	190
Investigations Closed	364	79	443
Total Years Suspended Sentences/Probations	16/386	14/77	32/463
Total Years of Prison Sentences	146	67	213
Suspensions of Persons/Firms Doing Business with HUD	16	10	26
Debarments of Persons/Firms Doing Business with HUD	26	9	35
Personnel Actions Initiated Against HUD Employees			16
Subpoenas Served			95
Limited Denials of Participation Issued			1,335

[1] Cases where HUD-OIG is monitoring the investigation but has no active participation.

Investigations Pending as of 3/31/93

OIG	657
Joint Investigations	88
HUD Monitored	306
U.S. Attorney	237
Total Investigations Pending	1288
HUD Action Officials	127

While corrective actions may be long-term, timely and effective improvements may be impacted by lack of sufficient resources

CHAPTER 4

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. Additionally, this Chapter presents audit follow-up data required by the Inspector General Act Amendments of 1988.

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 changes in the Administration. Management decisions were not always reached within 6 months of report issuance as required by Office of Management and Budget Circular A-50. Although management decisions were reached for most audits by the end of the reporting period, approximately 120 recommendations did not reach management decision within the 6-month requirement. At the end of the period, 74 recommendations contained in audits issued prior to October 1, 1992, still did not have a management decision. Further, during this reporting period, we had significant revised management decisions on two audits and a disagreed management decision on another audit.

Once a specific audit or problem area is discussed in this Chapter, it continues to be reported until final action is taken on all the pertinent recommendations. 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. Eight of the items were reported previously, and four of the problem areas are being presented for the first time. This period, final action was taken on two audits that had previously been reported.

Progress on Significant Unresolved Audits/Issues	
Issue	Date First Appeared in Semiannual Report
Staffing Constraints	3/31/92
HUD's FY '91 Financial Statements	3/31/93
FMFIA	3/31/93
Sec. 8 Moderate Rehab Program	9/30/91
Sec. 8 Budgeting & Accounting, Housing Voucher Program	9/30/90
Sec. 8 Budget & Estimating Process	9/30/92
FY '91 FHA Financial Statements	9/30/92
Grantee Performance Reports	3/31/93
Special Economic Dev. Activities	3/31/93
Interim Financing Activities	3/31/92
CDBG Rehabilitation Activities	3/31/92
Delaware Co. - CDBG	9/30/92

Staffing Constraints

Our audits of the Housing Development Grant Program (April 1990) and Approval and Monitoring of Management Agents for Multifamily Projects (April 1991) reported that the Office of Housing needs to develop and implement an effective resource strategy. Also, our audit of HUD's Fiscal Year 1991 Consolidated Financial Statements reported that HUD either does not have sufficient resources or is not using its resources efficiently to carry out some essential programmatic oversight functions.

Housing Development Program and Multifamily Management Agents

In June 1992, the former Deputy Secretary met with Office of Housing and OIG to discuss the two Office's disagreement on this issue of resources and the need to develop a resource strategy. At that meeting, the Office of Housing agreed to develop a staffing strategy for Multifamily Housing. The OIG agreed with this action, pending the receipt of an acceptable plan to develop the staffing strategy.

During this reporting period, the Office of Housing completed a plan for developing the Multifamily Housing staffing strategy. The proposed actions -- loan risk ratings, accountability monitoring strategies, work measurement system updates, and management information system enhancements -- are all necessary to do the best job possible in meeting Multifamily Housing Program responsibilities in the current HUD environment. However, in keeping with the results of the meeting with the former Deputy Secretary on this resource issue, the OIG believes the Office of Housing should develop a comprehensive resource needs assessment and allocation plan for Multifamily Housing. The plan should detail:

- The total anticipated Multifamily Program workload and risk;
- Those aspects of the workload which can and will be addressed with existing resources, and how this will be accomplished; and
- Ramifications of those aspects of the workload and risk that cannot be addressed or fully covered with existing resources.

The Office of Housing agreed with our concerns for developing the plan and expects to complete this resource strategy by September 30, 1993.

FY 1991 Consolidated Financial Statements

In our June 1992 report on the Department's Consolidated Financial Statements, we recommended that HUD establish a more systematic approach to determining staffing requirements. One way of doing this is to prepare an annual resource plan which defines the experience level and numbers of staff needed to perform HUD's primary tasks. Staffing requirements should be tied to volume indicators such as:

- Number of loans insured by FHA
- Number of loans guaranteed by GNMA
- Number of multifamily projects and units
- Number of Section 8 requisitions
- Dollars of grant funds

Established standards could then be used by HUD to measure staffing resources against workload requirements and to determine where shortfalls and overstaffing exist.

The Acting Chief Financial Officer (CFO) did not see the need to adopt a more systematic approach to determining staffing requirements. The Acting CFO stated the Department uses the budget development process to estimate staffing requirements. The Acting CFO admitted the process was less than ideal but believed it was probably the only practical one, given the Federal budget process. We do not agree with this position and have so advised the Acting CFO. Our audits have clearly demonstrated that the processes used by HUD for determining required staffing levels and allocating them to various program areas are not working. (See Chapter 2 for details on our most recent audit of resource management.) We are pursuing this issue with the CFO's Office and will refer it to the Deputy Secretary for a management decision if agreement cannot be reached. (Report Nos. 90-TS-112-0015; 91-TS-111-0014; and 92-TS-119/129-0011)

Audit Of HUD's Fiscal Year 1991 Consolidated Financial Statements

As required by the Chief Financial Officers Act of 1990, OIG issued a report on the results of an audit of the Department's Fiscal Year 1991 Financial Statements. In addition to disclaiming an opinion on the financial statements, our June 30, 1992 report presented 16 internal control reportable conditions, 8 of which were also classified as material weaknesses. These reportable conditions could adversely affect the Department's ability to record, process, summarize, and report financial data.

We made 26 recommendations to improve the deficiencies disclosed. Recommendations urged the Department to:

- Develop meaningful performance measures;
- Establish a more systematic approach to determining staffing requirements;
- Improve existing post disbursement review of Section 8 payments, pending completion of an automated system, by standardizing existing manual reviews, developing a reporting mechanism and pursuing and collecting overpayments;
- Improve monitoring of Multifamily Housing projects by developing a system that maximizes automation to assist HUD;
- Improve monitoring of public housing agencies by improving the organization of staff resources, and automating systems to track receipt of financial statements and deficiency actions;
- Monitor Community Development Block Grant recipients more effectively by requiring development of annual monitoring plans and justifying selections for review, modifying monitoring guidance and developing and

communicating penalties for submission of misleading performance data to the Department;

- Reassess approaches to refinancing high interest rate Section 235 mortgages by mandating refinancing or placing heavier emphasis on offering incentives to mortgagors rather than mortgagees; and
- Strengthen access controls over automated financial systems by filling the Data Security Administrator position and developing and implementing security procedures.

We did not receive the CFO Office's initial response to the recommendations until March 4, 1993. Although the CFO's Office requested final action on eight recommendations, it could not be demonstrated that the recommendations had been implemented. As of March 31, 1993, all recommendations remain open. (Report No. 92-TS-179-0011)

Federal Managers' Financial Integrity Act of 1982

Our audit of the Department's Fiscal Year 1991 efforts to comply with the Federal Managers' Financial Integrity Act (FMFIA) cited HUD's continued inability to implement an effective FMFIA Program. Significant recommendations included: increased direction and oversight by the CFO; revised guidance on the FMFIA Program; bringing the Management Control Plan into compliance with OMB requirements; and a stronger commitment to verification reviews of material weaknesses that program offices identify as being corrected.

The former CFO made a commitment to formally restructure the FMFIA Program during the latter part of Fiscal Year 1992. However, the Department's process for evaluating its internal control and financial management systems is still not an adequate basis for forming conclusions on compliance with the objectives of FMFIA. Final actions have been completed on only 2 of the 12 audit recommendations. Planned final action dates for the remaining 10 recommendations ranged from September 1992 to January 1993. As a result, several recommendations were repeated in our audit report on the Department's Fiscal Year 1992 FMFIA process, which is discussed in Chapter 2 of this report. (Report No. 92-TS-179-0005)

Section 8 Moderate Rehabilitation Program

Our April 1989 multi-regional audit disclosed widespread abuse in all phases of this program. As disclosed in our previous Semiannual Report, HUD reviewed all coinsured Moderate Rehabilitation projects to determine if contract rents were excessive. Where appropriate, rent reductions and the amounts of overpaid assistance were also determined. Several lawsuits were filed against HUD when the former Assistant Secretary for Public and Indian Housing issued letters to a number of public housing agencies advising them of rent reductions. The issuance of additional letters was suspended pending the outcome of litigation.

During the current reporting period, the owners of Linden Apartments and Willow Creek Apartments prevailed in their suit against the Department. The Court concluded that rent reductions were prohibited by the Housing and Community Development Act of 1987. The judgment set aside the reduction of contract rents and housing assistance payments, and required restitution of housing assistance payments already withheld from the projects. The Department intends to appeal the Court's decision. Five other lawsuits filed by project owners are still pending. (Report No. 89-TS-103-0005)

Section 8

Accounting and Budgeting/Housing Voucher Program-PHASE II

Regulatory revision is necessary to achieve final action on two recommendations contained in our 1990 audits on Section 8 accounting and budgeting and the Housing Voucher Program - Phase II. The last recommendation contained in both reports urges HUD to develop a long-range plan to combine the best features of the Section 8 Certificate and Voucher Programs. The same regulation will resolve the final recommendation contained in each report. In our Semiannual Report for the period ending September 1992, we reported that the final action would be completed in August 1993. There have been delays in issuing regulations because staff was reassigned to develop regulations for the HOME and HOPE Programs. However, the final regulation is still expected to be issued by August 1993.

The recommendations in our report on Section 8 accounting and budgeting 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 discussed below. (Report Nos. 90-TS-103-0010 and 90-TS-103-0010)

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

At the request of the Congress, we audited the adequacy of the financial information in support of HUD's funding estimates for Section 8 contract renewals and amendments. Our April 1992 report showed that HUD continues to experience problems in submitting reliable Section 8 budget requests to the Congress. The primary cause for this situation is the Department's unreliable Section 8 data systems.

Our audit reported that:

- budget estimates for Section 8 tenant-based contract renewal funding continue to be unreliable;
- Fiscal Year 1992 and 1993 Congressional budget requests for Section 8 project-based (Loan Management Set-Aside) may be materially overstated;
- Fiscal Year 1992 and 1993 original Congressional budget estimates for Section 8 certificate amendments may be substantially overstated;
- Fiscal Year 1992 and 1993 Congressional budget requests for amendments to Section 8 project-based contracts are based on questionable data from the Department's existing Section 8 financial information systems; and
- Section 8 financial data systems are incapable of generating reliable data.

Actions have been completed on 10 of the 15 recommendations made to improve the Department's overall management and control of the Section 8 budget development process. Completed actions include: taking measures to improve management over the development of the CFS/TRACS, HUD's new multi-phased assisted housing/Section 8 database software system; completing quality assurance reviews of the CFS/TRACS development process with the OIG's assistance; formalizing discrepancy resolution procedures; and implementing controls and operating procedures to ensure the accuracy of HUD's Section 8 budget requests.

The Office of Housing has missed the final action target date of November 1992 for implementing two recommendations concerning quality control reviews of field surveys and developing and issuing a work plan with budget estimating strategies for the Fiscal Year 1994 project reserve estimates. The Office of Housing advised that implementation was severely impacted by staffing shortages and they cannot estimate when actions will be completed.

The three remaining recommendations urge that HUD issue revised field survey instructions for estimating project-based contract renewals, develop and implement procedures to facilitate field input prior to the submission of HUD's budget requests to the Congress, and issue a consolidated Handbook on the Section 8 budget process. Acceptable corrective action proposals were received in April. (Report No. 92-TS-103-0008)

Federal Housing Administration - Audit of Fiscal Year 1991 Financial Statements

Our audit report on the Fiscal Year 1991 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. Consequently, the auditors were unable to express an opinion on the FHA financial statements.

Twenty-nine recommendations were made to correct three material internal control weaknesses and two reportable conditions. The Office of Housing has completed actions on 18 recommendations. Completed actions include using risk ranking factors to identify poorly performing FHA lenders, enhancing the data base for refinanced mortgages, and developing a plan for a monitoring system that includes loan delinquencies and performance ratings for each FHA lender. Eleven recommendations remain to be implemented. These concern mitigating losses through borrower counseling, developing goals to reduce single family loans held by the Department and completing pending foreclosures, developing a formal loan/risk classification system for insured multifamily loans, and completing the correction and overhaul of the multifamily insurance data base to include key loan and project performance data. Several of the corrective actions initiated are long-term in nature. Final action target dates for eight recommendations range from June 1993 to September 1998. During the reporting period, the Office of Housing did not meet their established target dates for implementing three recommendations. They advised that staffing contraints impacted on the timely completion of loss mitigation actions and pending foreclosures on assigned single family loans. In our current audit of Fiscal Year 1992 Financial Statements, progress on corrective actions was evaluated. Five of the 11 open recommendations were repeated in our current report. (Report No. 92-TS-119/129-0007)

CDBG Program Material Weakness

Audits in the CDBG Program continue to show that the Department has not established sufficient controls over the program. Consequently, the Department is not assuring that grantees are fulfilling program objectives, providing needed services to the public, and safeguarding program funds from waste, loss, and abuse. Discussed below are follow-up efforts on three audits that identified material weaknesses in the CDBG Program – Multi-regional Audits of Grantee Performance Reports, Special Economic Development Activities and Interim Financing. GAO and a contractor have also identified similar problems. Overall, we believe that CDBG Program controls are materially weak and should be reported to the President and the Congress under FMFIA. In reporting the controls over the CDBG Program to be materially weak, we believe that the weaknesses identified should be consolidated and reported as one material weakness. Additionally, we believe that a comprehensive action plan to correct the identified problems should be developed.

Grantee Performance Reports

Our July 1992 multi-regional audit report on controls over preparation and use of the Grantee Performance Reports (GPRs) concluded that deficiencies in the preparation and use of GPRs constitute a material internal control weakness in the Department's control over the CDBG Program. The GPR is the only document submitted to the Department 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.

Reviews of GPRs showed that grantees were insufficiently trained in GPR preparation; did not verify data obtained from subrecipients; and GPRs were submitted to the Department untimely without penalty to the grantee. In addition, HUD field office reviews often exceeded established time frames and lacked substance. The report contained nine recommendations, including a recommendation that the Department's control over the CDBG Program be reported as a material weakness under FMFIA.

The former Acting Assistant Secretary for Community Planning and Development disagreed that controls over the CDBG Program should be reported as a material weakness. However, the former CFO included GPRs as part of a material weakness concerning CDBG entitlements. The material weakness has no corrective action plan. We believe that corrective action plans should be developed because of persistent and material internal control weaknesses disclosed in this audit and other audits of the CDBG Program. Since agreement on the necessary actions cannot be reached, we plan to refer the recommendation to the Deputy Secretary for a management decision in May.

During the reporting period, management decisions were reached on four recommendations. Actions to be taken in response to the four recommendations include: issuance of a final rule on GPR submission requirements by December 31, 1993; issuance of a compliance supplement for the CDBG Entitlement Program under the Single Audit Act by March 31, 1994; development of software for GPR preparation by September 30, 1994; and development of guidance for preparing the CDBG Annual Report to the Congress by September 30, 1994.

Although management decisions have not been reached on the four remaining recommendations, some progress has been made in reaching agreement on the proposed corrective actions. The Assistant Secretary needs to provide additional information before we can agree to the management decisions. The remaining recommendations concern implementation of a uniform accounting system, implementation of an electronic policy reference system for CDBG grantees, and training for CDBG grantees on the revised GPR. (Report No. 92-TS-141-0014)

Special Economic Development Activities

Our April 1992 multi-regional audit of Special Economic Development Activities under the CDBG Program concluded that the program was not well-managed by HUD or grantees. Nearly half of the economic development loans failed or were at risk of default. Only half of the jobs estimated to be created or retained were actually provided, and the cost of providing each job more than doubled. In addition, 13 of 19 grantees reviewed maintained inadequate documentation to support the necessity or appropriateness of the assistance, and 13 grantees did not adequately document that jobs were created or retained for low- and moderate-income persons. We made 14 recommendations to correct internal control weaknesses and specific problems reported, including recommending that Special Economic Development Activities be reported as a material weakness under the FMFIA.

The Office of the Assistant Secretary for Community Planning and Development disagreed that Special Economic Development Activities should be reported as a material weakness. However, the former CFO included Special Economic Development Activities as part of a material weakness concerning CDBG entitlements. The material weakness has no corrective action plan. Additionally, no management decision has been made on recommendations that pertain to an appropriate internal control system. These recommendations suggest assessing the adequacy of staffing levels; providing training to grantees; assessing the capabilities of grantees to administer the program; and targeting and ranking grantees for monitoring and technical assistance. Since agreement on the necessary actions cannot be reached, we plan to refer the eight recommendations to the Deputy Secretary for a management decision in May.

In March 1993, CPD agreed to take actions on the six remaining recommendations. Five recommendations urge that new or revised regulations be issued. Regulations concern equity investment, assessment of project viability, job creation, and alternative hearing processes for sanctions against grantees. All regulations are scheduled to be issued by March 1994. In addition, new software is being developed to automate GPRs which will accumulate information on Special Economic Development Activities by grantees in response to one recommendation. The software is scheduled to be distributed to grantees in June 1994. (Report No. 92-TS-145-0009)

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 then 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 then Assistant Secretary issued instructions to provide field offices guidance for implementing risk analysis in monitoring entitlement grantees. In October 1992, a revised handbook was issued to provide interim financing guidelines to grantees. These actions resolved two of the recommendations contained in our report. Final actions in response to four recommendations have experienced significant delays and were still pending at the end of the period.

Implementation of the four recommendations requires publication of program income regulations. While a number of delays have been experienced, the Acting Deputy Assistant Secretary now anticipates publishing the final rule by December 31, 1993, although the proposed regulation has still not been published. (Report No. 91-TS-141-0006)

San Francisco Regional Office

Our regional audit report on Interim Financing (Floats) was issued in September 1990. We reported that the City and County of Los Angeles used principal and interest payments from float loans to establish revolving loan accounts. 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 former Assistant Secretary believed that it was within the Department's discretion to determine the disposition of the funds earned and believed the interest earned should be treated as program income and retained by the grantees for grant related use.

In our last Semiannual Report, we reported that a management decision had not been made on two recommendations even though our position is supported by a Comptroller General Decision issued at our request in May 1992. 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 CDBG 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.

In our last Semiannual Report, we reported that the then Assistant Secretary had been advised of the Comptroller General Decision but a management decision had not been made to initiate collection actions. In February 1993, the Acting Deputy Assistant Secretary directed the field office to institute collection action. The Office of Community Planning and Development advised that the amount of interest to be collected will be determined in April 1993. After the appropriate amount is determined, a management decision on the recommendations can be made. (Report No. 90-SF-141-0006)

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. Health and safety violations went uncorrected because of deficiencies in inspections, work write-ups, cost estimates, and overall quality control.

Based on our audit, the former Assistant Secretary for Community Planning and Development took 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 necessitates 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 continues to experience significant delays. During the current reporting period, the Acting Deputy Assistant Secretary withheld the final rule from Departmental clearance until after confirmation of the Assistant Secretary-Designee. (Report No. 90-TS-144-0012)

Delaware County, PA CDBG Program

Our regional audit report on the County of Delaware, Pennsylvania CDBG Program 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.

In March 1992, the former Assistant Secretary for Community Planning and Development advised the Employment and Housing Subcommittee of the House Government Operations Committee that a demand letter would be sent to the County and that patience with the County's slow response was waning. During this reporting period, final action was completed on six procedural recommendations that did not require repayment of improper expenditures. However, final action on 17 recommendations is still pending.

In the 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 then Assistant Secretary take legal actions to require the County to repay, or have its letter-of-credit reduced by the outstanding balance. In June 1992, the Regional Office requested that special contract conditions be placed on the County's Fiscal Year 1992 entitlement grant. Subsequently, in December 1992, the Acting Assistant Secretary suspended action on the special conditions and reduction of the County's letter-of-credit. This decision was based on the Regional Office's representations that the County had made sufficient progress in addressing the audit findings and had submitted information to clear a number of the monetized findings. In our opinion, less than $70,000 of the questioned costs were eligible based on the documentation provided. Because Delaware County cannot support our questioned costs, we plan to elevate the matter to the Assistant Secretary-Designate and recommend that appropriate legal actions be taken to require the County to repay, or have its letter-of-credit reduced. (Report No. 90-PH-249-1014)

Disagreed Significant Management Decision

Section 5(a)(12) of the Inspector General Act, as amended, requires information concerning any significant management decision with which the OIG is in disagreement. During the current reporting period, there was one significant management decision made with which the OIG disagreed.

City of Atlanta, GA CDBG Program

We recommended that the City of Atlanta reimburse its CDBG Program $5.2 million for program income generated from the sale of industrial park sites developed with Federal (Section 108 and CDBG) and private funds. Federal funds were generally used to construct the infrastructure (streets, water and sewer lines, etc.) for the industrial parks. Development of the industrial parks was carried out by the City's subrecipient, the Atlanta Economic Development Corporation. Contrary to program regulations and loan agreements, the City allowed the subrecipient to retain program income without proper controls and accountability over its use. Instead of using program income to repay the Section 108 loans, repayments were being made with CDBG entitlement funds.

We referred the matter to the former Deputy Secretary for a management decision as to whether program income should be recognized if improvements were not located directly on industrial sites sold or whether the entire activity (development of industrial parks) should be considered to recognize program income.

On January 12, 1993, a final management decision was made by the Acting Deputy Secretary. The decision recognized that the OIG has a growing concern that the subrecipient may not have expended funds properly. However, the management decision did not require the return of program income to the City's Entitlement Program or require the City to account for the sources and uses of the funds. The decision only required that the Office of Community Planning and Development: issue guidance for determining what constitutes program income and specifying what program income can be used for under the Section

108 Loan Program; and review and amend HUD's Section 108 contract language to clarify what primary funding sources will be used to repay Section 108 loans.

It is our opinion that complete accountability for the sources and uses of funds should have been provided and evaluated. We disagree that the sale of improved sites did not generate program income because the Federally funded improvements, though located within the industrial parks, were not located on the industrial sites sold. We maintain that the assisted activity includes all costs associated with the land, infrastructure and other improvements needed to make the areas into industrial parks. Therefore, program income should have been calculated per the regulations based on the overall rate of participation. Lastly, we believe that the industrial sites would not have been marketable without the public improvements, and the public improvements by themselves would not be an eligible activity under the program. (Report No. 90-AT-241-1008)

Significant Revised Management Decisions

Section 5(a)(11) of the Inspector General Act, as amended, requires a description and explanation of the reasons for any significant revised management decisions made during the reporting period. During the current reporting period, management decisions were revised on two audits. The revised actions were agreed to by the Office of Inspector General on the Multi-regional Audit of Housing Development Grants and the Audit of the Seattle, Washington Housing Authority.

Multi-Regional Audit of Housing Development Grants

In response to our audit, the former Assistant Secretary for Housing agreed to improve the timeliness of HDG settlements, in part, by: (1) transferring responsibility for monitoring the HDGs after construction completion from field office Development staff to Housing Management staff; (2) contracting with a major accounting firm to audit HDG settlement packages; and (3) detailing temporary staff to assist Headquarters process project settlements.

A revised management decision was necessary because the Office of Housing could not accomplish all actions covered in the original management decision due to a lack of necessary staffing and contracting resources.

To address the resource concerns, the Office of Housing revised their management decision and agreed to develop a comprehensive resource needs assessment and allocation plan for the Multifamily Housing Program area. (Report No. 90-TS-112-0015)

Seattle, Washington Housing Authority

In response to our audit report, the Department entered a repayment agreement with the Seattle Housing Authority to recapture incorrectly calculated utility allowances totaling $893,000 over a 10-year period. The Housing Authority has repaid the Department $178,682 under the repayment agreement.

A revised management decision waiving all amounts due and returning funds repaid was made in accordance with the 1993 Federal Appropriations Act which directed the Department to immediately waive all efforts to recapture funding pertaining to the audit. (Report No. 86-SE-201-1003)

TABLE A

AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH NO MANAGEMENT DECISION AT 3/31/93

REPORT NUMBER	REPORT TITLE	ISSUE DATE	REASON FOR LACK OF MANAGEMENT DECISION	TARGET DATE FOR MANAGEMENT DECISION
* 90SF0006	Interim Financing Activities CDBG Program, San Francisco Regional Office	09/28/90	Management decisions were made on 29 of 31 recommendations. The two remaining recommendations require collection of interest on unauthorized loans. Following issuance of a Comptroller General Decision in May 1992, the Office of Community Planning and Development directed the Field Office in February 1993 to institute collection action. Management decisions have not been reached because the Field Office needs to determine the amount of interest to be collected from the grantee.	05/30/93
* 92KC1002	Kansas City MO Department of Housing and Community Development, Section 108 Loan Guarantee Program	01/10/92	The Office of Community Planning and Development has not been responsive to the one recommendation contained in this report that requires the City to repay a $1.2 million loan.	05/30/93
* 92CH1010	Detroit MI Housing Department, Section 8 Existing Certificate, Voucher and Moderate Rehabilitation Programs	01/30/92	Management decisions on 15 of the 17 recommendations have been deferred because the Acting Assistant Secretary for Public and Indian Housing has not decided the appropriate sanctions to be taken.	05/30/93
* 92TS0008	HUD's Fiscal Year 1992 and 1993 Budget Estimating Processes for Section 8 Contract Renewals and Amendments	04/21/92	Management decisions have not been reached on 3 of the 15 recommendations contained in the report, because the Offices of Housing and Administration were not responsive to the recommendations. The Office of Administration recently submitted a response to one recommendation which is being evaluated. The Office of Housing expects to provide a response to their two recommendations in April 1993.	06/15/93
* 92TS0009	Multi-regional Audit of Special Economic Development Assistance, CDBG Program	04/29/92	Management decisions have not been reached on 8 of the 14 recommendations contained in the report, because the Office of Community Planning and Development does not agree that the CDBG Program should be considered a material internal control weakness under FMFIA. We plan to refer our disagreement to the Deputy Secretary.	05/30/93
* 92TS0011	Audit of HUD's Fiscal Year 1991 Consolidated Financial Statements	06/30/92	The Acting Chief Financial Officer has not been responsive to the 26 recommendations included in this report. The initial response was received in March 1993 and did not result in any management decisions.	06/30/93
* 92TS0014	Multi-regional Review of Controls Over the Preparation and Use of Grantee Performance Reports	07/30/92	Management decisions have not been reached on 5 of the 9 recommendations contained in the report, because the Office of Community Planning and Development does not agree that the CDBG Program should be considered a material internal control weakness under FMFIA. We plan to refer our disagreement to the Deputy Secretary.	06/30/93
* 92TS1016	Tri Capital Corporation, HUD Approved Coinsurance Lender, San Francisco CA	08/13/92	All 10 recommendations contained in the report were referred to the Mortgagee Review Board. The Board is still evaluating the matter to determine appropriate actions to be taken.	10/15/93
* 92TS1017	Commonwealth Mortgage Company, Nonsupervised Mortgagee, Philadelphia PA	09/01/92	The Office of Housing provided a response in March 1993. Our legal counsel is evaluating whether the action is appropriate.	04/30/93
92AT1021	City of Reidsville NC, Section 8 Program	09/03/92	Management decision has not been reached on 1 of the 17 recommendations contained in this report because of a disagreement on the appropriate action to be taken. The recommendation was referred to Headquarters for decision in March 1993. The Assistant Secretary for Public and Indian Housing is currently evaluating the actions to be taken.	05/30/93

REPORT NUMBER	REPORT TITLE	ISSUE DATE	REASON FOR LACK OF MANAGEMENT DECISION	TARGET DATE FOR MANAGEMENT DECISION
* 92TS0015	Contractor Incentive Payments for the Section 202 Elderly Housing Program, Atlanta Regional Office	09/24/92	Management decisions have not been reached on the 2 recommendations contained in the report. We are evaluating the implications of the management decision proposed by the Office of Housing in March 1993.	04/30/93

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

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TABLE B

Significant Audit Reports Described in Previous Semiannual Reports where Final Action Has Not Been Completed as of 3/31/93

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
83CH1051	Detroit MI Housing Department, Public Housing Agency Activities	08/26/83	11/15/84	03/01/94
89SF1004	Las Vegas NV Housing Authority, Low Income Housing Program	01/20/89	07/18/89	05/26/93
89PH1011	District of Columbia CDBG Program, Subrecipient Monitoring	03/31/89	09/20/89	Note 1
89PH1013	Philadelphia PA CDBG Program, Subrecipient Monitoring	07/17/89	01/12/90	Note 1
90CH1006	New Center Hospital, Multifamily Mortgagor Operations, Detroit MI	01/22/90	06/19/90	07/01/93
90AT1008	Atlanta GA CDBG Program, Use of Program Income	03/09/90	03/30/93	12/31/93
90TS1010	Maryland Community Development Administration, Section 8 Moderate Rehabilitation Program, Annapolis MD	03/09/90	08/10/90	Note 1
90TS0012	Multiregion Audit of CDBG 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	09/30/93
90PH1014	Delaware County CDBG Program, Partnership for Economic Development and Other Selected Areas, Media PA	06/12/90	11/01/90	Note 1
90BO1012	Lisbon Falls ME, Farwell Mill Housing Development Grant	07/23/90	02/01/91	06/30/93
90SF0006	Interim Financing Activities, CDBG 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	Chester PA CDBG Program	12/27/90	07/22/91	Note 1
91AO0001	Multiregion Audit of the Emergency Shelter Grants Program	12/28/90	07/05/91	Note 1
91TS0006	Multiregion Audit of Interim Financing Activities, CDBG Program	01/17/91	06/07/91	Note 1
91TS1004	Waterford Associates, Coinsured Retirement Service Centers, Melbourne FL	02/20/91	03/30/92	Note 1
91PH1005	Pittsburgh PA Housing Authority, Comprehensive Improvement Assistance Program	03/21/91	09/20/91	Note 1
91SF1003	Mundy Realty, Area Management Broker, Phoenix AZ	03/28/91	07/12/91	06/01/93
91TS0011	Review of Management Controls over Single Family Foreclosure Contractors	04/26/91	02/26/92	Note 1
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	11/06/92	09/30/93
91NY1008	Burton Towers, Multifamily Mortgagor Operations, Newburgh NY	05/31/91	10/01/91	Note 1
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	Note 1
91AT0006	Special Economic Development Activities, CDBG Program, Atlanta Regional Office	07/26/91	01/23/92	Note 1
91SF1007	Royce Enterprises Limited, Multifamily Management Agent, Campbell CA	08/23/91	11/26/91	Note 1
91CH1017	Detroit MI CDBG Program, Administrative, Planning and Technical Assistance Costs	09/06/91	12/05/91	Note 1
91SF1008	All Indian Pueblo Housing Authority, Albuquerque NM	09/17/91	01/15/92	Note 1
91PH1014	Pittsburgh PA Urban Redevelopment Authority, Davison Square Apartments, Housing Development Grant	09/19/91	01/13/92	Note 1
91SF1009	Los Angeles County Housing Authority, Review of Procurement of Additional Protective Services	09/19/91	01/17/92	Note 1
92TS0001	Multiregion Audit of PHA Compliance with Rent Reasonableness Requirements for the Section 8 Existing Housing Program	10/10/91	06/08/92	05/31/93
92KC1801	St. Louis MO Community Development Agency, Purchase of Land in St. Louis Place Neighborhood	10/22/91	03/12/92	Note 1
92TS0002	Multiregion Audit of Fiscal Year 1990 Resident Management Technical Assistance Grant Awards	10/29/91	05/28/92	Note 2
92TS0003	Multiregion Audit of Grant Application Processing on the Public Housing Drug Elimination Program	10/29/91	05/28/92	Note 2
92TS0004	Multiregion Audit of the Housing Counseling Assistance Program	10/31/91	06/09/92	Note 2
92CH1003	Chicago Mental Health Foundation, Inc., Supportive Housing Demonstration Program, Chicago IL	11/07/91	01/10/92	Note 1
92TS0804	Hospital Insurance Program, Material Weakness Verification	11/15/91	09/01/92	Note 2
92PH1001	National Housing Partnership Property Management, Inc., Multifamily Management Agent, Reston VA	12/05/91	04/03/92	Note 1

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
92CH0801	HUD's Servicing of Multifamily Projects	12/19/91	03/06/92	Note 1
92KC1002	Kansas City MO Department of Housing and Community Development, CDBG Program, Section 108 Loan Guarantee	01/10/92	Note 4	Note 4
92FW1002	San Benito TX CDBG Program	01/14/92	04/28/92	04/17/93
92CH1010	Detroit MI Housing Department, Section 8 Existing Housing Certificate, Voucher, and Moderate Rehabilitation Programs	01/30/92	Note 4	Note 4
92TS0005	HUD's Implementation of the Federal Managers' Financial Integrity Act of 1982	02/28/92	09/23/92	Note 2
92NY1004	Asbury Park NJ Housing Authority, Low Income Housing Program	03/03/92	07/01/92	07/01/93
92TS1005	J & B Management Company, Multifamily Management Agent, Woodlands TX	03/03/92	09/30/92	09/30/93
92PH1003	Baltimore MD, CDBG Program	03/04/92	06/23/92	06/20/93
92TS1009	Insignia Management Group, Multifamily Management Agent, Greenville SC	03/20/92	08/11/92	05/01/93
92TS0006	Audit of Fiscal Year 1991 Financial Statements - Government National Mortgage Association	03/25/92	07/15/92	Note 2
92TS0007	Audit of Fiscal Year 1991 Financial Statements - Federal Housing Administration	03/27/92	09/29/92	09/30/98
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, Chicago IL	03/31/92	06/25/92	06/24/93
92BO0006	Public Housing Development Processing, Boston Regional and Selected Field Offices	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 4	Note 4
92AO0003	Access Controls and Transaction Logging of the Single Family Notes Servicing System	04/29/92	03/29/93	Note 2
92TS0009	Multiregion Audit of Special Economic Development Activities	04/29/92	Note 5	Note 5
92TS0010	Multiregion Audit of Post Implementation Review of Single Family Accounting and Management System	04/30/92	11/12/92	08/17/93
92DE1002	Blackfeet Indian Housing Authority, Browning MT	05/08/92	09/04/92	09/04/93
92FW1004	Palm Center Redevelopment Project, CDBG Program, Houston TX	05/22/92	09/14/92	09/08/93
92PH1005	Philadelphia PA Housing Authority, Management and Selected Development Operations	05/26/92	09/30/92	04/30/93
92AT1014	Jacksonville FL Department of Housing and Urban Development, Public Housing Operations	06/12/92	10/06/92	12/31/94
92TS0011	Audit of Fiscal Year 1991 HUD Consolidated Financial Statements	06/30/92	Note 5	Note 5
92PH1009	Huntington WV CDBG Program	07/10/92	11/07/92	06/10/93
92AT1016	Heritage Pointe Apartments, HUD-Held Multifamily Coinsured Project, Smyrna GA	07/14/92	11/05/92	10/25/93
92TS0013	Payment of Claims for Single Family Insurance	07/27/92	01/04/93	10/31/93
92TS1014	Love Funding Corporation, HUD Approved Coinsurance Lender, Washington DC	07/28/92	03/31/93	07/15/93
92TS0014	Multiregion Review of Controls Over the Preparation and Use of Grantee Performance Reports	07/30/92	Note 5	Note 5
92AT1018	Bayamon City RQ Country Club Project, Housing Development Grant & Multifamily Mortgage Insurance Program	08/06/92	01/04/93	12/31/93
92TS1015	Interstate Realty Management, Inc., Multifamily Management Agent, Marlton, NJ	08/11/92	03/31/93	07/15/93
92TS1016	Tri Capital Corporation, HUD Approved Coinsurance Lender, San Francisco CA	08/13/92	Note 6	Note 6
92BO1011	New Haven CT Housing Authority, Management Operations, Low Income Housing Program	08/14/92	12/10/92	07/31/93
92KC1003	Housing Authority of Kansas City MO, Low Income Housing Program	08/18/92	03/16/93	06/30/93
92SF1007	San Bernardino CA CDBG Program	08/19/92	11/20/92	06/30/93
92SF0006	Administration of the Direct Endorsement Program's Mortgage Credit Function	08/24/92	11/25/92	11/25/93
92PH0802	Philadelphia PA Housing Authority, Consolidation of Unresolved Audit Recommendations (See Note 8)	08/27/92	08/27/92	05/01/93
92SE1005	Colville Indian Housing Authority, Indian Housing Programs, Nespelem, WA	08/31/92	03/29/93	11/30/93
92SF1009	San Francisco CA Housing Authority, Low Income Housing Program	09/10/92	01/08/93	11/30/93
92TS1017	Commonwealth Mortgage Company, Nonsupervised Mortgagee, Philadelphia PA	09/11/92	Note 3	Note 3
92AO0806	Cash Management Information System Development	09/18/92	03/22/93	06/30/93
92FW1008	Lakes at Renaissance Park Apartments, Multifamily Mortgagor Operations, Austin TX	09/23/92	12/14/92	12/07/93

Report Number	Report Title	Issue Date	Decision Date	Final Action Target Date
92SF1010	San Jose CA Emergency Shelter Grants Program	09/23/92	12/15/92	06/17/93
92NY1009	Newark NJ Housing Authority, Low Income Housing Program	09/24/92	03/23/93	03/15/94
92TS0015	Contractor Incentive Payments for the Section 202 Elderly Housing Program, Atlanta Region	09/24/92	Note 5	Note 5
92SF1011	State of CA Permanent Housing for Handicapped Homeless Persons Program, Sacramento CA	09/25/92	12/29/92	07/31/93
92SF1012	Los Angeles CA Housing Authority, Low Income Housing Program	09/25/92	01/20/93	12/31/93
92PH1015	District of Columbia Department of Public and Assisted Housing, Management and Selected Development Operations	09/30/92	03/29/93	12/31/93
92SE1008	Anchorage AK Section 312, Rental and CDBG Rehabilitation Programs	09/30/92	03/29/93	11/15/93
92SF1013	Vallejo CA CDBG Program	09/30/92	12/18/92	06/01/93
93HQ0001	Multiregion Audit of Settlement of Housing Dvelopment Grants	10/16/92	Note 7	Note 7
93HQ0002	Multiregion Audit of PHA's Internal Controls Over the Handling of Cash and Other Monetary Assets	10/16/92	Note 7	Note 7
93HQ0003	Multiregion Audit of HUD's Servicing of Direct Loans for Section 202 Elderly Housing Projects	10/29/92	Note 7	Note 7
93HQ0004	Interim Audit of Bond Refundings of Section 8 Projects	10/30/92	Note 7	Note 7
93HQ0801	Processing of Fiscal Year 1990 & 1991 PHDEP Grants, Follow-up Review, Atlanta Region	10/19/92	Note 7	Note 7
93HQ0802	Housing Development Grants, Material Weakness Verification	10/30/92	Note 7	Note 7

Audits Excluded: 15 audits under repayment plans
49 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 April 1993.
4 No Management Decision. Decision expected by May 1993.
5 No Management Decision. Decision expected by June 1993.
6 No Management Decision. Decision expected by October 1993.
7 Under 6 months old. No Management Decision due.
8 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 3/31/93

(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	65	$156,999	$36,019
A2. For which litigation, legislation or investigation was pending at the commencement of the reporting period	15	21,114	8,069
A3. For which additional costs were added to reports in beginning inventory	0	8,389	557
A4. For which costs were added to non-cost reports	8	5,580	2,793
B1. Which were issued during the reporting period	62	145,686	43,544
B2. Which were reopened during the reporting period	3	2,191	1,836
Subtotals (A+B)	153	$339,959	$92,818
C. For which a management decision was made during the reporting period	78[1]	$62,039	$30,140
(1) Dollar value of disallowed costs:			
• Due HUD	30[2]	18,301	8,756
• Due Program Participants	51	23,690	9,631
(2) Dollar value of costs not disallowed	32[3]	20,048	11,753
D. For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	20	31,222	19,072
E. For which no management decision had been made by the end of the reporting period	55 (166)[4]	$246,698 ($144,586)	$43,606 (42,711)

[1] 5 audit reports also contain recommendations that funds be put to better use.
[2] 8 audit reports also contain recommendations with funds due program participants.
[3] 27 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 68 for an explanation.

Table D **INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE AT 3/31/93**

(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	$57,324
A2. For which litigation, legislation or investigation was pending at the commencement of the reporting period	4	757
A3. For which additional costs were added to reports in beginning inventory	0	46
A4. For which costs were added to non-cost reports	0	0
B1. Which were issued during the reporting period	16	17,444
B2. Which were reopened during the reporting period	0	0
Subtotals (A + B)	30	75,571
C. For which a management decision was made during the reporting period	9[1]	16,050
(1) Dollar value of recommendations that were agreed to by management • Due HUD • Due Program Participants	2 6	644 11,907
(2) Dollar value of recommendations that were not agreed to by management	3[2]	3,499
D. For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	5	774
E. For which no management decision had been made by the end of the reporting period	16 (28)[3]	$58,747 ($58,265)

[1] 5 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 on next page.

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 5

OTHER OIG ACTIVITIES

We must keep looking for ways to stretch our budget dollars by increasing productivity with new and innovative approaches.

In addition to audits and investigations, the OIG engages in proactive activities to improve economy and efficiency of and deter fraud, waste, and abuse in HUD programs and operations. These efforts include reviews of proposed legislation, regulations and policy directives and prevention activities such as preparing awareness publications, monitoring audit quality, and maintaining the HUD Hotline.

Review of Legislation, Regulations and Policy Directives

During this reporting period, we spent a great deal of time and attention to monitoring Departmental programmatic and operational reforms and improvements. 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 230 documents, including 54 proposed or final regulations, 15 legislative proposals, 29 reorganization changes, and 120 policy directives.

Legislation

We have submitted a proposal to the Administration which recommended amending section 203(c) of the National Housing Act to establish a 6-year statute of limitations for a mortgagor to claim a refund of a **One-Time Mortgage Insurance Premium (MIP)**. The proposal would provide a window of 1 year from the date of enactment for any eligible individual who would otherwise be disqualified due to the statute of limitations to claim a refund. Under current law, no statute of limitations exists on HUD's liability to pay one-time MIP refunds to eligible individuals.

We reviewed the **Emergency Community Development Act of 1993** and recommended that certain matters be considered in the passage of this legislation.

At the present time the Department is experiencing serious staffing problems affecting the administration of many of its programs. There is insufficient staff to administer other CPD programs effectively due to the effort that is being expended on new programs such as the homeless programs, HOME, and HOPE. We strongly suggested that additional staffing be furnished or a different approach to program delivery be considered with greater responsibilities and reliance placed on grantees. There is a sizeable amount of funding involved and we have serious reservations about the ability of recipients to spend the money in a timely fashion.

We recommended that the Act provide for a specific beginning and ending date for the program after which any unused funds are to be returned to the U.S. Treasury. Specific goals and objectives need to be established by grantees before the money is disbursed and they should be held accountable for meeting the goals. The Act should also require that grantees, who are State and local governing bodies, follow generally accepted accounting principles and that the receipt and expenditure of funds be accounted for in a separate fund set aside expressly for the program. This would facilitate oversight of the program and increase accountability.

We also recommended that all program income that is being received at the time the program is terminated be credited to either the grantee's CDBG Program or HOME Program, rather than reverting to the grantee for general purpose use. Finally, we suggested that the legislation allow citizens an opportunity to provide input into the activities which are to be carried out by a grantee, using funds under this proposed program.

It is our understanding that this bill has been superseded by consideration of other legislative proposals. However, if Congress reconsiders this bill, our comments will be taken into account in the development and formulation of a Departmental position.

Our comments on the **Lobbying Disclosure Act of 1993 (S.349 and H.R. 823)** and its program to establish uniform disclosure requirements for individuals seeking to lobby government officials focused on two weaknesses of the bill. First, we expressed concern that the bill, as proposed, would repeal a number of existing lobbying disclosure statutes, including a provision that governs the disclosure of lobbying efforts directed at HUD (section 13). We recommended that this provision not be repealed since it was intended to, and from all indications has been effective in, restoring integrity to the much publicized abuses in HUD programs. It is our understanding, however, that the Administration is considering recomendations made by our Office to strengthen and improve the legislation. If our recommendations are adopted by the Administration and Congress, we would support a governmentwide approach to lobbying disclosure, and would not object to repeal of section 13 of the Department of Housing and Urban Development Reform Act of 1989. Secondly, we indicated that the transfer of administration from the Office of Government Ethics (OGE) to the Department of Justice (DOJ) might create the perception that DOJ may have a conflict-of-interest between its operational duties and its proposed governmentwide duties. We recommended the OGE, or another independent agency, be responsible for administering the program.

Regulations

Interim Rule—Supportive Housing Program: This interim rule implements a program of assisted housing and supportive services for homeless persons. The program, authorized by section 1403 of the Housing and Community Development Act of 1992, will replace the Transitional Housing, Permanent Housing for Handicapped Homeless, and Supplemental Assistance for Facilities to Assist the Homeless (SAFAH) Programs.

We nonconcurred with the interim rule because it did not: fully define the ranking criteria for applications; define or explain how to measure program success; or state the terms and conditions HUD would use to prevent undue benefits from the sale of the property. The Program staff agreed with our suggested revisions.

Choice in Public Housing Management: This proposed rule would amend existing Federal regulations by implementing certain provisions of the Choice in Public Housing Management Program authorized by the Housing and Community Development Act of 1992. The program authorizes funding to enable residents of distressed public housing in troubled public housing agencies to hire alternative managers to operate and rehabilitate their projects. We nonconcurred with the proposed rule primarily because the rule was limited in scope and did not address many of the statute's important provisions. This issue was resolved after discussion with OGC.

Policy Directives

Using CDBG Funds for Child Abuse Prevention and Treatment: This Notice outlined the various ways that CDBG funds could be used by grantees to combat child abuse. It proposed to use the limited clientele presumption test to qualify all child abuse activity expenditures as a low and moderate income (LMI) benefit, thereby meeting a national objective under the program.

While we agreed that the prevention and treatment of child abuse is a legitimate use of CDBG funds, we nonconcurred with the Notice because we did not agree that the Department should presume all such expenditures benefit LMI persons. Child abuse afflicts children from all socio\economic backgrounds. Therefore, only that portion of CDBG funds spent to help abused children from LMI families should be counted toward meeting the national objective. This position is consistent with our LMI benefit audit report in which we recommended that the Department eliminate the limited clientele "presumption test" for determining LMI benefits. This issue has not yet been resolved.

Regional Operating Budget and Obligation Tracking System (ROBOTS): ROBOTS was designed to track operating subsidy eligibility and obligations and to accumulate data for the annual Fiscal Data Report. Enhancements were made to the system as a result of new legislation and a risk analysis was performed. However, the analysis did not fully address the vulnerabilities of the enhanced system. The purpose of the analysis was to assess the risks associated with the enhanced system and to formulate control techniques that could be incorporated into the new system to prevent, detect, or mitigate losses which might arise as a result of the changes. The depth of risk analyses has been the point of much discussion between OIG and other offices. Our nonconcurrrence remains in effect pending receipt of a revised decision paper taking into account a more fully developed risk analysis.

Compliance Management for the Emergency Shelter Grant (ESG) Program, HUD Handbook 7300.00: The purpose of this handbook was to ensure that ESG grants were administered in compliance with statutory and regulatory requirements and to provide guidance to HUD field offices as well as States, units of general local government, territories, Indian tribes, and Alaskan native villages that receive ESG Program funds. We nonconcurred with the handbook's issuance because it provided general guidance without specific "how to" instructions. Specific guidance is necessary to ensure uniformity throughout the program. This issue has not yet been resolved.

Departmental Management Control Program: This issuance was meant to supplement the Management Control Program (MCP) Handbook by providing additional instruction and guidance. The purpose for such a program is to bring the Department into compliance with the FMFIA. HUD has not met these requirements since the Act's inception. Issuance of this supplement to the MCP Handbook was one of the planned actions that the CFO's Office was to undertake for FY 1993 to address a systemic weakness (for additional information about this issue, see Systemic Weaknesses in Chapter 1 and the results of the FMFIA compliance audit in Chapter 2). However, we nonconcurred on the issuance because we disagreed with the proposed way in which a management control review (MCR) would be used; a direct link between Headquarters assessable units and field office implementation of similar programs is not provided; "representative sample" is not defined nor are criteria given for making such a selection; and the method for determining how field office "fair share" of MCRs is allocated is not defined or explained. The cumulative effect of these and other fundamental issues, combined with problematic vulnerability ratings, raises serious concerns over the viability of the MCP. The nonconcurrence remains open at this time.

Prevention Activities

President's Council on Integrity and Efficiency

As a member of the Audit Committee on the President's Council, OIG participated in two reviews of HUD activities. One was a limited review of HUD's implementation of the Federal Acquisition Regulations as they pertain to consultants and conflicts of interest. The objective of the review was to assess the effectiveness of the current policy and guidance. We found that HUD substantially complied with the implementation of the provisions. We also conducted a survey of HUD's Energy Management and Conservation Program and found that HUD is in compliance with prescribed practices and employed adequate accounting controls over energy consumption data and costs.

Awareness Publications

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

The Federal Telecommunications System 2000 awareness bulletin (1392-IG) reminds HUD employees and managers of their responsibilities and describes method of detecting, curtailing and preventing misuse.

Indian Housing Authority Commissioners program awareness bulletin (998-IG) provides Commissioners with an overview of their responsibilities, insight into the instances of abuse that have occurred, and knowledge of the tools available to them to reduce the potential for fraud, waste and mismanagement.

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 (GAO).

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 5,500 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.

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 detailed review by OIG staff when the audit is selected for a QCR. During the 6-month period, 3,435 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	2,161	110	2,271
Minor Changes Needed But Report Accepted Without Change	273	8	281
Major Changes Needed - Report Revised	48	1	49
TOTAL	2,482	119	2,601
REPORTS NOT ACCEPTED			
Major Changes Needed - Report Returned to Auditee	60	0	60[1]
Not an A-128 Audit or No HUD Funds in Report	310	23	333[2]
Suspended - CAFR or Single Audit Needed	408	33	441[3]
TOTAL	778	56	834
TOTAL PROCESSED	3,260	175	3,435

[1] 25 reports were revised and resubmitted. These reports were accepted.
[2] 7 reports were revised and resubmitted for processing.
[3] Information needed for 139 of these reports was submitted for processing.

Quality Control Reviews

A QCR is a process where an 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 69 QCRs. The following table summarizes the results of our reviews.

QCR RESULTS	A-128 SINGLE AUDITS	HUD PROGRAM AUDITS	TOTAL
Acceptable	3	5	8
Minor Deficiencies	26	20	46
Substandard	7	8	15
TOTAL	36	33	69[1]

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

The letters sent to Independent Auditors notifying them of QCR results 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

There are currently 13 practitioners who are suspended, debarred, or who have voluntarily excluded themselves from performing audits of HUD or Federal funds. During the reporting period, there were no additional sanctions imposed.

Referrals to State Boards of Accountancy

During this reporting period, we referred four practitioners to State Boards for substandard work. One of the referrals was for an audit of an insured multifamily project. Our review disclosed problems in both the working papers and report in that the auditors did not adhere to American Institute of Certified Public Accountants (AICPA) and GAO auditing standards. We found deficiencies regarding compliance tests of the internal control structure, insufficient tests of management fees, absence of legal inquiry letters, undetected irregularities in paid invoices verified by the auditor, and incorrect information concerning a note payable in the audit report. In addition, the report entitled, "Supplementary Data - Compliance and Internal Controls," did not meet reporting standards, lacked sufficient information relating to an audit finding, and did not contain certain required supplemental information.

Another referral was for an audit of a public housing agency. Our review determined that the auditor's working papers did not meet AICPA and GAO auditing standards. The inadequacies involved a lack of supervisory review, support for work performed, support for report schedules, payroll and interest income tests, and audit steps for illegal acts. In addition, the work papers lacked evidence that specified Federal financial reports were traced to supporting documentation and required testing for compliance with laws and regulations was performed.

A third referral was for an audit of an insured multifamily project. As a result of our review, we questioned the independence of the auditor because the auditor not only provided quarterly accounting services to the project, but also performed the audit of the financial statements, which is contrary to HUD policy and AICPA Ethics Interpretations. In addition, our review determined that audit working papers did not adhere to AICPA and GAO auditing standards. We found deficiencies regarding inadequate support for the auditor's review of internal controls, limited substantive testing, and lack of working papers documenting an exit conference or a review of subsequent events. Moreover, the firm has not participated in an external quality control review as required by the 1988 revision of the GAO audit standards.

We conducted a QCR of an audit of an insured multifamily project and determined that the auditor's working papers and audit report did not support adherence to AICPA and GAO auditing standards. Also, the auditor did not follow the prescribed HUD audit guide. We found that there was no audit program, the Internal Control Questionnaire was not supported by working papers, documentation of testing of certain compliance requirements was missing, the auditor did not have the continuing professional education (CPE) credits required by GAO standards, the necessary external quality control review was missing, and incorrect formats were used for the report on financial statements, internal control and compliance. The auditor agreed to correct the deficiencies. However, since the CPE and peer review requirements could not be corrected and the initial report was unreliable, we filed a complaint with the New Jersey State Board of Accountancy.

During the reporting period, we were not notified of any decisions by State Boards of Accountancy on any of the 20 active cases currently referred to them for disciplinary action.

HUD Hotline

This 6-month period marked a significant increase in Hotline activity. In March our toll-free number, together with those of other agencies, was published nationally to encourage people to make suggestions to improve Federal programs. This announcement reached a wider audience than ever previously achieved.

We took 1,101 calls during this reporting period, of which 627 were taken during the month of March. The calls received in March exceeded our total calls for the entire previous 6-month period. Preliminary analysis of the calls received indicates that more than one-third are suggestions for improvement while the remaining are complaints of abuse. The following are a few examples of the types of actions that resulted from Hotline complaints received during this reporting period.

During this period we closed 186 complaints with monetary recoveries amounting to $1.7 million. Other actions included amendments to operating policies and procedures, improvements to participants' environments, and staff reprimands.

Prorating Administrative Costs Corrected

A public housing agency restored $266,029 to its Section 8 operating reserve after it determined that ineligible salaries and benefits were charged to the program over a 4-year period. In the future the agency will use more care in prorating staff expenses among its various housing programs and review their procedures for possible additional erroneous staff expense charges.

Over $1.3 Million Returned to HUD

Following an on-site review, allegations to the Hotline, and an OIG audit, a management agent reimbursed HUD over $1.3 million from surplus cash that should have been used to correct severe project maintenance deficiencies. The agent was also required to improve several administrative procedures involving accounting, tenant occupancy and repairs to units.

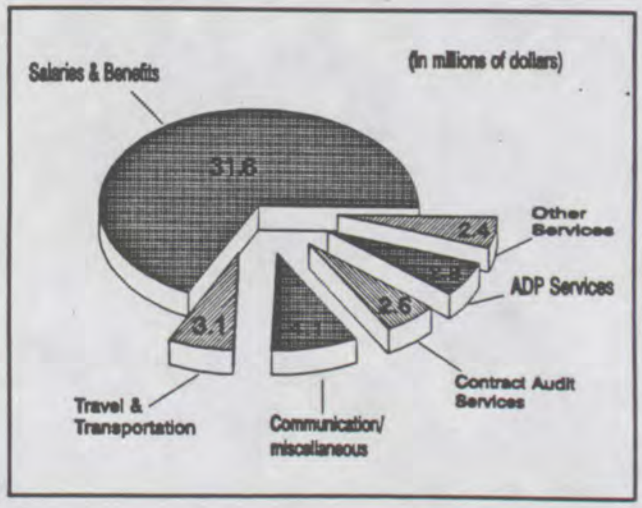
Another management agent reimbursed HUD $1,218 for assistance payments received for tenants that had been evicted. The agent was also instructed to establish safeguards to avoid repeating this practice.

Mismanagement of Project

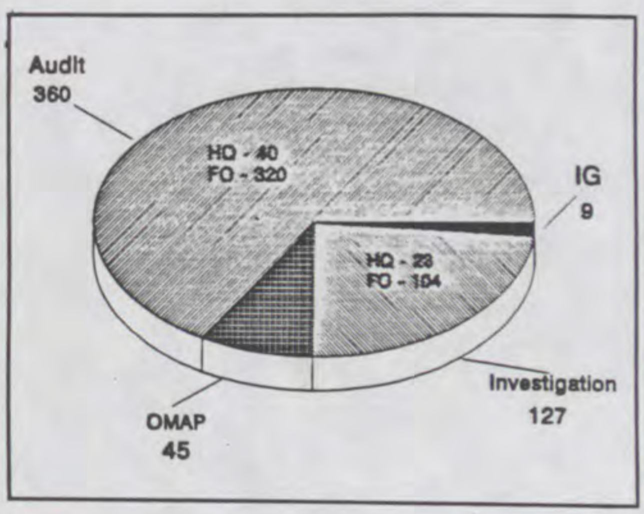
A manager for two HUD insured projects was required to reimburse $28,000 to the tenant's security deposit account, discontinue using project funds for non-project expenses, and discontinue using staff for personal work during working hours. In addition, HUD staff was advised to address several administrative/accounting deficiencies during their project monitoring.

OIG Budget for FY 1994

Our budget request for FY 1994 covers Headquarters and field operations, as well as general management and administration expenses. Because of the staff intensive nature of the OIG function, 67 percent of the resources provided are for salaries and benefits. Contract audit services consist of contracts and interagency agreements, primarily with the Department of Health and Human Services and the Defense Contract Audit Agency, who have cognizance to conduct audits of certain organizations and universities with whom HUD has business. Travel and transportation funds allow personnel to accomplish our audit and investigative responsibilities. The chart below provides a breakout of the $46.8 million by categories:



The requested staffing level of 541 full-time equivalents is an 11 percent decrease from last year's level. The following chart displays the distribution between the four major organizational elements and Headquarters (HQ) and field offices (FO):



CHAPTER 6

ACTIONS AGAINST HUD EMPLOYEES

As a General Rule, HUD Employees are Productive, Effective and Display a High Degree of Integrity

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 former Loan Specialist was indicted and subsequently pled guilty to converting $2,900 from the Single Family Assignment Program to personal use.

□ A Clerk was terminated for underreporting income on recertification forms to obtain nearly $4,000 in excess rental assistance. The employee repaid the excess assistance to avoid prosecution.

□ A Clerk was terminated for falsifying income and child care expenses to obtain excess assistance. Another Clerk and a Supervisor were suspended for 2 and 3 days, respectively, for aiding and abetting the first Clerk.

□ A Realty Specialist falsified a travel voucher, time and attendance records, and a claim for credit hours. The employee resigned while management was considering termination of employment.

□ A Title I Specialist was suspended for 30 days for abusing sick leave. The employee took leave from the HUD job to work a second job.

□ A Loan Management Branch Chief was demoted for maintaining a personal relationship with a project manager, creating the appearance of favoritism and conflict of interest.

- Three Special Agents were issued letters of warning and/or reprimand for overclaiming parking expenses on their travel vouchers.

- A Housing Management Specialist received a warning for using a rental car over a long holiday weekend resulting in additional expenses to the Department.

- An OIG manager and a Special Agent were suspended for conduct involving the misuse of government equipment.

Appendix 1 - Audit Reports Issued

INTERNAL REPORTS ISSUED

Report Number	Issue Date	Report Title	Total Questioned Costs	Total Unsupported Costs	Funds Put to Better Use
		HOUSING			
93-AT-121-0001	10/22/92	Direct Endorsement Program, Coral Gables and Nashville Offices			
93-AT-113-0002	03/24/93	Limited Review of Multifamily Property Disposition, Atlanta Office			
93-BO-114-0001	10/30/92	Title II Preservation and Prepayment Program, Boston and Manchester Offices			
93-BO-123-0002	03/19/93	Single Family Disposition Program, Boston Office			
93-CH-107-0001	01/22/93	Monitoring of Indian Housing Programs, Chicago Office			
93-HQ-116-0001	10/16/92	Multiregion Audit of Settlement of Housing Development Grants			
93-HQ-101-0002	10/16/92	Multiregion Audit of PHAs' Internal Controls Over the Handling of Cash and Other Monetary Assets			
93-HQ-111-0003	10/29/92	Multiregion Audit of HUD's Servicing of Direct Loans for Section 202 Elderly Housing Projects			
93-HQ-119-0004	10/30/92	Interim Audit of Bond Refundings of Section 8 Projects	$59,893,552		$5,400,000
93-HQ-101-0006	02/04/93	Multiregion Limited Review of the Public Housing Management Assessment Program (PHMAP)			
93-KC-101-0001	12/17/92	Selected Aspects of Cooperation Agreements Between Public Housing Agencies and Local Governments, Kansas City, St. Louis and Omaha Offices			
93-SE-111-0001	11/16/92	Monitoring of Waldorf Towers Apartments, Loan Management Branch, Seattle Office			$ 72,386
93-SE-111-0002	03/02/93	Review and Approval of Commercial Rents, Loan Management Branch, Seattle Office			$121,037
93-SF-114-0001	12/10/92	Title II Preservation and Prepayment Program, San Francisco, Los Angeles and San Diego Offices			
		11 Audit Related Memoranda			$264,000
		COMMUNITY PLANNING AND DEVELOPMENT			
93-AO-151-0001	03/30/93	Limited Review of the Single Family Homeless Initiative, Washington DC Office			
93-AO-151-0002	03/31/93	Limited Review of the Single Family Homeless Initiative, Richmond Office			
93-CH-141-0002	02/26/93	Monitoring Entitlement Grantees for Low and Moderate Income Benefit Claims, Chicago and Columbus Offices			
		2 Audit Related Memoranda			
		ADMINISTRATION			
93-HQ-169-0005	03/08/93	Limited Review of HUD's Management and Control of Staff Resources			
		4 Audit Related Memoranda			
		MISCELLANEOUS			
93-FO-177-0001	01/11/93	HUD's Implementation of the Federal Managers' Financial Integrity Act of 1982			
93-FO-171-0002	03/29/93	Audit of the Government National Mortgage Association's Fiscal Year 1992 Financial Statements			
93-HQ-171-0007	02/26/93	GNMA's Servicing of Bonaventure Retirement Center, Coinsured Retirement Service Center	$3,400,000	$3,400,000	

APPENDIX 1 - AUDIT REPORTS ISSUED

EXTERNAL REPORTS ISSUED

Report Number	Issue Date	Report Title	Total Questioned Costs	Total Unsupported Costs	Funds Put to Better Use
		HOUSING			
93-AO-214-1001	11/24/92	Fellowship Square Foundation, Inc., Multifamily Management Agent, Herndon VA	$1,022,407		
93-AT-202-1002	11/09/92	Florence SC Housing Authority, PHDEP	$37,790		
93-AT-212-1003	12/07/92	Wilson Chapel Church Apartments Inc., Multifamily Mortgagor Operations, Wilson NC	$93,122	$3,811	
93-AT-202-1004	12/09/92	St. Petersburg FL Housing Authority, Low Income Housing Program	$3,647,585	$546,329	
93-AT-215-1005	12/30/92	R & J Management Company Property Manager, Multifamily Management Agent, Atlanta GA	$128,628	$128,019	$50,000
93-AT-212-1006	01/29/93	Turabo Medical Center, Multifamily Mortgagor Operations, Caguas PR	$3,281,356	$1,183,119	$5,631,987
93-AT-202-1007	02/24/93	Bessemer AL Housing Authority, CIAP	$93,600	$93,600	
93-AT-216-1008	02/26/93	The Pavilion, Housing Development Grant and Multifamily Mortgage Insurance Programs, Columbia SC	$426,026		$932,740
93-AT-212-1009	03/09/93	Weatherstone Associates, Multifamily Mortgagor Operations, Fayetteville NC	$97,616	$29,831	$8,224
93-AT-211-1010	03/10/93	Bonaventure Retirement Associates, Coinsured Retirement Service Center Development Costs, Fort Lauderdale FL	$95,926	$70,652	
93-AT-202-1011	03/19/93	Covington KY Housing Authority, CIAP			
93-BO-212-1001	12/31/92	Mishawum Park Associates, Multifamily Mortgagor Operations, Charlestown MA	$344,114		
93-BO-215-1002	01/29/93	Lorenzo Pitts, Inc., Multifamily Project Manager and Management Agent, Boston MA	$2,120,811		
93-BO-214-1003	03/05/93	Carabetta Management Company, Multifamily Management Agent, Meriden CT	$5,462,400		
93-BO-204-1004	03/31/93	Worcester MA Housing Authority, CIAP & PHDEP			
93-CH-209-1001	10/23/92	Highland Park MI Housing Commission, Safeguarding Monetary Assets and Inventory, Low Income Housing Program			
93-CH-212-1002	11/06/92	Southwest Detroit Hospital, Multifamily Mortgagor Operations, Detroit, MI	$375,573	$375,573	
93-CH-201-1003	11/17/92	Cuyahoga Metropolitan Housing Authority, Low Income Housing Program, Cleveland OH	$1,353,779		
93-CH-209-1004	11/20/92	Traverse City MI Housing Commission, Safeguarding Monetary Assets and Inventory, Low Income Housing Program	$2,276	$2,276	
93-CH-202-1005	11/30/92	Ypsilanti MI Housing Commission, Low Income Housing Program	$33,360	$33,360	
93-CH-209-1006	12/10/92	North Chicago IL Housing Authority, Safeguarding Monetary Assets and Inventory, Low Income Housing Program	$41,540	$28,325	
93-CH-201-1007	12/29/92	Lucas Metropolitan Housing Authority, Low Income Housing Program, Toledo OH			
93-CH-211-1009	02/16/93	Fountain Square, Use of Mortgage Proceeds, Chicago IL			
93-CH-203-1013	02/26/93	Youngstown OH Metropolitan Housing Authority, Section 8 Existing and Housing Voucher Programs			
93-CH-209-1014	03/04/93	The Lambs, Inc., Congregate Housing Services Program, Libertyville IL	$167,001	$126,115	
93-CH-212-1015	03/12/93	The Belmont, Multifamily Mortgagor Operations, Chicago IL	$838,685	$246,196	
93-DE-204-1001	03/16/93	Denver CO Housing Authority, Special Review of Procurement and Contracting, Low Income Housing Program	$191,317	$180,720	$12,000
93-DE-202-1002	03/31/93	Missoula MT Housing Authority, Special Review of Internal Controls Over Cash Receipts, Low Income Housing Program			
93-FW-202-1001	11/06/92	Fort Worth TX Housing Authority, PHDEP			
93-FW-202-1002	11/24/92	Del Rio TX Housing Authority, Safeguarding Monetary Assets and Inventory, Low Income Housing Program			
93-FW-212-1003	12/10/92	Grimmet Drive Apartments, Multifamily Mortgagor Operations, Shreveport LA	$767,588	$221,258	
93-FW-204-1004	12/14/92	Choctaw Nation Housing Authority, CIAP and Low Income Housing Programs, Hugo OK	$21,896		
93-FW-202-1005	12/17/92	Paris TX Housing Authority, PHDEP			
93-FW-204-1006	02/05/93	Houston TX Housing Authority, Low Income Housing Program	$1,559,620	$64,663	$370,000
93-FW-202-1007	03/01/93	East Baton Rouge Parish LA Housing Authority, PHDEP			
93-NY-212-1001	12/22/92	Cathedral Park Partners, Multifamily Mortgagor Operations, Buffalo NY	$2,557,651	$1,976,885	
93-NY-204-1003	03/31/93	Trenton NJ Housing Authority, Low Income Housing Program, Procurement and Travel Activities	$6,894	$6,894	
93-PH-212-1002	01/14/93	Sugar Refinery, Multifamily Mortgagor Operations, Philadelphia, PA	$318,225	$143,989	

Report Number	Issue Date	Report Title	Total Questioned Costs	Total Unsupported Costs	Funds Put to Better Use
93-PH-212-1003	02/24/93	Affiliated Management, Inc., Multifamily Mortgagor Operations, Bala Cynwyd PA	$972,701	$282,012	
93-PH-202-1004	03/23/93	Annapolis MD Housing Authority, Low Income Housing Program			
93-SE-203-1002	03/12/93	Alaska Housing Finance Corp., Section 8 Multifamily New Construction Program, Anchorage AK	$5,154,419		$468,584
93-SF-209-1001	10/15/92	Las Vegas NV Housing Authority, PHDEP	$28,838	$28,108	
93-SF-214-1002	10/30/92	John Stewart Company, Multifamily Management Agent, San Francisco CA	$11,714		
93-SF-214-1003	11/20/92	Cochlan Associates Management Company, Multifamily Management Agent, Sacramento CA			
93-SF-212-1005	01/19/93	Cadillac Drive Apartments, Multifamily Mortgagor Operations, Sacramento CA	$368,796		
93-SF-212-1006	02/18/93	Villa San Carlos Garden Apartments, Multifamily Mortgagor Operations, Santa Cruz CA			
93-SF-202-1007	03/31/93	Guam Housing and Urban Renewal Authority, Related Aspects of Financial and Administrative Controls, Low Income Housing Program, Sinajana Guam	$80,237	$26,981	$75,689
		15 Audit Related Memoranda	$2,015,673	$223,272	
		2,165 Audits prepared by Independent Auditors and other Federal Agencies	$1,362,075	$1,303,856	$460,205
		COMMUNITY PLANNING AND DEVELOPMENT			
93-AO-259-1003	03/03/93	District of Columbia Department of Human Services, Single Family Homeless Initiative			
93-AT-241-1001	11/03/92	Memphis TN, CDBG Program, Special Economic Development Activities	$1,848,223	$1,330,199	$1,577,038
93-CH-241-1008	01/15/93	Columbus OH, CDBG Program, Benefits to Low and Moderate Income Persons	$1,214,350	$1,014,700	
93-CH-241-1010	02/19/93	State of Ohio, CDBG Program, Columbus OH			
93-CH-241-1011	02/19/93	Akron OH, CDBG Program			
93-CH-241-1012	02/19/93	Detroit MI, CDBG Program, Subrecipient Monitoring	$1,325,765	$1,325,765	
93-HQ-241-1001	03/31/93	Scranton PA, UDAG and CDBG Programs	$7,797,281	$6,035,040	
93-NY-241-1002	01/29/93	New York NY Department of Housing Preservation and Development, Limited Review of CDBG Program	$33,036,603	$22,020,769	
93-PH-241-1001	01/07/93	Richmond VA, CDBG Program	$100,920	$86,985	
93-SE-241-1001	01/15/93	King County CDBG Program, Seattle WA	$901,351		
93-SF-244-1004	12/31/92	Asan Community Redevelopment Project, CDBG Program, Sinajana Guam			$2,000,000
		1 Audit Related Memorandum	$137,923	$60,389	
		419 Audits Prepared by Independent Auditors and Other Federal Agencies	$948,930	$944,269	
		ADMINISTRATION			
93-AO-262-1002	12/22/92	Falmouth Institute, Final Contract Cost Audit, Fairfax VA			
93-AT-269-1012	03/29/93	The Martin Luther King Jr. Center for Nonviolent Social Change, Indirect Cost Rates for Fiscal Years 1986-1991, Atlanta GA			
		2 Audit Related Memoranda			
		13 Audits Prepared by Independent Auditors and Other Federal Agencies			
		MISCELLANEOUS			
		16 Audits Prepared by Independent Auditors and Other Federal Agencies			

Appendix 2 - OIG PUBLICATIONS

General

1026-IG(1)	The Purpose and Benefits of an Internal Audit
1025-IG(1)	OIG External Audit Process
1035-IG(2)	Reporting Fraud and Abuse to the OIG
1368-IG	Mission, Functions, and Organization of the Office of Inspector General
1377-IG	Inspector General Authorities Fact Sheet
1034-IG(2)	The Investigative Process
1116-IG(1)	You Can Make a Difference
1209-IG	Integrity in Public Service
1230-IG	Reviewing Independent Auditors Reports

Administration

1367-IG	Travel Awareness Bulletin
83-1	Accountability Monitoring
649-IG	Time and Attendance and Leave Abuse
1392-IG	The Federal Telecommunications System 2000
1268-IG	Microcomputer Security and Management

Assisted Housing

P-86-2	Asset Management
1033-IG	Computer Matching
1356-IG	OIG Communique on Computer Matching
1261-IG	Public Housing Agency Commissioners
1067-IG	Section 8 Moderate Rehabilitation Program
1140-IG	Things You Should Know (English, Spanish, Vietnamese, Chinese)
1117-IG	Locking Out Tenant Fraud and Abuse in Public Housing
998-IG	Indian Housing Authority Commissioners and the Low-Income Housing Program
892-IG	Conventional Low-Rent Housing Program
1157-ZFC	Avoiding Embezzlement of PHA Funds
905-IG	Tenant Eligibility

Insured Housing

1097-IG	Auditing HUD-Approved Mortgagees
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

Community Development

1039-IG	Rehabilitation Activities
1096-IG	Monitoring Subrecipients in the CDBG Program
1349-IG	CDBG Float Loan Financing

For Copies of These Publications, Write To:

Director, Publications and Awareness Division
Office of Inspector General - HUD
451 Seventh Street, S.W., Room 8254
Washington, D.C. 20410-4500

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 69-72
Section 5(a)(1)-description of significant problems, abuses and deficiencies relating to the administration of programs and operations of the Department.	Pages 1-68
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses and deficiencies.	Pages 16-39
Section 5(a)(3)-identification of each significant recommendation described in previous Semiannual Reports on which corrective action has not been completed.	Pages 63-65
Section (5)(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	Pages 41-48
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 16-39
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Page 66
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 67-68
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.	Pages 61-62
Section 5(a)(11)-description and explanation of the reasons for any significant revised management decision made during the reporting period.	Page 60
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	Pages 59-60

U.S. Department of Housing and Urban Development
Office of Inspector General

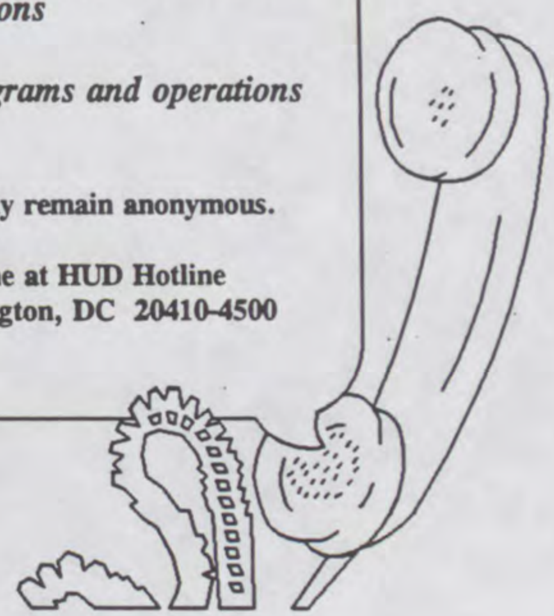
HUD HOTLINE

Calling the Hotline helps HUD ensure your tax dollars are used efficiently and effectively and benefit only those in need.

Call the Hotline to:
REPORT suspected fraud, waste, or mismanagement in HUD programs and operations
or
SUGGEST improvements in HUD programs and operations

All information is confidential and you may remain anonymous.

Send written information to the Hotline at HUD Hotline
Room 8254, 451 7th Street S.W., Washington, DC 20410-4500



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