



U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO THE CONGRESS

For the Period Ending March 31, 1994

31st Report to the Congress

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U.S. DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL

Digest

**SEMIANNUAL REPORT
TO THE CONGRESS**

*For the Period Ending
March 31, 1994*

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

Inspector General's Message

OIG activities this semiannual period reflect our focus on the areas of highest vulnerability in HUD programs and activities, and our commitment to seeing those vulnerabilities reduced to an acceptable level. The OIG's highest operational priorities are HUD's top 10 management problems and Operation Safe Home.

HUD continues to make progress on its top 10 management issues, but more needs to be done. This is not surprising, given the complexity of the issues and the fact that corrective efforts have been concurrent with efforts to redefine HUD's mission and reorganize its field structure. It is critically important that HUD stay the course and devote increasing attention to melding individual management improvements into a coherent, institutionalized framework. In this regard, Congressional and OMB assistance is needed and continued Congressional oversight is essential.

Operation Safe Home, a multi-year proactive program, represents the OIG's commitment to combat violent and white collar crime in public and assisted housing. Our report on Operation Safe Home is similar to our evaluation of the



HUD's Top 10 Management Problems

The OIG first identified HUD's *top 10 management issues* 2 years ago, in the OIG's March 1992 Semiannual Report to the Congress. One year later, in March 1993, the OIG provided a comprehensive assessment of HUD's progress in addressing these issues, primarily to establish a benchmark for measuring subsequent improvements. Six months ago, in the September 1993 Report, the OIG invited HUD to provide its own accounting of its plans and progress. In this Semiannual Report, the OIG once again provides its assessment of HUD's progress.

The OIG commends the HUD management team's understanding of the issues, approach to problem solving, and willingness to take on the tough root causes of the problems. The team has initiated appropriate plans, and is making progress against those plans. However, actual operational improvements will take more time and attention.

The Report discusses the following 10 problems in terms of (i) management plans as of September 1993, and (ii) the OIG's assessment of the progress to date, including barriers to effective implementation and actions needed to produce further results.

Systemic Problems

Management Control Environment
Data Systems



Operation Safe Home

The overall goal of Operation Safe Home, initiated on February 4, 1994, is to halt abuses that undermine HUD programs and lead to unacceptable living conditions for needy people. Operation Safe Home brings coordinated Federal, State and local resources and expertise to bear on violent crime in public and assisted housing, fraud in public housing administration, and equity skimming in multifamily insured housing.

- ▶ The violent crime strategy has three components: Federal, State and local law enforcement task forces; law enforcement prevention initiatives; and HUD programmatic initiatives. As of March 31, 1994:
 - violent crime task force actions had led to 24 arrests, charges against 14 individuals, and recovery of more than 25 weapons and nearly \$300,000 in drugs and cash;
 - law enforcement prevention initiatives had included additional police assigned to certain public housing developments, security assessments at selected developments, and development of training for public housing police officers; and
 - the Housing and PIH programmatic initiatives had included funding for anti-crime efforts, developing rules to allow for law enforcement resident programs, and surveying public housing tenants for their opinions on topics

these investigations will, within the next 6 months, result in law enforcement actions; and

- the OIG had identified eight PHAs for a first series of targeted probes designed to look for indicators of serious fraud and corruption by housing authority officials and contractors.
- ▶ The multifamily equity skimming effort also has two parts: affirmative litigation and deterring future equity skimming. As of March 31, 1994:
 - the affirmative litigation effort had led to five civil settlements, requiring \$11.5 million in repayments to multifamily projects and \$2.1 million to HUD, a double damages judgment of \$1.6 million and a guilty plea; and
 - deterrent efforts had included working sessions and meetings with most of the U.S. Attorneys, Assistant U.S. Attorneys making up DOJ's Affirmative Civil Enforcement Program, DOJ's Subcommittee on Financial Litigation, housing industry groups and HUD program staff. The OIG is also working with the Offices of Housing and General Counsel to identify legislative changes needed to remove obstacles to criminal and civil prosecution.

Significant Audit and Investigation Activities

While much attention was focused on HUD management problems and Operation Safe Home, the OIG continued a balanced program of audits

program funds, and deficiencies in owner and management agent operations. For example, administrative sanctions were recommended against a coinsurance lender who approved \$262 million in excess mortgages; a management company employee was convicted of embezzling over \$171,000 in tenant rents; a HUD project manager was found guilty of stealing \$200,000 in Section 8 funds; and a former chairman of a HUD owned hospital submitted false statements in connection with a \$105,000 loan.

In the single family area, the focus was on the Deficiency Judgments Program, loan origination fraud, equity skimming and strawbuying schemes. The internal audit of the Deficiency Judgments Program disclosed that only \$3.3 million, of \$15.6 million in judgments processed against defaulted mortgagors, had been collected. An example of loan origination fraud involved mortgagee loan employees who submitted false employment information to apply for more than \$1.3 million in FHA insured loans. Millions were also lost in equity skimming schemes in which rents were collected but mortgage payments were not made, and strawbuying where speculators acquired property by hiding behind others who did not intend to own or occupy the property.

Public and Indian Housing ~ OIG audits disclosed that, while there is progress, many opportunities to improve PHA operations remain. The Boston, MA Housing Authority, designated as either financially or operationally troubled for the

identification of housing quality standards violations. In the area of lead-based testing, an OIG internal audit found that PHAs are testing separately to meet risk assessment requirements and Congressional mandates, when the same test could meet both requirements.

Community Planning and Development ~ OIG efforts in the CPD area focused on the HOPE 3 Program as well as investigations of program fraud and abuse. The internal audit of the HOPE 3 Program disclosed that CPD has inadequate staff to administer and monitor the program and the OIG recommended consolidating HOPE 3 with the CDBG Program.

Investigative cases led to indictments, guilty pleas and convictions for offenses such as falsification of invoices for over \$1 million in landfill deliveries, a \$50,000 kickback in return for approval of a \$250,000 loan, embezzlement of over \$100,000 through a maintenance contract and HUD losses of over \$650,000 from claims for work not performed.

GNMA/Financial Management Issues ~ The Price Waterhouse audit of GNMA reported that the financial statements presented fairly the financial position and results of operations for the year ended September 30, 1993. Although the audit reported no material instances of noncompliance with laws and regulations, the report on internal controls disclosed that improvements were needed in subservicer and

Employee Integrity ~ Employee integrity is essential to program integrity and public confidence in HUD program administration. OIG investigations during this period led to 17 actions against HUD employees.



Reinventing the OIG

The OIG commitment to positive change requires a supportive organizational culture — as defined by the six values in the OIG mission statement. Those values and related OIG reinvention efforts follow.

Relationships among OIG components and staff are characterized by teamwork and respect.

- ▶ To strengthen the teamwork between OIG auditors and investigators, audit and investigative managers have been scheduled to attend basic training in the opposite discipline.
- ▶ To foster respect and collaboration among all OIG staff, the OIG has expanded the scope of its diversity efforts to encompass organizational relationships.
- ▶ To improve the pursuit of civil prosecutions arising from audits, the OIG has empowered auditors to deal directly with DOJ and U.S. Attorneys on these matters.
- ▶ To provide a framework for audit and investigative teamwork, the Operation Safe Home initiative dealing with fraud in public

Excellence is fostered through continuing concern for professionalism and career development.

- ▶ Recognizing that secretarial and support staff also need career ladder opportunities, the OIG established an Upward Mobility Program, and selected six such staff to enter professional career tracks.

Operational authority, responsibility, and accountability is delegated to the lowest appropriate level.

- ▶ To expedite the procurement of needed goods and services, the OIG decentralized budget authority to OIG field offices.
- ▶ To ensure accountability and speed the issuance of multi-area audits, the Assistant Inspector General for Audit delegated full responsibility for these audits to the District Inspectors General for Audit.
- ▶ Finding that headquarters processing added little value, the IG delegated subpoena issuance authority to field managers.

Identifying and meeting client needs in a timely fashion is a primary concern.

- ▶ Operation Safe Home was developed in consultation with the Secretary and Principal Staff, Congressional staff, other Federal agencies, and affected industry groups.
- ▶ To foster a continuing and meaningful dialogue with the Congress and public, the OIG

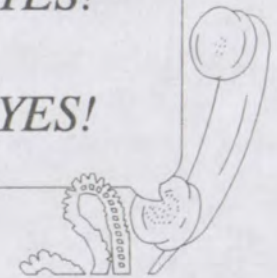
OIG operations are focused on substance rather than process and rely on innovative as well as traditional methods to address significant issues.

- ▶ Concluding that few substantive benefits were derived from OIG desk reviews of audits conducted under the Single Audit Act, the OIG closed its National Review Center.
- ▶ To strengthen its operational independence, the OIG established a position of OIG Counsel.
- ▶ The personnel security function, which is not part of the OIG statutory mission, was transferred from the OIG to the HUD Office of Administration.
- ▶ To provide more expert and focused coverage of HUD's automated data systems, the OIG established a separate ADP audit group within the Office of Audit.
- ▶ To speed the prosecution of serious fraud and corruption identified by probes at public housing authorities, the OIG is eschewing standard OIG reporting. Instead, results of the probes are being communicated directly to DOJ in a referral format and programmatic issues are being discussed directly with program officials. Similarly, in the case of equity skimming, brief referrals are being prepared for DOJ in place of formal reports to HUD managers.
- ▶ To clarify management accountability, the OIG eliminated the requirement for OIG concurrence

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

Will you be afforded
confidentiality? **YES!**

May you remain
anonymous? **YES!**



To report suspected fraud, waste or

OIG Mission Statement and Values

The OIG's mission is independent and objective reporting to the Secretary and the Congress for the purpose of bringing about positive change in the integrity, efficiency, and effectiveness of HUD operations.

OIG values are as follows:

- Relationships among OIG components and staff are characterized by teamwork and respect.*
- Diversity is valued and promoted in the workforce.*
- Excellence in its workforce is fostered through continuing concern for professionalism and career development.*
- As a general rule, emphasis is placed on "doing" rather than reviewing by delegating operational authority, responsibility, and accountability to the lowest appropriate level.*
- Identifying and meeting client needs in a timely fashion is a primary concern. Clients are defined as the Secretary, the Congress, HUD managers and employees, and the public.*
- OIG operations are focused on substance rather than process and rely on innovative as well as traditional methods to address issues of significance having potential payback in terms of improved integrity, effectiveness, and efficiency.*

INSPECTOR GENERAL'S MESSAGE

The mission of the HUD Office of Inspector General (OIG) is to bring about positive change in the programs and activities of the Department. Our overall strategy is to focus on areas of highest vulnerability and to hold that focus until the vulnerabilities are reduced to an acceptable level.

The first and second chapters of this report deal with the OIG's top operational priorities: HUD's top 10 management problems and Operation Safe Home. The third chapter recounts OIG work outside these two areas, reflecting the OIG's commitment to maintain reasonable, overall audit and investigative coverage of HUD programs and activities. The fourth chapter, Reinventing the OIG, summarizes internal organizational and operational changes the OIG is making to equip ourselves better to meet our mission. Finally, we have appended a statistical profile of OIG performance during this reporting period, as well as data on audit reports and audit resolution that are required by the Inspector General Act of 1978, as amended.

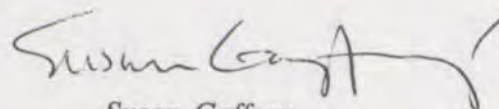
With respect to HUD's top 10 management problems, the OIG concludes that progress has been made, but more needs to be done. This assessment is not surprising, given the complexity of the issues and the fact that efforts to correct these management problems have been contemporaneous with efforts to redefine HUD's mission and reorganize the Department's field structure.

Since many of the Department's corrective actions are still in the development stage as of March 31, 1994, it is critically important for HUD leadership to stay the course and to devote increasing attention to melding the individual management improvement efforts into a coherent, institutionalized framework. We also note specific areas where Congressional and OMB assistance is needed. Continued Congressional oversight of HUD's management performance is essential.

The OIG's assessment of HUD's progress in correcting its top 10 management problems derives only in part from traditional OIG audit work. The assessment is also based on extensive OIG participation in Departmental task forces, and in OIG attendance at key Departmental meetings and briefings — a level of OIG involvement made possible only by the Secretary's clearly enunciated open door policy with respect to the OIG.

Operation Safe Home represents the OIG's commitment to focus our resources on combating what we consider to be the three major types of wrongdoing that undermine HUD programs. Operation Safe Home is a multi-year proactive program, in contrast with the more traditional reactive investigative posture. Operation Safe Home also involves the OIG in bringing about a coordinated Federal, State, and local focus on violent crime in HUD-assisted housing — an area where the OIG previously had a very limited role.

The OIG's report on Operation Safe Home is similar to our report on HUD's top 10 management problems: plans have been formulated, progress is being made, but much more remains to be done. As we have urged the Department to stay the course in correcting its management deficiencies, so the OIG intends to stay the course with Operation Safe Home. In the process, we are fortunate to be encountering exceptional cooperation and support from Federal, State, and local law enforcement agencies, as well as from HUD program managers.



Susan Gaffney
Inspector General

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.

<i>Source/Requirement</i>	<u>Page</u>
Section 4(a)(2)-review of existing and proposed legislation and regulations.	Pages 24-25
Section 5(a)(1)-description of significant problems, abuses and deficiencies relating to the administration of programs and operations of the Department.	Pages 1-40
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses and deficiencies.	Pages 29-40
Section 5(a)(3)-identification of each significant recommendation described in previous Semiannual Reports on which corrective action has not been completed.	Appendix 2, Table B
Section (5)(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	Pages 21-40
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 29-40
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Appendix 2, Table C
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.	Appendix 2, Table D
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.	Appendix 2, Table A
Section 5(a)(11)-description and explanation of the reasons for any significant revised management decision made during the reporting period.	None
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	None

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HUD's TOP 10 MANAGEMENT PROBLEMS



"I have no higher priority than to straighten out the disastrous systemic management problems which have been well documented by HUD's Inspector General ..."
Secretary Cisneros

The OIG first identified HUD's *top 10 management issues* 2 years ago, in the OIG's March 1992 Semiannual Report to the Congress. One year later, in March 1993, the OIG provided a comprehensive assessment of HUD's progress in addressing these issues, primarily to establish a benchmark for measuring subsequent improvements. Six months ago, in the September 1993 Report, the OIG invited HUD to provide its own accounting of its plans and progress. In this Report, the OIG once again provides its assessment of HUD's progress.

The OIG commends the HUD management team's understanding of the issues, approach to problem solving, and willingness to take on the tough root causes of the problems. The team has installed appropriate plans, and is making progress against those plans; but actual operational improvements will take more time. This need for more time is a reflection of both the complexity of the management problems at issue, and the fact that efforts to correct these problems are occurring concurrent with HUD's efforts to reinvent itself as an organization, including redefining its mission and reorganizing its field structure.

This Chapter discusses the 10 problems, management plans as of September 1993, and the OIG assessment of the progress to date, including barriers to effective implementation and actions needed to produce further results.

During the 2 years the OIG has been tracking the top 10 management issues, the issues themselves have not changed substantially. However, in four specific areas — Management Controls, Multi-family Servicing, FHA Asset Management, and CDBG Program Benefits — the problem statements have been revised to foster more meaningful action and to reflect current conditions and plans.

Systemic Problems

Management Control Environment

**Issue
Statement**

HUD needs to improve its basic management control structure and environment. (This problem statement has been revised to reflect a change in focus from improving ineffective management control processes to improving the management structure and environment. The previous problem statement was: "HUD does not have an effective Management Control Program to raise control consciousness and provide for ongoing 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 objectives of the Federal Managers' Financial Integrity Act.")

**Prior
Management
Commitment**

- ▶ Through a reinvention lab, redesign the Management Control Program and initiate implementation by FY 1994.
- ▶ Establish a process for identifying and correcting root causes of material weaknesses and developing appropriate corrective action plans.
- ▶ Take action to comply with the Government Performance and Results Act of 1993 (GPRA), including: developing a Departmental management plan to link information systems with performance and resources management plans; identifying performance measures in the various program areas; developing a mission-based prototype data base by October 1993; and completing the implementation plan by March 1, 1994.

**Current
OIG
Assessment**

After conducting a reinvention lab geared to integrating FMFIA objectives and processes into normal management processes, the Chief Financial Officer (CFO) and OIG jointly agreed that:

- ▶ HUD lacks certain good management practices, such as an effective organizational structure, strategic and business area planning, resource management tools, and performance measurement systems.
- ▶ In the context of its current environment, HUD should not attempt to maintain a separate FMFIA evaluation process focused on problem identification. Rather, it needs to focus on developing and implementing viable solutions to its acknowledged problems. The OIG will continue to evaluate management controls at HUD.
- ▶ Primary attention should be placed on redesigning program delivery to match resource limitations. As part of management's program redesign efforts, there is a need to assess and control risks to the extent possible.

Secretary Cisneros and his management team have attempted to improve HUD's overall management environment as a foundation for correcting major program problems. In March 1993, the Secretary called on internal and external participants to *reinvent HUD*. Staff input was supplemented with task force recommendations covering a wide range of issues such as program policy needs, workplace conditions, and resource management. For example, position papers have been prepared and recommendations made dealing with the Secretary's Priorities and Strategic Plans; Headquarters/Field Reorganization Plans; Resource Management Tool Development and Use; National Performance Review (NPR) Initiatives; Business Process Redesign Projects; Information Strategy Planning Projects; Systems Development Plans and Projects; Material Weakness Corrections; Performance Measurement; Program Enforcement; Legislative Agenda; and Budget Formulation. While this effort clarified HUD's mission and values, outlined program

and management priorities, and established action commitments, development and implementation of specific action plans have generally been slow and disjointed. At this point, there is a need to better focus, direct and assure coordination of the many interrelated management and program improvement efforts currently underway.

HUD's implementation of GPRA is proceeding ahead of the long-range governmentwide target dates, but internal plans have slipped. Delays were partially attributed to the reorganization and anticipated changes in responsibilities and reporting relationships. In recent months, the CFO has taken the lead in conceptualizing HUD's implementation of GPRA, in conjunction with development of a strategic management planning and reporting process. However, with the exception of a few pilot efforts, most offices are in the general planning stages and essential information on significant output and outcome measures is not yet available in most areas.

On March 3, 1994, the Secretary introduced several initiatives for improving the management environment, including HUD's Presidential Performance Agreement; an overview of the pending Program and Field Reorganization; and HUD-Community Partnership Plan requirements. Another initiative, a Strategic Performance System and Management Committee, is intended to draw together and advance the many initiatives already undertaken into a cohesive approach to achieving the Department's mission. The first Departmentwide management plans are due by April 30, 1994, with the first Departmentwide performance reports due by May 31, 1994. The Office of Housing has already produced management plan reports that appear to be effective.

***Actions
Needed***

In the months ahead, management must ensure that this extensive reinventing effort results in visible, measurable improvements. A meaningful Departmentwide management reporting process will be a singularly important element in keeping attention focused on performance. The Congress and the Office of Management and Budget (OMB) need to strengthen their facilitator and overseer roles to assist HUD in overhauling its management control environment. As discussed further below, the Congress and OMB can facilitate the effort by providing the flexibility and funding necessary to assure that planned programmatic, data systems and resource management reforms are possible. Recent passage of the Multifamily Housing Property Disposition Reform Act of 1994 is one example of how the Congress, HUD, and OMB can work together to improve HUD's management control structure. Continuing Congressional oversight will hold HUD management accountable for effective implementation of planned actions.

Data Systems

***Issue
Statement***

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

***Prior
Management
Commitment***

- ▶ Assure top level management oversight and commitment to systems by strengthening the role of the CFO and providing system ownership to the Assistant Secretaries.
- ▶ Develop a new systems integration strategy and plan.
- ▶ Institute information strategic planning to guide system development initiatives.
- ▶ Prepare detailed information strategy plans for final approval early in FY 1994 for Public and Indian Housing (PIH) and Community Planning and Development (CPD).
- ▶ Implement the Administrative Accounting System by October 1, 1994.



- ▶ Revise and approve Housing's plan and budget for the FHA Mortgage Insurance System by early FY 1994.

**Current
OIG
Assessment**

Although HUD has aggressively sought to overcome its systems development and integration problems, much remains to be done. The CFO has assumed responsibility for Departmentwide standards, project coordination and integration advocacy. The systems integration process has been redefined, a new strategy instituted and the accountability for data systems placed with the Assistant Secretaries.

Systems oversight is being carried out through a Committee approach. The Systems Integration Steering Committee, chaired by the Deputy Secretary, began the process to get the systems back on track by organizing the financial systems integration effort throughout the Department, and deciding key issues related to the approval of project workplans and budget allocation. More recently, a Management Committee assumed the functions of the Steering Committee with responsibility for oversight of all HUD management improvement efforts, including data systems. While establishing management oversight is extremely important, the OIG is concerned that the oversight structure be actively supported.

Systems Integration Projects

During its last months of existence, the Steering Committee did not receive consistent high level attention. In addition, because individual efforts were not guided by a Departmental business strategy, some projects were well organized and progressing properly, but others were not. For example, PIH has completed its Information Strategy Plan (ISP) and business strategy, but CPD has just begun. The Office of Housing only recently selected a team leader for the Multifamily ISP Project, and thus has yet to begin.

The recently created Management Committee, with its broader charter and focus on overall resource management, has the potential to provide even stronger oversight and direction to major systems development and integration efforts. It will need to pay more attention to the slower projects, and greater use of Working Groups may be a way to do this.

The systems development methodology HUD adopted calls for project managers to have general knowledge of the business area involved. However, neither the CPD nor the Multifamily ISP project manager possesses much programmatic experience. This lack of experience could hinder attempts to develop information needs and solutions.

OIG observations on the four major ongoing systems integration projects follow.

- ▶ The plan to have a single integrated system supporting all Section 8 subsidy programs was revised to reflect differing program requirements. The Office of Housing is continuing to develop the Control Files Subsystem/Tenant Rental Assistance Certification System (CFS/TRACS), while PIH plans to use the Federal Financial System (FFS), a commercial software package, to support its budget formulation and subsidy payment processes. The OIG is concerned about the overall delays experienced in providing automated system support for the Office of Housing and PIH administration of Section 8 programs, and that interim modules of CFS/TRACS are not being fully utilized. In addition, PIH is planning three enhancements and four modifications to FFS. All enhancements/modifications should be thoroughly tested and controlled to avoid costly operational and maintenance difficulties. In particular,

changes should be reviewed and approved by the Change Control Board formed by the CFO to ensure appropriate data and coding consistency. These two Section 8 system efforts are discussed further in the section on Section 8 Budgeting and Accounting.

- ▶ The Administrative Accounting System is progressing satisfactorily towards its October 1994 target completion date. A common accounting code structure, a prerequisite for successful integration, has been adopted, but agreement has not been reached among all programs on a detailed coding structure.
- ▶ Implementation has been slow on the FHA Mortgage Insurance System strategic plan completed in March 1993, partially because a project manager had not been designated. Housing's recent decision to contract for a review of its strategy, processes, and procedures for improving data systems may significantly impact the current strategic plan.

Related Concerns

Data systems funding is a major concern, as budget cuts jeopardize the timely completion of some projects. In the last 2 years, \$45 million was diverted from systems development, equipment upgrades, and systems operations to cover salaries and expense shortfalls. In addition, the tenant data collection efforts are underfunded for FY 1994. Underfunding is also a significant barrier to effective systems implementation, especially in field offices, which are saddled with obsolete equipment and insufficient automation specialists.

Data administration throughout HUD is another concern. Active participation by a data administrator, a person responsible for data consistency in information systems, has been absent in the systems integration projects. Data administration activities must be planned in advance to ensure standards are followed and enforced.

HUD's heavy reliance on expensive contracted advisory and assistance services in systems planning and development has led to wasted effort resulting from insufficient user leadership and input. The Department has recently set up project management training for staff involved in systems development. However, budget constraints could limit HUD's plans to better manage and support future systems development efforts.

The OIG is also concerned that Government National Mortgage Association (GNMA) has not followed Federal standards and guidelines for systems development and maintenance. The resulting deficiencies include redundant data and duplicate processing, weak access controls over important financial data, and inadequate systems to track statistics. GNMA must address these deficiencies as it moves toward an integrated financial systems environment.

Actions Needed

The Management Committee needs to maintain its focus on systems integration projects, with special attention on those projects making insufficient progress. The Committee must also adopt strategies to implement data administration functions and project management training. Additionally, the Committee oversight function needs to be expanded to encompass efforts to improve GNMA data systems.

The Congress, HUD, and OMB must find ways to assure long-term systems development funding that is protected from the fluctuations of the annual budget process. Consideration should be given to funding major systems development projects from program funding set-asides. Such set-asides should be accompanied by detailed systems



planning and budgeting requirements to strengthen accountability for systems development projects.

Resource Management

*Issue
Statement*

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 many of the program delivery functions are shifted to others, without the level of monitoring needed to prevent, detect or correct problems.

*Prior
Management
Commitment*

- ▶ Develop a plan for regional and field restructuring.
- ▶ Establish a HUD Academy in FY 1994.
- ▶ Complete an implementation plan for a Business Process Redesign of all resources by March 31, 1994.
- ▶ Ensure that a redesigned resource management process is available in time for the FY 1996 budget formulation process.
- ▶ Develop and implement an annual planning process, which is linked to the budget process, by September 30, 1994.
- ▶ Consider the recommendations of the National Academy of Public Administration (NAPA) study in implementing the new resource management process.

*Current
OIG
Assessment*

Staffing shortages, continuing program weaknesses and new programs have forced HUD to search for ways to realign resources to better accomplish its mission. Beginning in the summer of 1993, HUD moved to significantly change its organizational structure. Top management established aggressive milestones for the restructuring; but detailed planning took longer than anticipated. While progress was made in several areas, some decisions on redeployment of staff and final implementation are still pending and many reorganization details are still lacking. This is partially attributable to the magnitude of the effort, the lack of resource management tools to effectively support reorganization decision making, and competing priorities. Management officials will need to stay focused on the long term benefits of reorganization during the difficult implementation period ahead.

In December 1993, Secretary Cisneros announced that the regional layer of management would be eliminated and Program Assistant Secretaries would have direct control over field staffs. In February 1994, a Field Reorganization Task Force was established to coordinate the plans. On March 3, 1994, the Secretary announced broad restructuring plans that would go into effect on April 15, 1994.

The OIG applauds this bold initiative, but cautions that many major hurdles lie ahead. These include achieving program coordination at the local level, and balancing staff levels with workload needs without triggering reductions in force. Also, continued labor-management negotiations, potential funding shortfalls, and retraining requirements could adversely impact HUD's ability to meet the implementation target date of September 1994.

Coordinating the training needs of staff whose functions may change with reorganization is a key responsibility of the HUD Academy. Established in January 1994, the Academy has successfully pilot-tested distance learning technology to reach more staff at less cost. However, the funding shortfall between the \$8 million requested by the Academy and its estimated budget of \$5.6 million may complicate the process.

On March 30, 1994, the Office of Administration delivered a manual to HUD's Principal Staff that provided guidance on improving resource management. The manual not only documented management and decision making processes, but also provided a *tool kit* comprised of methodologies for assessing resource requirements, improving key business processes, allocating and assigning staff, and tracking performance. Several of the tools, such as Business Process Reengineering and the Staffing Management and Assignment Resource Tool, are currently being tested in the Department's program redesign and reorganization efforts. In addition, as part of the reorganization, detailed workload assessments are being performed to better match HUD's scarce resources to its resource requirements. However, recent legislative proposals for significant new programs were made without rigorous analysis of the staffing resources or delivery mechanisms needed. The challenge facing HUD is to ensure that available resource management tools are actually used, on a Departmentwide basis, to correct long-standing problems. Specific examples of such needs are discussed further in the programmatic areas of this Chapter.

The Office of Administration has been meeting regularly with the NAPA team about the resource management issue. Although the NAPA report will be issued after the end of this semiannual reporting period, the OIG understands that NAPA shares our concern about HUD's ability to complete the planned reorganization as rapidly as first anticipated, and to effectively manage the many program changes and proposed new program activities under consideration.

Related Matters

A concern closely tied to resource management is the extensive use of contracted resources in support of HUD operations. The OIG noted no significant movement to address weaknesses previously noted in the procurement and administration of contracted services within the FHA, GNMA and data systems areas. Whereas the Congress and OMB place tight restrictions on HUD staff levels, more flexibility is allowed in using non-appropriated FHA and GNMA funds for contracted services, even when it is not cost-beneficial or in the government's best interest. HUD needs greater budget flexibility to make sound business decisions on whether to contract for services or enhance in-house staff capacity.

Actions Needed

HUD is to be commended for its bold policy moves to address staff resource issues. The Congress, OMB and HUD must now work together to adopt lasting measures to solve the problems. HUD must assure that the reorganization is its top priority, disruption and confusion are kept to a minimum, and available tools are used to better measure and allocate resources. The Congress and OMB must consider budgetary, administrative and legislative alternatives to assist HUD in this effort. One solution when funding new programs would be to set aside program funds to provide adequate administrative resources.

Programmatic Problems

Multifamily Housing Asset Management

Issue Statement

Multifamily housing project owners and management agents continue to misuse or divert project assets, adversely impacting both HUD and low- and moderate-income persons through increased defaults and project deterioration. Solving the persistent problems of



inadequate staff capacity and poor systems is contingent on changes to the manner in which the multifamily program area is administered. (The prior issue statement was expanded to acknowledge that improved multifamily loan servicing is contingent on changes in the administration of the total program area.)

*Prior
Management
Commitment*

- ▶ Develop a program training strategy to address the specific training needs of multifamily technical staff.
- ▶ Evaluate workload distribution as part of the Departmentwide analysis of field structure.
- ▶ Implement four phases of the action plan of the National Asset Management Strategy.

*Current OIG
Assessment*

Resource management and data systems deficiencies, coupled with staff capacity limitations, continue to preclude the effective delivery of Multifamily Housing Programs. However, HUD is approaching this troubled program with a realistic assessment of the causes and potential solutions.

Last summer, the Office of Housing convened an Asset Management Work Group to assess the problems in and needed strategies/corrective actions for its multifamily servicing and FHA asset management programs. It was decided that the distinctly different multifamily and single family housing program portfolios should be addressed separately, even though field office support was combined. The Work Group also focused on the Office of Housing's inadequate staff capacity for effectively operating multifamily program activities as they are currently structured. The resulting Asset Management Strategy concludes that HUD could more effectively mitigate losses from the insured portfolio if it reduced the HUD held portfolio, streamlined field office operations, and reorganized certain tasks. Field office staff would then be in a better position to monitor insured projects and intervene at the first signs of trouble.

The following is the OIG assessment of progress under the Multifamily Asset Management Strategy and its component parts.

Resource Management and Capacity — To improve its operating capacity and effectiveness, the Office of Multifamily Housing has:

- ▶ Conducted a workload triage survey to determine critical and non-critical field office activities.
- ▶ Worked through the budget process to provide as many as 240 temporary staff over the next 2 years.
- ▶ Formulated reorganization plans to provide greater operational control and efficiency.
- ▶ Conducted a reengineering session on asset management field functions.
- ▶ Conducted a training needs assessment for field office asset managers.
- ▶ Piloted a training course development effort on field office default prevention and loss mitigation.
- ▶ Delegated authority to the field to waive administrative handbook requirements.
- ▶ Obtained mortgagee support for performing more asset management duties.
- ▶ Moved forward with mortgage sales and refinancing plans to free resources.

The reorganization, scheduled to be completed by the end of FY 1994, will give the Deputy Assistant Secretary for Multifamily Programs much needed direct control over field operations. Difficult program management decisions need to be made on the input from the workload triage and other assessments of existing operations. Although Departmental plans are to push responsibility and client service to the field, the level of

expertise in many critical multifamily program functions, such as negotiating workout agreements, is a concern of Housing management. Capacity building is needed but the availability of training resources remains limited.

Information and Systems — Long-standing commitments to address ADP systems needs have been largely unfulfilled, with little substantive progress in meeting critical information needs with respect to loss mitigation.

In 1992, the interim systems improvement effort begun in 1991 evolved into the more comprehensive Multifamily National System. The National System was to combine data from five overlapping systems into a central data base to support an integrated multifamily insurance system. However, target dates have continually slipped, and the difficulty of pulling together data for the FY 1993 loss reserve analysis, a major objective of the System, raises serious questions about the adequacy of efforts to date. The Office of Housing is developing new plans to determine the factors, functions and software needed to support program operations, such as financial statement analysis, early warning indicators, and loan risk classification.

As part of an ongoing risk-evaluation function, for the second year FHA has constructed financial and project data to establish a loss reserve for troubled loans. The next step will be to refine and expand the process to provide more timely and accurate risk evaluation as a basis for targeting loss mitigation efforts. HUD has contracted for entry of financial statement data into a data base to facilitate an automated risk analysis, as well as for training of HUD staff in analysis of project financial statements. An ISP project is currently being organized to better focus the essential information and data systems needs for the Multifamily Program area.

Improved Program Tools

The Office of Housing created a Multifamily Enforcement Strategies Task Force to address the need for stronger program enforcement tools and actions. Supporting the Task Force are three separate but related efforts — Operation Safe Home/Equity Skimming; Section 8 Housing Quality Standards Violations; and Troubled Project Analyses. Although equity skimming violations are being aggressively pursued, progress in strengthening other enforcement actions appears to be slowing as key players are diverted to other priorities. Loss prevention will remain weak until effective, escalating enforcement tools are established and become routine operating procedures.

The Office of Housing surveyed other property manager evaluation and compensation systems and is considering alternative incentive methods to improve management agent performance.

The Multifamily Housing Property Disposition Reform Act of 1994 provides HUD more flexibility in the property disposition process. The Act includes provision for greater flexibility in foreclosure and property disposition activity by removing subsidy requirements on property sales and allowing new sales policies; revising the policy on partial payment of claims; allowing HUD to fund project needs based on comprehensive needs assessments; and removing the mandatory requirement for owner contributions under the Flexible Subsidy program. HUD believes these changes will greatly improve its ability to manage its multifamily program assets while preserving the inventory of units available to low- and moderate tenants at more realistic subsidies. Prior to passage of the Act, Congressionally mandated subsidy requirements coupled with limited subsidy



funding restricted the use of the threat of foreclosure as an effective loan servicing tool. The requirements also limited HUD's ability to make foreclosure and sales decisions on the basis of housing needs and cost-benefit.

Multifamily housing is also faced with a large workload and budgetary need associated with the pending renewals of thousands of subsidy contracts. The renewal process could be used as a major negotiating factor in mitigating losses and improving housing quality. However, Housing may not have the information and resources needed to approach the renewal process from the most advantageous cost-benefit perspective.

***Actions
Needed***

The Office of Housing is commended for attempting to address the root causes of its significant asset management problems. However, the number and magnitude of the efforts in process make them difficult to manage and complete in a timely fashion, and they are very taxing on Headquarters and field managers and staff. Hard decisions should be made on the input already obtained, followed by detailed planning and close management oversight to make the improvements happen.

Historically, the reason many of Housing's problems have gone unsolved was incomplete or spotty follow-through, rather than a lack of planning. Therefore, management must ensure that corrective actions are well defined and completely and expeditiously executed. Special attention should be given to streamlining and focusing portfolio risk analyses; developing the capacity for increased loss mitigation efforts; providing positive incentives and stronger program enforcement efforts to improve program performance; reducing holding costs by selling HUD held notes and HUD owned properties; and developing senior level reports for use in monitoring the effectiveness of field office operations.

Single Family Housing Asset Management

***Issue
Statement***

Controls over HUD's multi-billion dollar Single Family Housing Note Servicing and Property Management and Disposition activities are inadequate to preserve housing and safeguard the financial interests of the government. While HUD has improved its property management systems support and internal controls, staffing and contract management problems continue to adversely impact this high dollar program area. (The prior statement was changed only to reflect the split of multifamily and single family asset management issues.)

***Prior
Management
Commitment***

- ▶ Implement a strategy to reduce staff burden associated with the acquisition of mortgages, improve notes servicing by consolidation or restructuring methods, and develop means to remove mortgages from the portfolio.

***Current
OIG
Assessment***

To improve Single Family asset management, the Office of Housing is focused on identifying and classifying problem loans and mortgages; working with mortgagees to cure defaults and delinquencies before they become claims; developing accountability tools to monitor loss prevention efforts; and reducing the Secretary-held note portfolio. While these efforts are necessary and warranted, additional efforts to improve the management and disposition of HUD held properties are needed.

The Office of Housing has planned or completed several efforts related to mortgagor and mortgagee monitoring. For example, the Mortgagee Monitoring Division is using contractors to conduct delinquent and overall performance servicing reviews and

Housing is obtaining additional mortgage delinquency data and upgrading the Single Family Default Monitoring System.

To reduce staff burden associated with the acquisition of mortgages, the Office of Housing is pursuing methods to shift the assignment processing workload from HUD staff to others, such as mortgagees, counseling agencies or contractors. In addition, a study of alternatives to foreclosure under Section 918 of the Housing and Community Development Act is currently in the clearance process. The Office of Policy Development and Research has contracted for a study of costs/benefits of the existing assignment programs that should be published in the summer of 1995.

The Office of Housing also conducted a limited review of the assignment program. However, the Business Process Redesign that will entail a radical review of the assignment program is on hold. The OIG is concerned that this decision will increase the length of time to develop a long-term solution for the assignment program.

Efforts to improve portfolio servicing by consolidating servicing or contracting have been deferred because of the field structure reorganization. In the interim, the 1995 legislative package contains a proposal to strengthen HUD held mortgage foreclosures: establish a uniform non-judicial foreclosure process similar to the multifamily process. In addition, Housing and HUD's Office of General Counsel are currently working with DOJ to improve processing HUD foreclosures with increased availability of resources to handle HUD's foreclosed properties in several judicial districts.

The Office of Housing efforts to bring loans current and remove mortgages from the portfolio include: developing goals for returning seriously delinquent notes to current status or putting them into foreclosure; completing, by June 30, 1994, sales of current Section 221(g)(4) mortgages and defaulted mortgages associated with Title X and Sections 203B and 221(g)(4); increasing field office authority to handle compromise offers; and drafting legislation to make streamline refinancing available to owners of HUD-held mortgages. To reduce foreclosure and property holding costs, HUD is in the process of evaluating a pre-foreclosure sale demonstration program planned for nationwide implementation.

To aid in the timely, efficient and effective disposition of single family properties, the Office of Housing modified the sales process to expand affordable housing opportunities and help revitalize neighborhoods, and authorized special incentives to buyers and brokers. However, material weakness correction verification performed by OIG in 1993 disclosed inconsistent implementation of actions taken to improve contracted services supporting the HUD-owned single family property management and disposition activity.

***Actions
Needed***

While there has been extensive analysis and strategic planning devoted to solving single family asset management problems, it is too soon to determine if this activity will have a significant impact. Further, HUD and Housing reorganization plans need to address staffing, skills, as well as workload distribution associated with adequate procurement and contract administration support for the single family property management and disposition activity. The Office of Housing also needs to verify that planned actions are working, and that weaknesses do not recur. The OIG is concerned because multiple offices must implement many of the planned tasks, but no one office is responsible for ensuring the overall effort is on target. We recommend that an internal oversight role be assigned to a single office.



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

Issue Statement

While CPD is changing its role from *program regulator* to more of a *community enabler*, there remains a need to improve CPD resource and information management to provide a basic level of technical assistance and program coordination, program accountability at the local level, and overall program evaluation. (The prior issue statement — 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 — is being refocused, given the fundamental change in CPD's approach to the delivery of its various entitlement and categorical grant programs for community development, housing and homelessness. CPD is now pursuing a more holistic approach to address community problems. The goal is to make CPD less prescriptive and burdensome in its program delivery by streamlining, simplifying and coordinating various program requirements, and providing greater flexibility and support to facilitate locally derived strategies and activities.)

Prior Management Commitment

- ▶ Develop consolidated planning and application requirements for specific programs, to be implemented with the FY 1995 grantee submissions.
- ▶ Develop an integrated disbursement and information system.
- ▶ Review requirements for the CDBG Program to eliminate unnecessary, burdensome requirements.

Current OIG Assessment

From an overall economy, efficiency and effectiveness perspective, CPD's new program delivery strategy offers distinct advantages over existing program processes. However, conceptualization of the new strategy has taken the better part of the past year, and the corresponding statutory, regulatory, procedural, budgetary, systems, organizational, staffing, and operational changes necessary to implement the strategy pose a major challenge to CPD management.

The centerpiece of CPD's new program delivery strategy is the consolidation of existing program planning, application and reporting requirements for four major formula programs: CDBG, HOME Investment Partnerships (HOME), Emergency Shelter Grants, and Housing Opportunities for Persons with AIDS. A proposed rule in Departmental clearance provides for consolidated submissions for fiscal year 1995 funding. The consolidation represents a significant opportunity for efficiency savings to grantees and HUD, and could increase overall program effectiveness by improving community needs assessments and planning activities.

CPD is taking other steps to streamline and simplify its overall program delivery, including pending legislative and regulatory proposals for:

- ▶ Reorganizing the six McKinney Act Homeless Programs to create a comprehensive homeless assistance performance grant to be distributed by formula to States and localities upon approval of a comprehensive plan.
- ▶ Consolidating the HOPE 2 and 3 homeownership programs.
- ▶ Streamlining HOME Program regulations and law.
- ▶ Simplifying economic development project rules and regulations to encourage greater activity under existing programs.

- ▶ Consolidating various technical assistance resources to maximize capacity building and training.

These consolidation/streamlining initiatives all have merit in the context of the new strategy, and the overall reinventing HUD and NPR initiatives. However, CPD capabilities are being newly taxed by programs such as Empowerment Zones, as well as pending proposals for a project-based LIFT Program and a Community Viability Fund for local community development capacity building.

The success of CPD's new program delivery strategy is contingent on critically needed information systems to provide local accountability and overall program performance measurement. Work began in earnest in February 1994 to expand the ISP for the CDBG Program to support the new strategy. Phase I, the first year priority, provides grantees innovative computerized submission software to use in designing their consolidated plans and application submissions. Phase II will provide a state-of-the-art electronic reporting system to simplify accounting control and strengthen project management and program monitoring and evaluation.

Funding for this systems development effort is a major concern, as reliance on the insufficient IRM budget will not get the job done. To implement Phase I, CPD is seeking to supplement IRM funds with CDBG technical assistance funding. In addition, CPD is proposing to set aside a percentage of CDBG funds for improving management information systems.

Another major concern pertains to CPD's ability to effectively carry out its new program delivery strategy. The fundamental change in its role from compliance regulators to community enablers will require a different staff capacity. As yet that capacity is undefined, as are the details of CPD's pending reorganization. An assessment of the nature and level of CPD's workload, as well as staff retraining needs, is necessary and a realignment of resources may be warranted.

***Actions
Needed***

Now that the CPD program delivery strategy is more clearly defined, management attention needs to be focused on timely and effective implementation. Support from the Congress and OMB is also necessary for required statutory, regulatory and budget changes. The OIG supports the funding set aside for automated systems improvements, and believes that even more program consolidation is warranted to reverse the inefficiencies and burdens of overlapping CPD programs.

Public Housing Agencies

***Issue
Statement***

Significant problems in the management and operation of many PHAs continue to frustrate HUD's efforts to achieve its goal of providing decent, safe, and sanitary dwellings for low-income families.

***Prior
Management
Commitment***

- ▶ Establish an Office of Severely Distressed and Troubled Housing Recovery.
- ▶ Contract for an independent assessment of every troubled PHA.
- ▶ Begin to execute Memoranda of Agreement with PHAs by July 1, 1994.
- ▶ Ensure that funds are available to provide technical assistance to troubled PHAs.
- ▶ Issue a revised PHA Monitoring Handbook to provide a more concentrated focus on the problems of troubled PHAs.
- ▶ Implement, nationwide, a new oversight approach for a more efficient and effective use of HUD resources in improving PHA operations.



*Current
OIG
Assessment*

PIH is working to improve its PHA oversight, as well as public housing management, operations and living conditions. However, given the preliminary stage of PIH efforts, continued management attention will be necessary to assure that plans are fully implemented; and additional program restructuring may prove warranted. In the interim, large troubled PHAs are an area of particular concern.

PIH instituted several interdependent efforts in response to the Housing and Community Development Act of 1992, but each faces significant challenges. An Office of Distressed and Troubled Housing Recovery was established, but has been slow to staff up. PIH also initiated a procurement action for an independent assessment of troubled PHAs and set aside about \$50 million for future technical assistance to those PHAs. However, efforts to identify, initiate and fund corrective actions through Memoranda of Agreements and technical assistance could be significantly delayed; and funding for the management assessments may not be sufficient to cover all troubled PHAs in a comprehensive manner. Although it was envisioned that staff of better performing PHAs would participate in the assessments, the availability of such resources has yet to be determined. In addition, PIH needs to actively participate in the assessments to further develop its own staff capacity and understanding of individual PHA conditions and needed corrective actions. As discussed in the resource management issue, the OIG believes that HUD should be given greater flexibility in making cost/benefit decisions on hiring additional staff versus increased reliance on contractors.

PIH continues to improve its risk based management approach to oversight and an upgraded monitoring handbook should be issued in late April. A recent OIG audit of the procedural and organizational changes in the piloted Chicago Region concluded that both PIH and PHAs benefit. Although 13 other offices have implemented the approach, funding shortfalls may delay further expansion and the OIG found that monitoring has fallen off in some offices not yet using the new approach.

Other potential barriers loom. For example, substantial modification of the Public Housing Management Assessment Program (PHMAP), the cornerstone for measuring PHA performance and analyzing risks, is scheduled to be completed in September 1994. Any cuts in staff or administrative funding will further delay improvements in the data systems, training and improved program structures needed to support both the new risk based monitoring approach and the revised PHMAP.

While PIH has concentrated on operational changes to implement its new oversight approach, changes are also needed to address problems disclosed by that improved oversight. Several task forces have been established to assess the possibility of consolidating and streamlining programs for PHA development, operations, modernization and resident initiatives; and the 1994 legislative initiative includes proposals for more flexible uses of development and modernization funding. Portions of the following proposals could alleviate problems at large troubled PHAs.

- ▶ Expedited recapture provisions for timely use of available development funds.
- ▶ Flexibility to use modernization funds to rehabilitate/replace undesirable units.
- ▶ More flexible rent setting provisions to encourage mixed income developments, and low-income resident self-sufficiency.
- ▶ Modernization funds set aside for expert assistance to oversee and assist PHA development and modernization and to address PHA management deficiencies, including emergency response actions and possible PHA takeovers.

In FY 1994, the Office of Policy Development and Research plans to begin an evaluation of the Performance Funding System. That system has been the primary means of delivering operating subsidies to PHAs since the mid-1970s, and should be revisited in the context of today's environment. The effectiveness of the recent proliferation of small PIH programs, which tend to be administered through time-consuming national competitive processes, also needs to be assessed.

***Actions
Needed***

PIH management needs to fully implement its new PHA oversight approach in a timely manner and increase efforts to assess its program structure to ensure the flexibility and incentives needed to address PHA problems. Efforts to consolidate, streamline and simplify Federal program requirements must be coupled with measures to instill local responsibility and accountability for program results. OMB and Congressional support is necessary for required legislative change and funding of administrative requirements to improve the delivery of HUD's substantial investment in public housing for low-income residents.

**Government National Mortgage Association (GNMA)
Contract Monitoring**

***Issue
Statement***

With its limited staff, GNMA relies heavily on contractors to carry out the asset management and program responsibilities associated with its Mortgage-Backed Securities Program. GNMA has limited assurance that its extensive contract services are properly performed and claims for services are reasonable or valid.

***Prior
Management
Commitment***

- ▶ Engage an audit contractor to perform contract compliance and internal control reviews of subservicers and other major GNMA contracts, and complete all initial reviews by FY 1994.
- ▶ Establish a Follow-up Monitoring Plan to assure that deficiencies noted during compliance reviews are corrected.
- ▶ Hire a contract specialist in November 1993, to assist in coordinating all activities related to contracts with outside parties.
- ▶ Amend the master subservicer contracts for the Manufactured Housing and Multifamily Programs in FY 1994.

***Current
OIG
Assessment***

Steps have been taken to improve controls over subservicers. First, GNMA standardized the reporting requirements and improved the enforceability of subservicer contracts, including adding a penalty clause for noncompliance. Second, the contractor, selected to oversee the master subservicers and other major GNMA contractors, conducted its initial reviews of all subservicers.

However, GNMA staffing limitations delayed scheduling the initial reviews, handling of review results, and scheduling follow-ups. In addition, the contractor reviews of GNMA's Central Paying and Transfer Agent and Contract Compliance Agent have been delayed by GNMA's limited capacity to administer the reviews, and by a dispute over one contractor's right to access record of another contractor. The attempt to hire a contract specialist to assist in these contract efforts was also significantly delayed, and GNMA now anticipates that the contract specialist will not be on board before May 1994.

While GNMA management has taken steps to reduce its vulnerability to waste and abuse, staffing constraints continue to require heavy reliance on contractors. For



example, the recently developed and soon to be implemented REMIC program will be almost totally administered by contractors. Under current staffing constraints, GNMA has had virtually no alternative to reliance on contractors.

**Actions
Needed**

GNMA management must continue to focus on improved contractor monitoring processes to assure the intended control benefits become a routine part of ongoing processes. In addition, the Congress, OMB and HUD need to evaluate and act on possible alternatives for providing GNMA more budget autonomy or funding flexibility to overcome the current reliance on contractors.

Section 8 Budgeting and Accounting

**Issue
Statement**

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.

**Prior
Management
Commitment**

The Office of Housing committed to:

- ▶ Continue to develop the TRACS system.
- ▶ Implement the budget forecasting module by spring 1994.
- ▶ By November 1993 publish a rule to require owners to submit automated tenant data.

PIH committed to:

- ▶ Expand its existing tenant processing system and utilize the Federal Financial System to support budget formulation and subsidy payments.
- ▶ Implement, in October 1994, the first phase of the Section 8 System Project.
- ▶ Implement the second phase to address applications and contracts, and PHA processing of certifications and budget formulation.

**Current
OIG
Assessment**

The Department has taken steps to improve its Section 8 system development plans, and implement enhancements. In addition, interim controls have been put in place to improve the accuracy of the Department's Section 8 budget estimates using CFS data, pending completion of the budget modules for the CFS/TRACS and Section 8 Systems. However, the TRACS and Section 8 System will not be fully implemented in the immediate future. While the OIG is planning a detailed audit of the Section 8 budget process later this year, issues raised as a result of our assessment to date follow.

Office of Housing

TRACS implementation was delayed by a change of direction with the transition of Administrations. Moreover, earlier project schedules were overly ambitious and unanticipated problems were encountered. The CFS/TRACS project was reorganized to separate Office of Housing and PIH systems development efforts, a decision the OIG agreed with. Priorities were also refocused to accelerate development of the budget forecasting process, given the serious problems in this area. While the OIG also supported this decision, it meant delays in automating voucher processing and Section 8 subsidy payments. Housing is meeting its revised implementation schedule; however, full automation of the voucher and payment processing function is not scheduled until 1997. In addition, recent OIG tests at one of the two regions piloting the interim modules of TRACS for voucher processing disclosed that the system is not currently a useful tool. The field offices were still using local operating procedures that required unit subsidies verification based on a manual comparison of current and prior month

vouchers. Housing is working with field staff to better effect the transition to an automated environment.

HUD accounting records have yet to be fully reconciled with CFS and further delays may impair efforts to project Office of Housing Section 8 budget needs. The effort, originally scheduled for completion by December 31, 1993, must be completed by May 1994 to coincide with the use of the TRACS Budget Forecast Module. The module will be used to determine Section 8 cost amendment and renewal needs for FY 1996, and requires funding and disbursement information from the Department's accounting records. The OIG will follow up with Housing on this issue as part of our scheduled audit.

An Automation Rule was issued as planned. It requires that all owners/agents begin electronic transmission of housing assistance payment certifications and subsidy billings to HUD by May 20, 1994. The effective date of the Automation Rule for contracts administered by State agencies has been established as August 1, 1994.

Office of Public and Indian Housing

The Section 8 project reorganization had a major impact on PIH plans. Instead of using TRACS to collect tenant data, management committed to enhancing the existing Multifamily Tenants Characteristics System (MTCS). In addition, FFS will replace CFS and current accounting systems to support Section 8 budget formulation and payment processes.

Phase I of FFS, planned to be fully implemented on April 1, 1995, is to provide for budget formulation; reservation, contract, accounts payable, disbursement, and accounts receivable processing; general ledger functions; and reporting. (PIH clarified that its previously stated goal for completing the first phase of the Section 8 System project by October 1, 1994, relates only to a single field office pilot project.) To accommodate PIH business needs, Phase I will require three enhancements and four modifications. The OIG is aware that other agencies have experienced schedule delays and increased costs in modifying the FFS software to meet their needs so the PIH project management will need to closely control this effort.

Phase II is currently scheduled for completion by October 1995, although the date may be revised to January 1996. Phase II is to provide additional enhancements such as electronic exchange of data among PHAs and HUD field offices, automated budgeting for contract renewals and amendments, and an interface with MTCS. The Department needs to ensure that plans are realistic and strictly adhered to, since previous major redirection of Section 8 systems projects have proven to be costly.

Verifying Subsidy Eligibility

Establishing eligibility integrity in subsidy programs is an important objective of the subsidy systems projects. Current proposals call for HUD to use TRACS and MTCS to verify tenant income with Internal Revenue Service and Social Security Administration income data. To accomplish this, MTCS began collecting Section 8 tenant data on March 1, 1994. The OIG is concerned that the Department provide sufficient funding for the MTCS enhancements. PIH is currently in the process of drafting a proposed regulation, similar to the Office of Housing, to automate the collection of tenant data. Where TRACS is collecting tenant data in an electronic transmission in 1994, funding may also be needed for TRACS enhancements associated with the legislation and cross-



checking functions. In FY 1994, HUD's tenant data collection activities were significantly underfunded.

The Omnibus Budget Reconciliation Act of 1993 amended the Internal Revenue Code to clarify HUD's access to tax information for tenant income verification purposes, but the law prohibits the disclosure of tax information to public housing authorities, private owners and management agents. The Department has discussed alternative computer matching methods with the Internal Revenue Service and Social Security Administration, in the context of the current legislation's guidelines. PIH has concluded that the most efficient means of implementation is to notify the tenant of the earnings discrepancy and instruct the tenant to resolve the issue with the PHA. The PHA would also be notified of the earnings discrepancy but the Department would not disclose specific wage and earnings data. Under this approach, the Department needs to develop techniques for monitoring PHA follow up, and promoting effective PHA action on verifying subsidy eligibility. The latter could involve enabling PHAs to retain a portion of tenant fraud recoveries for serving needy families and developing PHA personnel resources to combat program abuse. Housing plans to consider other options before selecting an income verification process.

The Congressional Budget Office (CBO) estimates that up to 600 additional HUD staff may be needed to carry out these activities and OMB indicates that up to \$15 million may be spent for this purpose in FY 1995. HUD needs to finalize proposals to implement the legislation and reach consensus among responsible officials to ensure that its budgetary needs are met. For budget purposes, OMB has adopted CBO projections of \$1.6 billion of savings attributed to the income verification program over the next 5 years. Although substantially higher than preliminary estimates, it enabled the Department to meet the FY 1995 spending limits imposed by the Act, and propose new incremental funding for additional program activities. However, actual matching program implementation and savings levels remain to be seen.

***Actions
Needed***

Several actions are needed. Housing needs to ensure project owners comply with the automation rule, complete system enhancements to validate contract information prior to subsidy disbursements, and reconcile HUD accounting and CFS data. Interim steps are also needed to ensure field compliance with Headquarters guidance on the better use of available TRACS information. In addition, Housing needs to create TRACS exception reports to ensure project owners comply with the automation ruling.

PIH needs to decide how to obtain tenant payment data for its Section 8 budget needs, an issue that will not be addressed until Phase II of the FFS implementation plan because of inadequate funding. In both program areas, HUD needs to determine how tenant data will be verified through computer matching or other means. There is also a need for continued top management oversight and support for these major systems development efforts, as well as Congressional and OMB support for a stable funding source to ensure timely completion of these critical projects.

New Program Implementation

***Issue
Statement***

New programs pose a major challenge to HUD, as management must develop and implement plans, procedures, systems, staffing and other tools necessary for efficient and effective program implementation.

**Prior
Management
Commitment**

- ▶ Establish a high level budget/legislative review process to assure the budgetary impact of new legislative proposals is calculated.
- ▶ Propose legislation to consolidate and simplify many HUD programs.
- ▶ Streamline and expedite HUD's rule making and regulatory processes.
- ▶ Aggressively implement the Front-End Risk Assessment (FERA) requirement to ensure adequate controls are built into all new or substantially revised programs.

**Current
OIG
Assessment**

HUD has not established a formal process to assess the impact of legislation on its salaries and expense budget. In developing recent legislative proposals, HUD officials informed us that existing and projected HUD staffing levels were a major design consideration. Nonetheless, the OIG continues to believe that the Department needs a system for defining resource requirements through rigorous, documented analysis.

In September 1993, the Senate Committee on Appropriations required HUD to focus on program consolidation and simplification. A consolidation plan was due to Congress in March 1994 with the FY 1995 budget submission. Although the current array of 206 programs offers many opportunities for streamlining, the plan was still under development as of the end of this reporting period. The preliminary draft of the plan shows consolidation of some programs, such as the McKinney Act Homeless Programs and Section 8 certificates and vouchers, but much more could be done — particularly in the CPD and PIH program areas. In addition, the potential benefits of consolidation need to be considered in light of any increased resource requirements implied by new legislation.

HUD's *top 25* rules process has served to prioritize and expedite the processing of the Department's most significant rules and regulations. The intention is to focus scarce Office of General Counsel resources on priority items, expedite approvals through fixed comment periods and forced high level decisions, and expand the involvement and capacity of program staff in preliminary rulemaking and regulation development. While the intended benefits have generally been derived, comment extensions are still allowed and the *drop dead* decisionmaking meetings are rarely used. In some instances, there is a lack of timely input from high level decisionmakers, and upgrading the capacity of program staff to develop legislation and rules has been slower than expected.

HUD has not aggressively imposed FERA requirements on new and substantially revised programs. There is no central control to identify programs in need of FERAs, or for assuring that FERAs are performed — the scheduling and performance of FERAs have been left to the discretion of the individual Assistant Secretaries. For 21 new programs enacted in the National Affordable Housing Act of 1990 and the Housing and Community Development Act of 1992, only 12 FERAs were performed. Only two of the seven new programs in the 1992 Act were subjected to the FERA process.

The OIG notes that some new HUD programs, notably the Multifamily Risk Sharing Demonstration and the GNMA REMIC Program, are being designed in a different and potentially more beneficial manner. Program staff, with advice from CFO, Comptroller, and OIG staff, have used a team approach to solicit industry input and focus on the details needed to adequately design and plan the implementation of these new programs. Greater use of this management approach, in lieu of a separate FERA process, should be considered.



***Actions
Needed***

The Congress and HUD need to work together to consolidate, simplify and strengthen HUD's existing programs. Within HUD, management needs to improve its ability to track legislation through all phases of program development, define resource needs for legislative proposals, and provide sufficient top management attention and resources for planning new programs, with adequate consideration of the controls needed to reduce risks to acceptable levels.

2

OPERATION SAFE HOME



"The overall goal of Operation Safe Home is to stop abuses in HUD programs that are resulting in unacceptable living conditions for the millions of needy people who look to HUD for help"

Inspector General Gaffney

On February 4, 1994, Operation Safe Home, a new anti-crime initiative, was announced by Vice President Gore, HUD Secretary Cisneros, Attorney General Reno, Treasury Secretary Bentsen, and National Drug Control Policy Director Brown. The goal of Operation Safe Home is to stop major abuses in HUD programs that result in unacceptable living conditions for the millions of needy people who look to HUD for help. Facilitated at HUD by the Office of Inspector General, Operation Safe Home brings the coordinated resources and expertise of HUD, the Departments of Justice and Treasury, and the National Drug Control Policy Office, as well as State and local law enforcement agencies and public housing agencies, to bear on violent and white collar crime in public and assisted housing.

Focus of Operation Safe Home

Within the overall context of violent and white collar crime, Operation Safe Home focuses on three major types of wrongdoing that undermine HUD programs — violent crime in public and assisted housing, fraud in public housing administration, and equity skimming in multifamily insured housing.

Available data indicate that violent crime is undermining the government's commitment to providing decent, safe, and sanitary housing to needy Americans. For example, between 1986 and 1989, violent crimes in Los Angeles public housing were reported at an average rate of 67 per 1,000 people, compared with 22 per 1,000 Citywide; the murder rate in Chicago public housing in 1988 was three times that of Chicago as a whole; and, in Washington, DC, the Police Chief reports that 80 percent of the District's violent crime is occurring within 6 blocks of public housing.

The perception that public housing administration is rife with fraud undermines the viability of a program providing shelter to more than 3.7 million

of America's neediest people. OIG work has consistently demonstrated that this perception has a basis in fact. During the period from October 1, 1993, through March 31, 1994, OIG investigations of public housing officials and contractors resulted in 78 indictments, 73 convictions, and fines and recoveries of over \$1.5 million. This fraudulent activity not only means that taxpayer dollars are being wasted; it also means that the living standards of public housing residents are being directly and negatively affected.

FHA insures almost \$43 billion in multifamily mortgages, approximately \$12 billion of which is at risk of default. Over the past 3 years, OIG audits have identified almost \$22 million in equity skimming that is a major factor contributing to defaults and foreclosures. Equity skimming means that project revenues are diverted for the personal use of owners and agents, resulting in substandard living conditions for low-income families, the need for additional financial assistance from HUD, and losses to HUD through the sale of foreclosed properties. Through Operation Safe Home, the OIG is addressing approximately 100 cases of apparent equity skimming.

How Operation Safe Home Works

Operation Safe Home is a concerted campaign to combat wrongdoing in HUD programs, through collaborative efforts among the OIG; HUD program staff; Federal, State and local law enforcement agencies; and HUD clients and partners.

With respect to violent crime in public and assisted housing, the Operation Safe Home strategy has three components: (1) collaborative law enforcement focused on public and assisted housing, and carried out by task forces comprised of Federal, State, and local law enforcement agencies; (2) collaboration between law enforcement agencies and public/assisted housing managers and residents in devising methods to prevent violent crime; and (3) HUD programmatic initiatives specifically geared to preventing crime.

With respect to fraud in public housing administration, the Operation Safe Home strategy has two components: a joint OIG, Federal Bureau of Investigation (FBI), and Department of Justice

(DOJ) commitment to aggressive investigation and prosecution of existing cases of potential fraud in public housing administration; and a simultaneous series of fraud probes by OIG audit/investigative teams at selected public housing authorities. The fraud probes are designed to result in referrals for additional joint investigations by the OIG and the FBI.

With respect to equity skimming in multifamily insured housing, the Operation Safe Home strategy consists of two parts: affirmative litigation, balancing criminal prosecution, civil suits, and out-of-court settlements; and deterring future equity skimming through better enforcement tools, better communication and cooperation among concerned parties within and outside the government, and publicizing cases of successful litigation.

Operation Safe Home Progress

Although in place for only about 2 months at the end of this reporting period, Operation Safe Home is producing results. The violent crime initiative has led to 24 arrests and the filing of charges against 14 individuals, as well as recovery of more than 25 weapons and nearly \$300,000 in drugs and cash. The fraud in public housing administration effort has yielded six indictments and a guilty plea. The multifamily equity skimming effort has led to five civil settlements, requiring \$11.5 million in repayments to multifamily projects and \$2.1 million to HUD, a double damages judgment of \$1.6 million and one guilty plea.

Violent Crime

As noted above, the Operation Safe Home violent crime strategy involves task force operations, law enforcement prevention initiatives, and HUD programmatic initiatives.

Task Force Operations

In the Charlestown section of Boston, OIG and Drug Enforcement Administration (DEA) agents arrested a suspected drug dealer who was subsequently charged/indicted for drug violations. The multi-agency law enforcement effort, which earlier netted the indictment of members of a gang terrorizing public housing

residents, is presently focused on unsolved homicides believed to involve gang members.

A Peoria, IL public housing tenant, identified as a drug carrier for a local gang, was indicted for possession of drugs and firearms. The indictment resulted from an OIG, FBI, Internal Revenue Service (IRS) and local law enforcement task force targeting gang and drug trafficking at four Peoria Housing Authority projects.

A team of 100 agents and police officers from the Bureau of Alcohol, Tobacco, and Firearms (ATF), the New York City Housing Authority Police Department, and the OIG executed search warrants at four public housing projects under "Project Uptown," an ATF nationwide operation focused on combatting drug dealers and illegal firearms activities within the Housing Authority. Heroin, firearms and cash were seized and 11 individuals, believed to be members of an operation that supplied drugs and firearms, were arrested.

As part of a task force effort in New Haven, CT, a team of 60 agents and police officers from DEA, FBI, OIG, and State and local law enforcement agencies, arrested 12 individuals and seized drugs and firearms. The individuals were charged/indicted for drug and weapons violations.

The OIG, local law enforcement agencies, and HUD and City staff in Denver and Aurora, CO, started an initiative to identify crime trends in public and assisted housing. To focus the enforcement activity, police data were compared with HUD project information. A multi-agency task force has been formed to investigate serious criminal activity at selected sites.

OIG staff are working with U.S. Attorneys and Federal, State, and local law enforcement throughout the country to establish additional task forces focused on violent crime in public and assisted housing.

Law Enforcement Prevention Initiatives

Twenty-four Detroit police officers were assigned to targeted daily patrols in public housing developments. The assignment, under

discussion for some time, was brought to fruition through the intensified focus of Operation Safe Home.

The Secret Service, OIG, HUD Public Housing officials and Baltimore Housing Authority staff have agreed to conduct a security assessment at a selected Authority development. The assessment will provide the Authority and HUD technical guidance on enhancing physical and environmental security and will become the model for similar efforts throughout the Nation. The Secret Service, having much expertise in this area, performed a similar security assessment on behalf of the Chicago Housing Authority following the sniper slaying of a child at the Cabrini Green development.

Officials of Treasury's Federal Law Enforcement Training Center in Glynco, GA, the HUD OIG, and the Office of Public and Indian Housing, have agreed to develop a training program for public housing police officers. A needs assessment, facilitated by the Director of Police for the Baltimore Housing Authority Police Department, has been prepared to assist in developing a meaningful curriculum targeted specifically at housing authority police.

The OIG, DEA, FBI, ATF and Secret Service have established an Operation Safe Home violent crime steering committee to share information on crime trends in public and assisted housing and plan actions to address these trends.

ATF issued a guide for Federal law enforcement agencies titled "Addressing Crime in Public Housing Developments." The OIG and ATF are collaborating on a similar guide for local law enforcement and public housing authorities with steps for implementing law enforcement operations along with programmatic initiatives to create safer communities. In addition, prevention initiatives will be an integral part of each task force operation focused on violent crime in public and assisted housing.

HUD Programmatic Initiatives

Operation Safe Home will benefit from the announced availability of \$69 million to develop



Family Investment Centers for public housing communities. The funds will be used primarily to develop facilities in or near public housing neighborhoods to offer support services such as child care, employment training and counseling, and literacy and computer skills training.

HUD announced the commitment of \$6.6 million for anti-violence activities for youth living in public and Indian housing, and awarded a grant of over \$1.3 million of Public and Indian Housing Drug Elimination Program Technical Assistance funds to assess the delivery of police services to public and assisted housing and to develop standard measurements of crime elimination for housing authorities.

The Office of Public and Indian Housing announced \$1.2 million of Drug Elimination Technical Assistance funds available for public and Indian housing authorities to receive the services of a consultant to develop their anti-drug, anti-crime strategies.

HUD announced \$265 million for the Public and Indian Housing Drug Elimination Program which includes provisions for anti-crime efforts such as "Weed and Seed."

In a related issue, the OIG commented on a Notice of Fund Availability (NOFA) to permit funding of PHA police departments prior to accreditation. The OIG recommended the NOFA specify a time period for accreditation and a limit on funding, if the timeframe is not met. The OIG also recommended a provision prohibiting the transfer of Drug Elimination funds to other Federal agencies be deleted because there may be occasions, such as Operation Safe Home, where drug-related services "over and above" normal duties and should be reimbursed.

The Office of Public and Indian Housing has distributed to the DC Department of Public and Assisted Housing an options paper outlining how it can use existing HUD regulations and program dollars to relocate public housing residents willing to serve as witnesses for the prosecution, but who need to be relocated because of threats on their lives.

A proposed bill has been included in HUD's legislative package that would allow designated public housing and law enforcement staff access to data from the National Crime Information Center (NCIC) when screening applications for public housing.

The Office of General Counsel is finalizing a public housing occupancy rule that will allow law enforcement officers to reside in public housing.

The Office of Public and Indian Housing is about to announce two new grant opportunities for organizations to provide technical assistance and training to public housing authorities interested in developing resident patrols and in implementing elements of crime prevention through environmental design.

The U. S. Conference of Mayors, HUD and the National Assisted Housing Management Association have asked the mayors of 12 large cities to participate in a demonstration program, as part of Operation Safe Home, designed to address crime and criminal activities in privately owned government assisted housing.

The Office of Public and Indian Housing and the Office of Policy Development and Research are conducting a public opinion survey of public housing residents to determine their views on proposed elements of Operation Safe Home such as gun buys, gun bans, and identity cards. Results of the survey are expected by early summer.

Two directives were placed into Departmental clearance during February and March related to special rent adjustments for Section 8 subsidized units to reflect increased security costs resulting from criminal activity. The OIG commented:

- ▶ The rule on Section 8 Moderate Rehabilitation allows PHAs to request rent and special adjustments to reflect substantial general increases in security expenses, operating maintenance and capital repair costs resulting from drug-related criminal activity. The OIG recommended the regulation be strengthened by defining "substantial general increases" in drug-related activity and distinguishing

between substantial and non-substantial as well as general versus specific security expenses. In addition, the OIG encouraged the Department to broaden the adjustment to include criminal activities which may not be drug-related but may threaten tenants.

- ▶ The HUD Notice on special adjustments to Section 8 rents sets eligibility for special rent adjustments conditional on evidence of general non drug-related crime problem in the community that results in increased general security costs. This was a change from the requirement that cost increases be substantial and general to the project area. The OIG commented that dropping *substantial* was a significant relaxation of the former requirement and could result in windfall rent increases, especially since the Notice neither defined *general* crime nor required an authoritative certification that a general crime problem exists. Without those elements, it would be difficult to verify that a community has such a crime problem.

On February 4, HUD published a proposed rule in the Federal Register regarding the termination of tenancy of Section 8 families for engaging in criminal activity.

Fraud in Public Housing Administration

As noted above, the Operation Safe Home strategy for combatting fraud in public housing involves a joint OIG, FBI and DOJ commitment to investigate and prosecute existing cases of potential fraud and a simultaneous series of fraud probes by OIG audit/investigative teams at select public housing authorities.

Investigation and Prosecution of Existing Cases of Potential Fraud (indicates investigative results that occurred prior to the announcement of Operation Safe Home)*

In a joint investigation conducted by the OIG, Lake County Prosecutor's Office and Waukegan, IL Police Department, the executive director and another employee of the North Chicago Housing

Authority were arrested and charged with converting Section 8 funds for personal use.

As a result of a joint investigation conducted by the HUD and FEMA OIGs and the Florida Department of Law Enforcement, a Dade County construction company and its president were indicted for allegedly submitting inflated claims for public housing construction and renovation. A second company and its president were indicted for inflated insurance and bonding claims.

A former Cincinnati Metropolitan Housing Authority management specialist pled guilty to accepting money from a landscape contractor in return for work at the PHA. The investigation was conducted jointly by the OIG and the FBI.

The former executive director of the Pine City, MN Housing and Redevelopment Authority was sentenced to 45 days in prison and 7 years probation and ordered to pay over \$5,000 in restitution for obtaining unauthorized salary advances and personal goods and failing to deposit rent receipts. This resulted from an OIG investigation with audit assistance.

As a result of an OIG investigation, a former PHA inspector in Midland County, TX, was indicted for embezzling \$15,000 obtained by cashing checks intended for tenants in payment of damage claims.

The executive director of the Harlem, NY Housing Authority repaid \$20,000 to HUD for misappropriated funds, equipment and services. A temporary denial of participation has been initiated and the case developed by the OIG will be prosecuted by the local district attorney.

An OIG investigation led to the arrest of a former PHA employee in Irvington, NJ, for embezzling over \$400,000 in PHA funds. The scheme involved bogus landlords and kickbacks. A landlord/contractor was previously indicted in the case.*

An investigation conducted by the FBI and the OIG led to the sentencing of five former Philadelphia Housing Authority employees and two contractors, as a result of their participation



in a bid rigging and bribery scheme. The corruption investigation, which involved 15 former PHA employees and contractors, has to date resulted in the sentencing of all the defendants and has yielded over \$1 million in court-ordered restitution and \$183,000 in fines.*

A former real estate services director and a landlord in New Haven, CT, were convicted of conspiracy and bribery. The investigation conducted by the OIG found that the landlord gave a car to his co-conspirator in exchange for his support in the purchase of a \$1.1 million development by the local PHA. The real estate services director then directed the payment of over \$12,000 in Federal funds to the landlord under a temporary housing relocation program.*

A joint OIG/FBI investigation led to a PHA engineer in Baltimore, MD, being charged with accepting over \$25,000 in illegal gratuities from various contractors to influence renovation contracts for public housing projects.*

As a result of an OIG investigation, the former executive director of a PHA in Salyersville, KY, pled guilty to embezzling over \$13,000 from the PHA.*

The OIG and the FBI are jointly investigating another 28 cases of potential fraud in public housing administration, with the expectation that these investigations will, within the next 6 months, result in law enforcement actions such as searches, arrests, and indictments.

Additional Targeted Probes

The OIG has met with HUD Public Housing officials and Offices of the U.S. Attorney relative to the vulnerability of public housing programs to fraud and abuse. Based on these meetings and historical OIG data, a plan was developed to proactively review selected housing authorities.

The OIG has identified eight PHAs throughout the country for a first series of targeted probes; and teams of OIG auditors and special agents have been trained to commence these on-site reviews in April 1994. The probes, designed to look for indicators of serious fraud and corruption by housing authority officials and

contractors, will result in referrals for investigation by the OIG and the FBI. The OIG expects to follow this same approach in subsequent series of probes, which are expected to occur on a continuing basis.

Multifamily Equity Skimming

The multifamily equity skimming aspect of Operation Safe Home combines aggressive, affirmative litigation with proactive initiatives to deter owners and management agents from diverting much needed funds away from rental housing projects for their personal use.

With the assistance of Housing and the HUD Office of General Counsel, the OIG has identified 101 potential cases of equity skimming which have resulted in harm to tenants and/or HUD. These cases are being developed by OIG and presented to U.S. Attorneys for affirmative litigation, balancing the most effective combination of criminal prosecution, civil suits, and out-of-court settlements, and keeping in mind the best interests of tenants and HUD.

To date, a judgment of \$1.6 million has been awarded to HUD and a HUD insured project for equity skimming violations, while another \$13.6 million in settlements have been agreed to between six project owners and HUD. Of the additional 53 cases already presented to Assistant U.S. Attorneys for criminal and/or civil prosecution under the Safe Home effort, 24 cases have been accepted by the AUSAs for affirmative litigation. A description of the cases brought to a conclusion follows.

- ▶ Through the combined efforts of the HUD Offices of Housing and General Counsel, Carabetta Management will pay HUD \$1.3 million and will reimburse HUD insured projects \$9.7 million for project violations identified in an OIG audit of the firm's management of projects in Connecticut and Massachusetts.
- ▶ HUD was awarded a \$1.6 million double damages judgment against A & P Arora, Ltd., a management agent operating in Kansas City, KS. The management agent's diversion of funds contributed to serious health and safety hazards. The general manager/partner pled guilty to Federal program fraud and faces a maximum

Federal prison sentence of 5 years and a \$250,000 fine.

- ▶ HUD's Office of Housing has settled with the owners of First Hartford Realty Corporation, Manchester, CT, to repay HUD \$500,000 and to agree upon other amounts owed the project or HUD, based on an OIG audit that identified \$4 million in possible diverted project funds.
- ▶ The HUD Ft. Worth, TX Office ordered Lake Como Community of Hope, Inc., the owner of an elderly project, to reimburse the project \$248,000 after an OIG audit disclosed the improper diversion of funds to other businesses.
- ▶ Lorenzo Pitts, Inc., a project owner in Boston, MA, has agreed to repay HUD \$277,000 as the result of an OIG audit that identified the diversion of project funds.
- ▶ An OIG audit disclosed that the owner of Southcrest Apartments, Sacramento, CA, improperly used \$160,000 in project funds for ineligible distributions to the owner and for unsupported disbursements. The owner has repaid \$123,560 to the project and has agreed to repay an additional \$31,045 to the project.
- ▶ After lengthy negotiations to resolve equity skimming violations reported in an OIG audit of J & B Management Company, manager of over 80 HUD insured projects located primarily in the Southwest, \$1.3 million has been repaid to HUD and the projects.

More will need to be done to create an effective deterrent for equity skimming and to elevate the program integrity in HUD's Multifamily Housing Programs to minimize hardships upon families living in government assisted housing. With this in mind, the OIG is initiating actions that will go beyond the current efforts to prosecute cases. Such actions will include improving enforcement tools, and fostering a coordinated enforcement strategy among HUD program staff, DOJ, U.S. Attorneys, housing industry groups, and the OIG, which will entail training, improved liaison, revised legislation, joint strategy sessions, and publicizing successful litigation.

The OIG has already held working sessions and individual meetings with the majority of the 94 U.S. Attorneys, Assistant U.S. Attorneys making up DOJ's Affirmative Civil Enforcement Program, DOJ's Subcommittee on Financial Litigation, housing industry groups, and HUD program staff. These meetings have facilitated the cooperation of all parties involved in combatting equity skimming. Also, OIG work with HUD's Offices of Housing and General Counsel has resulted in identification of legislative changes needed to remove obstacles preventing or hampering the criminal and civil prosecution of equity skimming. Improved legislation will also increase the deterrent effect and the likelihood of reaching more timely settlements prior to court proceedings.

Direction for the Future

Operation Safe Home is a multi-year commitment on the part of the OIG. On a priority basis, the OIG will devote resources to identifying and supporting prosecution of violent crime in public and assisted housing, fraud in public housing administration, and equity skimming in multifamily insured housing. Further, as a deterrent measure, the OIG will widely publicize the investigative and prosecutive results obtained. Finally, in each area, the OIG will be working closely with Federal, State, and local law enforcement, HUD program officials, and HUD clients and partners to ensure that appropriate measures are in place to deter future wrongdoing.



3

SIGNIFICANT AUDIT AND INVESTIGATION ACTIVITIES



"Independent and objective reporting needs to be for the purpose of effective positive change."

*Inspector General
Gaffney*

While significant attention was focused this period on assessing progress in HUD's top 10 management issues and implementing Operation Safe Home, the OIG continued a balanced program of audits and investigations to assure balanced coverage of HUD programs and operations. During this reporting period, the Office of Audit issued 10 reports on internal HUD operations and 75 reports on grantees and program participants. Cash recoveries amounted to \$15.6 million, with another \$46.3 million in commitments to recover funds. Investigative efforts resulted in 246 persons indicted, 222 convicted and cash recoveries, including court ordered restitution, of \$7.9 million.

The more significant results included recommended administrative sanctions against a coinsurance lender who approved \$262 million in excess mortgages; conviction of a HUD project manager for stealing \$200,000 in Section 8 funds; \$2.5 million lost by a PHA because of increased vacancies; \$25 million in assistance awarded to potentially ineligible applicants; and staffing, enforcement and control problems in the HOPE 3 Program. In addition, this Chapter discusses actions taken under the Program Fraud Civil Remedies Act, under which agencies can initiate administrative actions for false claims and statements.

Multifamily Housing

HUD administers several multifamily housing programs. In addition to projects with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages. It also subsidizes rents for eligible low-income households living in multifamily housing. In the Multifamily Housing area, OIG audits and investigations have disclosed coinsurance lender abuse, embezzlement of tenant rents,

diversion of program funds, and deficiencies in owner and management agent operations.

Excessive Mortgages Approved

Based on audit work performed, the OIG recommended that the Mortgagee Review Board impose sanctions against an **Arlington, VA** coinsurance lender (Report No. 94-PH-217-1007), unless the lender agrees to set aside additional reserves specifically earmarked to indemnify HUD for future loss. The lender, although agreeing to perform loan underwriting functions and to abide by HUD requirements, approved \$262 million in excessive mortgages for eight loans, primarily because unreasonable or unsupported project income estimates were accepted. In addition, the lender failed to detect or correct mortgagor violations and did not assure that over \$24 million of capital improvement purchases were necessary or reasonable.

Fraudulent Activities

Investigations into embezzlement of tenant rents resulted in three successful criminal prosecutions. A **Massachusetts** management company employee, found guilty of embezzling over \$171,000 in tenant rent receipts, was ordered to pay restitution and was sentenced to 200 hours community service and 2 years probation, and fined \$20,000. The manager of a HUD owned project in **Nashville, TN**, who embezzled over \$38,000 in rent collections, was ordered to make full restitution and was sentenced to 6 months home confinement and 5 years probation. A former manager of a HUD assisted project in **Oxford, PA**, who submitted inflated Section 8 vouchers for payment to cover diversion of tenant rents, was found guilty of stealing approximately \$200,000, sentenced to 12 months in prison and 3 years probation, and ordered to pay \$1,500 in restitution.

As a result of a joint FBI, IRS, Postal Inspection Service and OIG investigation, the former board chairman of a HUD owned hospital in **Detroit, MI**, was charged with submitting false statements, tax evasion, filing false tax returns and bank fraud. The former chairman submitted false statements to HUD in order to receive a \$105,000 loan. Additionally, an OIG audit previously questioned more than

\$500,000 paid to an accounting firm in which the former chairman was a principal. The \$500,000 was not reported on his tax return.

Inflated Costs Lead to Section 8 Overpayments

An OIG audit disclosed that an overstated mortgage and inflated HUD insurance were provided an apartment complex in **St. Louis County, MO** (Report No. 94-KC-219-1003), because \$300,000 in loan proceeds were not deducted from rehabilitation costs included in the mortgage. In addition, excess Section 8 rental assistance, already overpaid by \$443,000, could exceed \$1.7 million over the life of the loan; \$167,000 was withdrawn although there was no surplus cash; and excess management fees were paid. The owner claimed the operating account has been repaid, the excess fees refunded and that the 1993 fee would be recomputed. The OIG recommended HUD verify the reimbursements and/or recomputation and require the owner to recompute the Section 8 rents.

Public and Indian Housing

HUD's Public Housing Program provides funds for operating subsidies and developing and modernizing projects for housing lower-income families and for correcting unsafe and unsanitary conditions. Indian Housing Programs provide similar assistance to IHAs to develop and operate rental and homeownership projects. Technical assistance is also provided to PHAs and resident organizations to plan, develop and manage projects.

PHAs Have Further Opportunities to Improve

Although the OIG audits performed during this reporting period disclosed that some PHAs are, on the whole, improving operations, they also disclosed further opportunities to improve.

Although the **Atlanta, GA** Housing Authority (Report No. 94-AT-201-1012), improved its operations, problems continue to exist. Because the Authority had not established adequate procedures to properly maintain housing units, residents were moving out faster than new residents could move

in. In one 18-month period, \$2.5 million in revenues was lost because of vacancies. In addition, the Drug Elimination Program had not been implemented, even though the application indicated an urgent need for funds. The audit also identified over \$1 million in questioned expenditures. The OIG recommended implementation of an effective maintenance program and a vacancy reduction plan, and urged that corrective actions be closely monitored by HUD.

The **Boston, MA** Housing Authority (Report No. 94-BO-201-1007), designated as either financially or operationally troubled for the past 14 years, has dramatically improved its performance in many functional areas. However, much remains to be accomplished. While the modernization program has been reorganized, over \$80 million remains unspent. In addition, the operating reserve deficit exceeded \$5 million at March 31, 1993, and the tenant accounts receivable balance was over \$1.6 million in March 1991. Although the Authority is taking steps that will, over the long term, decrease vacancies and unit turnaround time, current occupancy is at 84 percent, down from 86 percent in 1991, and unit turnaround time has increased from 75 to 99 days. The OIG recommended the Authority establish goals for addressing the issues discussed and a monitoring system to track its progress, and that HUD continue to offer technical assistance and appropriate funding.

In administering the Comprehensive Improvement Assistance Program (CIAP) at Tassafaronga Village, the **Oakland, CA** Housing Authority (Report No. 94-SF-201-1801) incurred unnecessary costs. Specifically, \$997,000 in vandalism resulted from delayed modernization, \$397,000 in extra costs were incurred because a handicapped accessibility waiver was delayed, and \$262,000 in rental income was lost due to premature vacancies. Similar problems were reported in a 1983 audit report and a 1986 follow-up report. Most recently, the OIG recommended the Authority's CIAP activities be reviewed to ensure that similar problems are not occurring at another project under the PHA's jurisdiction.

The **Chicago, IL** Housing Authority (Report No. 94-CH-201-1013), designated financially and

operationally troubled, has found long-term solutions to some of its problems. The PHA is developing a comprehensive eviction policy, revising its inventory control, and continuing its anti-crime efforts. Notwithstanding those improvements, the PHA needs an effective internal communication system and better maintenance operations including proactive operations, consistently followed work order procedures, and efficient material and supplies delivery and utilization systems.

The **River Rouge, MI** Housing Commission (Report No. 94-CH-202-1016), is striving to improve its administration of the Low-Income Housing Program, as demonstrated by the reduction in tenant receivables from 18 to 5 percent between 1992 and 1993. However, more improvements are needed. The Commission did not submit reliable PHMAP information, maintenance operation controls were not adequate, and the time to prepare units for occupancy was excessive. In addition, the Commission did not always properly select applicants for admission to its projects. The OIG recommended the Commission be required to submit a correct and fully supported PHMAP certification, and remedy control and procedural deficiencies.

Redundant Services in Lead-Based Paint Testing

HUD needs to take immediate action to stop PHAs from duplicating lead-based paint services through risk assessments and Congressionally mandated testing. OIG inspections at nine PHAs and telephone surveys of PHAs awarded risk assessment grants of \$100,000 or more, showed that lead-based paint testing and risk assessments were redundant efforts and not an effective use of Federal dollars. For example, at the **Richmond, VA** Redevelopment and Housing Authority (Report No. 94-AO-209-1801), a risk assessment contract was bid even though all of the family units had been tested previously, health risks identified, and substantial corrections completed. Two different contractors at the Stark Metropolitan Housing Authority in **Canton, OH** (Report No. 94-AO-209-1807), were testing the same properties, one to



meet the mandated testing deadline and the other to complete a risk assessment. In order to ensure that the remaining \$11 million earmarked for lead-based paint risk assessments will be used only where a true need exists, the OIG recommended the Department modify the draft 1994 Notice of Fund Availability on lead-based paint risk assessments. Specifically, the Department should prohibit eligibility where PHAs have completed Congressionally mandated testing and established a strategy to reduce identified health risks.

Community Planning and Development

The Office of Community Planning and Development administers programs that provide financial and technical assistance to States and communities for activities such as community development, housing rehabilitation, homeownership opportunities and homeless shelters, neighborhood restorations and jobs fostering and economic development. Grantees are responsible for planning and funding eligible activities, often through the use of subrecipients.

Inadequate Staffing Major Problem for HOPE 3 Program

One of HUD's newest programs is the Homeownership of Single Family Homes (HOPE 3) Program, designed to help families purchase properties owned or held by Federal, State or local governments. The OIG audited the application procedures during the first funding year and found a number of problems. In a second audit issued during this reporting period (Report No. 94-HQ-152-0002), the OIG found that although several of those problems were corrected for the second funding year, three areas continue to cause concern — staffing, enforcement and controls.

The OIG and CPD agree that it does not have the staff needed to administer and monitor the program. The OIG believes the program was Congressionally mandated without adequate consideration of staffing needs and that future staffing cuts will only exacerbate the problem. For these reasons, the OIG recommended consolidation of HOPE 3 with the CDBG Program. Subsequent to

the audit, CPD proposed consolidating HOPE 2 and HOPE 3 (see Chapter 1, under the Current OIG Assessment of CDBG Benefits to Low- and Moderate-Income Residents).

If HOPE 3 continues as a separate program, the enforcement and control issues need to be addressed. For example, staff and applicant training should be improved, rating criteria should be consistently applied, and recipients should be monitored and reviewed for previous participation.

Fraudulent Activities in CDBG Program

The following cases are examples of the OIG investigative efforts in the CDBG program during this reporting period:

A **Lincoln Park, MI** community development director, who pled guilty to theft, conspiracy and making false statements, was indicted for receiving a \$50,000 kickback from a developer in return for approval of a \$250,000 CDBG loan. An OIG audit confirmed that the loan did not meet the eligibility requirements and was not used for the stated purpose. The City has already reimbursed the program for the loan.

False statements — including documents submitted to obtain rehabilitation loans and invoices for work that was either ineligible, not completed, or never undertaken — resulted in a former **Grand Prairie, TX** rehabilitation administrator being sentenced to 2 months in prison, 5 months home confinement and 2 years probation. Also involved were three property owners sentenced to a total of 14 years in prison and 11 years probation and ordered to pay \$396,680 in restitution. The total loss to HUD was over \$650,000.

In other OIG investigative cases involving the CDBG Program:

- ▶ A **Louisiana** developer was sentenced to 46 months in prison, 2 years probation and a \$20,000 fine for submitting false invoices for a project funded with both Federal and State monies.
- ▶ Three individuals pled guilty to embezzling over \$100,000 through a maintenance contract with the City of **New York**.
- ▶ A corporation and six employees were indicted for falsifying invoices for over \$1

million in deliveries to a landfill in **Puerto Rico**.

- ▶ Two **Ohio** landlords pled guilty for making false statements to receive over \$25,000 in rehabilitation loans.
- ▶ An **Illinois** businessman was indicted for misrepresenting the value of his collateral in order to qualify for a \$120,000 CDBG loan.
- ▶ A **New York** engineer was sentenced to 21 months in prison, 2 years probation and a \$10,000 fine for concealing his ownership in multiple properties purchased with CDBG funds.

Audits Disclose Ineligible or Unsupported CDBG Expenditures

Several OIG audits disclosed ineligible or unsupported expenditures and inadequate accountability. For example:

- ▶ A **Philadelphia, PA** company (Report No. 94-PH-244-1008), formed to assist residents whose homes were damaged by settling and sinking, engaged in questionable fund raising and procurement activities. In addition, a HUD monitoring report stated that, although \$14 million had been spent, only 25 percent of the nearly 1,000 eligible households had been relocated. The OIG audit reported \$201,000 in ineligible costs and \$360,000 in unsupported costs and recommended those costs be reimbursed or justified.
- ▶ The City of **Springfield, MA** (Report No. 94-BO-241-1003), acknowledged the need to improve its management of CDBG funds. There was a difference of \$4.2 million in unexpended fund balances in the City's records and HUD's records and over \$500,000 of expenditures reported in the performance report were not supported by the City's records.
- ▶ Over a 3-year period the City of **Wichita Falls, TX** (Report No. 94-FW-241-1006), improperly charged over \$530,000 in salary and other administrative costs. Although aware of the Federal cost allocation requirements, the City did not adequately

allocate costs or maintain time distribution records. Because the records did not support all the costs charged to the CDBG Program, the OIG questioned its cost effectiveness.

- ▶ Over \$450,000 of ineligible or unsupported costs were identified during an audit of the City of **Jacksonville, FL** (Report No. 94-AT-241-1006). In addition, accurate inventories of real property acquired with CDBG funds were not maintained. The audit recommended recovery of all ineligible and unsupported expenditures.

Inadequate Monitoring

An OIG audit of the City of **Austin, TX** (Report No. 94-FW-241-1004), found that the City had not taken any actions to correct the numerous findings reported by their independent auditor and the HUD field office concerning inadequate monitoring of subrecipient activities. As a result, subrecipients held approximately \$352,000 in program income that should have been returned to the City and \$103,500 in questioned costs and other findings of noncompliance and weak management were not resolved. The OIG recommended that HUD require the City to repay these amounts from non-Federal sources and condition the next grant on implementation of an effective system for monitoring subrecipients.

Questionable CDBG Benefit to Low- and Moderate-income Persons

One of the statutory requirements of the CDBG Program is that the program benefit low- and moderate-income (LMI) persons. In **Carolina, PR** (Report No. 94-AT-241/247-1003), the OIG found that the grantee expended over \$3.5 million on 16 projects, but 4 of the projects provided no LMI benefits. The grantee also incurred \$300,000 in ineligible and unsupported costs when a subrecipient made unauthorized loans.

In **Cincinnati, OH** (Report No. 94-CH-241-1010), the grantee did not adequately show that \$1.7 million in CDBG funds benefitted LMI persons and did not assure that a subrecipient effectively spent rehabilitation funds. For example, items cited as code violations were deleted from



rehabilitation contracts and not corrected, while other items were not completed. The OIG recommended that each grantee be required to reimburse ineligible costs and take the necessary actions to correct the monitoring of subrecipients.

HOME Funding Formula Should Be Revised

The HOME allocation system for distribution of funds to State and local jurisdictions, as developed by CPD, is fair and reasonable, and reflects the need for more housing using the criteria contained in the National Affordable Housing Act of 1990. In addition, OIG tests in the **Knoxville, Jacksonville and Columbia** Offices showed that the allocation and award process for FY 1992 was effective and timely (Report No. 94-AT-155-0001). However, the application of the formula used for distribution to local jurisdictions does not give the largest number of local governments the opportunity to receive direct funding. With relatively minor revisions to the formula, 17 jurisdictions excluded from FY 1992 and 1993 funding would have been included. The audit recommended CPD revise the allocation process so that HOME funds are allocated to assure the maximum number of local governments receive HUD funding.

CDBG Program Should Be Implemented Timely

A review of CDBG entitlement grantees in **Arizona and California** (Report No. 94-SF-141-0801) disclosed that 34 did not meet HUD's standards for timely performance. CPD had taken action to improve performance, but such actions had not been sufficiently effective. As of April 30, 1993, these grantees had unexpended balances of \$30 million more than HUD's standard for timely performance. Grantees should be strongly encouraged to implement their programs on a timely basis and monitored to ensure this is achieved. As a last resort, grant reductions would be advisable in cases of repeated failure to improve performance.

Financial Management Issues/GNMA

Financial Statements and Performance Measures

The OIG issued a report on the results of the Price Waterhouse audit of **GNMA financial statements** and the OIG review of GNMA performance measures for the year ended September 30, 1993 (Report No. 94-FO-171-0001). In the opinion of Price Waterhouse, with which the OIG concurs, the 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.

It should be noted that GNMA operations resulted in an "excess of revenue over expenses" of \$494 million, a \$26 million decrease in revenue from fiscal year 1992. The decrease is associated with a \$28 million decrease in interest income resulting from falling interest rates. All other operating figures remained fairly constant.

The audit reported no material instances of noncompliance with laws and regulations. However, the report on internal controls disclosed three reportable conditions which could adversely affect GNMA's ability to record, process, summarize and report financial data. These conditions, partly attributable to staffing constraints, are: improvements are needed in subservicer and contractor monitoring; controls over system development, operation and maintenance need to be strengthened; and GNMA's issuer review board needs to be empowered to establish and monitor the implementation of issuer policies. The review of performance measures disclosed that GNMA complied with OMB requirements to document and support financial and statistical information.

Prior audits contained various recommendations to address internal control weaknesses. While GNMA has taken certain corrective actions, these

actions are not completed. Therefore, prior recommendations are repeated, modified or expanded in this year's report. The OIG will continue to track resolution of these recommendations.

Misuse and Diversion of Funds

A joint OIG/FBI investigation found that the former director of a GNMA mortgage servicing company (a bank subsidiary) in **New York** conspired to divert escrow funds. The director used \$510,000 in interest payments due the company on a \$12 million loan to pay corporate and operating expenses, to collateralize loans, and to satisfy principal and interest obligations of the company. An attorney assisted the director in the scheme. Each was sentenced to 5 months prison and 2 years probation. In addition, the director was fined \$25,000 and the attorney ordered to pay \$255,000 in restitution. Additionally, the attorney's law firm settled a civil suit with the Federal Deposit Insurance Corporation, agreeing to pay the FDIC \$24 million for the attorney's participation in activities that led to the parent bank's financial failure.

GNMA and the Federal National Mortgage Association lost approximately \$500,000 each and Freddie Mac lost \$1.9 million when the president of a **Carson, CA** lending company created fictitious loans, which he then sold or placed into pools. The OIG conducted this investigation with assistance from the Bureau of Alcohol, Tobacco and Firearms and local law enforcement officials.

Single Family Housing

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 objectives of the Single Family Programs are to increase the availability of affordable housing with increased homeownership opportunities. During this period, OIG audits and investigations focused on the Deficiency Judgments Program, loan origination fraud, single family equity skimming and strawbuying schemes.

Millions Need to be Collected From Mortgages

The **Deficiency Judgments Program** was designed to curb abuse in Single Family Insurance Programs and to minimize the Department's financial losses when mortgages are foreclosed. The OIG audit of the program (Report No. 94-DE-121-0001) found that HUD program offices have not uniformly implemented the program, while Debt Management Centers have not aggressively pursued debt collection. Since the 1988 inception of the program through April 1993, deficiency judgments totalling \$15.6 million have been processed against defaulting mortgagors. However, only \$3.3 million has been collected, leaving \$12.3 million due HUD. With the elimination of the Single Family Investor Loan Program, Deficiency Judgments Program activity has been significantly reduced. The primary program thrust is currently directed toward those defaulted mortgagors who have the financial capability to pay their mortgage debts. To the extent that HUD continues to utilize the Deficiency Judgments Program, any and all debts should be properly controlled and collected. The OIG made a number of recommendations to improve operation of the program.

Loan Origination Fraud

The following cases are examples of OIG investigative efforts in loan origination during this reporting period:

Sentences were handed out in **Atlanta, GA**, to 5 mortgagee loan personnel for their participation in a scheme in which false employment information was created and submitted in applications for over \$1.3 million in FHA insured loans. The cumulative sentences were 64 months in prison, 900 hours community service, 11 months home confinement, 14 years probation and nearly \$577,000 in restitution.

Five speculator/investors from **Chicago, IL, San Francisco, CA, and Easton, PA**, who submitted false income statements, leases and tax returns to obtain numerous properties with FHA mortgages, were sentenced to a total of 34 months in prison, 6 months home confinement, 13 years probation,



nearly \$30,000 in fines and \$355,000 in restitution. The loss to HUD is over \$250,000.

A **Phoenix, AZ** real estate agent/loan officer was indicted for falsifying employment verifications, credit information and earnest money deposits to qualify applicants for HUD and VA mortgages. Potential losses to HUD are approximately \$35,000.

Mortgagors have also falsified information. An **Omaha, NE** individual, who obtained over \$9,500 in excess mortgage assistance by failing to accurately report household composition and income, was sentenced to 300 hours community service and 4 years probation, and ordered to pay \$7,000 in restitution. A **Jackson, MS** mortgagor, who reported inflated income to qualify for a \$66,000 loan and then defaulted on the loan, was sentenced to 4 months in prison and 36 months probation, and ordered to pay \$18,000 in restitution. A **Boise, ID** mortgagor was found liable for nearly \$277,000 and a civil penalty of \$15,000 for falsely applying for financing on six properties. Two builders involved in the same case signed settlement agreements and paid \$7,000 to the government. In **Springfield, VA**, a settlement attorney signed an agreement with HUD to pay \$22,000 in order to avoid litigation after he allegedly made false statements on the settlement statements of two FHA insured properties.

Buyers are responsible for providing the down payment and closing costs when purchasing a property with a HUD insured mortgage. In two separate cases, settlement agreements were executed with buyers who falsely stated they provided the down payments and later defaulted on the mortgages. In **Colorado Springs, CO**, a husband and wife entered into an agreement to pay HUD \$20,000 when it was found that the builder and real estate agent provided the down payments for four properties and HUD sustained a \$107,000 loss. In **Shawnee, OK**, a couple agreed to pay \$5,000 to HUD after the seller provided similar funds and HUD sustained a \$139,000 loss.

A settlement agreement was executed in the amount of \$30,000 for a **Colorado Springs, CO** couple who, in an attempt to obtain refinancing, falsely stated they owned four residential properties

and misstated both income and employment information on their application.

Millions are Lost in Single Family Equity Skimming and Strawbuying Schemes

Equity skimming and strawbuying are both schemes to defraud HUD. Equity skimming occurs when rent receipts are taken or skimmed by an investor/owner who then fails to make the mortgage payments. Strawbuying is a scheme in which an individual is paid to act as the buyer of a property in order to obtain a HUD insured mortgage. The strawbuyer, who never intended to own or occupy the property, transfers it to a speculator who eventually defaults on the mortgage. OIG investigation of such cases during this reporting period include:

- ▶ A **Phoenix, AZ** investor was ordered to refrain from accepting employment in the real estate and/or insurance industries, sentenced to 4 months in prison and 60 months probation, and ordered to pay over \$16,000 in restitution for a single family equity skimming scheme that involved over 100 HUD insured and VA guaranteed properties.
- ▶ In **Anchorage, AK**, a speculator was sentenced to 38 months in prison after being found guilty of failing to pay mortgage obligations on 33 properties and collecting over \$60,000 in rents. In addition, six investors were found guilty and two others were charged in similar equity skimming schemes.
- ▶ After providing a number of strawbuyers with false employment information and social security numbers in order to qualify them for loans on 16 properties, a **Chicago, IL** mortgagor engaged in a pattern of equity skimming which resulted in a \$300,000 loss to HUD.
- ▶ A **St. Louis, MO** speculator, who used 16 strawbuyers to obtain 28 FHA insured loans totalling over \$1.2 million, was found guilty and sentenced to 4 years in prison and 2 years probation.

- ▶ The husband and wife owners of a **Portland, OR** real estate investment company were found guilty of using strawbuyers and making false statements to purchase 15 properties, mostly from elderly owners. Losses were estimated at over \$169,000 to HUD and \$1.4 million to the sellers. Following the guilty verdict, the husband committed suicide and the wife was sentenced to 27 months in prison and 3 years probation.

Section 8 Rental Assistance

Through subsidies to owners, Section 8 Programs assist low- and very low-income families in obtaining decent, safe, and sanitary housing. During this reporting period, the OIG investigated the eligibility of some rental assistance recipients and reviewed general compliance with laws and regulations at selected PHAs.

False Statements Used to Obtain Benefits

To determine eligibility for and to continue rental assistance, individuals or families are asked to provide information on income, household composition and assets. However, because that information is not always verified, misinformation given to conceal income and property ownership often results in ineligible or excessive fund distributions. During this reporting period, OIG investigative cases had the following impact:

- ▶ In **Charlestown, MA**, nine individuals, who participated in subsidy fraud, were sentenced collectively to 1,500 hours of community service, 4 months home detention and 29 years probation, fined \$850 and ordered to pay \$112,680 in restitution.
- ▶ Government employees are not exempt from such deception. For example, a **Chicago, IL** tax analyst who concealed employment was sentenced to 200 hours of community service, 2 years probation and \$2,700 in restitution. For the same offense, A **Springfield, IL** couple, one of whom was a City employee and the other a State employee, was sentenced to 1 year imprisonment and 3 years supervised release, and 6 months home confinement and 3 years probation, respectively, and ordered to pay \$4,450 restitution. In addition, a **New York State** employee was arrested after concealing employment to receive \$25,000 in rental assistance.
- ▶ A **Minneapolis, MN** newspaper employee was charged with theft for failing to report earnings, enabling the individual to receive approximately \$22,000 in rental assistance.
- ▶ Eight rental assistance recipients in **Los Angeles, CA**, made false statements concerning their income and personal assets. One, who owned property valued at nearly \$1 million, was sentenced to 300 hours of community service and 36 months probation, fined \$1,000 and ordered to pay \$30,833 in restitution. A second individual was given a 4-year suspended sentence, 1,000 hours of community service and 5 years probation, and ordered to pay more than \$46,600 in restitution.

Section 8 Funding Should Be Fully Utilized and Management Controls Improved

During the reporting period, OIG audits disclosed that PHAs did not always use Section 8 funds to benefit the greatest number of eligible families. In addition, some management controls and financial management procedures were ineffective.

The OIG estimated the Michigan State Housing Development Authority in **Lansing, MI** (Report No. 94-CH-203-1004), could help an additional 193 families under the Section 8 Voucher Program if it managed the Voucher Program on the basis of availability of funds, rather than on the basis of a fixed number of vouchers. At June 30, 1993, the Authority had about \$7.1 million in its subsidy reserve that could have been used to issue more vouchers. However, the Authority did not have a system to monitor its subsidy reserve balance,



failed to properly charge indirect costs to its Section 8 Programs, and needed to improve the monitoring of conditions at multifamily projects. The OIG recommended that the Authority use available funds to issue more vouchers, properly allocate indirect costs, and assure that owners of multifamily projects complete needed repairs identified during inspections.

The New Hampshire Housing Finance Authority in **Manchester, NH** (Report No. 94-BO-203-1002), generally complied with Section 8 Program requirements. However, the Authority did not have an adequate system to ensure that voucher resources were fully used, continually underspent available funds and maintained a large project reserve fund despite having more than 5,000 names on the waiting list and waiting periods from 3 to 5 years. In addition, the Authority could not justify \$120,000 assessed against the Section 8 Program for executive department expenses. The OIG recommended strengthening the Authority's administrative controls over the program.

The Tennessee Housing Development Agency in **Nashville, TN** (Report No. 94-AT-203-1005), generally complied with tenant selection procedures, properly calculated assistance, and adequately documented HUD administrative fees. However, some management controls were ineffective. The Agency did not stop assistance payments to owners who failed to repair units or maintain acceptable occupancy levels; and fair market rents were used as rent payment standards instead of local market conditions, resulting in some incorrect subsidies. The Agency also needed to better document rent calculations and multifamily project reviews. The OIG recommended the Agency be required to analyze reserve levels, establish occupancy goals, and implement other needed management control improvements.

The DOP Consolidated Human Services Agency in **Jacksonville, NC** (Report No. 94-AT-203-1009), did a good job determining participant eligibility and maximizing the number of families assisted with available Section 8 funds. However, the Agency did not follow effective financial management procedures, lacked effective procedures to identify housing quality standards

violations, and needed to improve disbursement and occupancy procedures. The OIG recommended the Agency ensure its staff is qualified and trained in Section 8 Program financial matters and improve its procedures.

Homeless Programs

As part of the Homeless Programs, the Shelter Plus Care Program, authorized by the National Affordable Housing Act, provides rental assistance and supportive services to the chronically mentally ill and/or drug addicted homeless and their families. The Supportive Housing Demonstration Program, provides temporary and long-term housing and supportive services. The Emergency Shelter Grants Program, also provides grants for safe, sanitary shelter, supportive services and other assistance to the homeless. During this period, audits and investigations focused on HUD and grantee administration of these programs.

Controls Over Shelter Plus Care Program May Be A Material Weakness

An OIG audit (Report No. 94-HQ-151-0001) concluded that HUD's controls over the **Shelter Plus Care Program** are materially weak and should be reported as such under FMFIA. In implementing the program, the Department did not consistently apply program requirements and awarded \$24.9 million to applicants who should not have been provided assistance, or at least not until certain matters were resolved. In addition, applications for the Single Room Occupancy Program had only a 60 percent eligibility rate, resulting in approximately \$36.5 million, or about one-third of the program funding being awarded. However, those grants that were awarded were done in a timely fashion. The OIG recommended that staffing needs be assessed and also that the consolidation of the Shelter Plus Care Program with other homeless programs be pursued. This would simplify program administration and result in more efficient allocation and use of homeless funding.

The Assistant Secretary for Community Planning and Development agreed that administrative and management controls over the Shelter Plus Care Program need improvement, but did not agree that

they are materially weak. In addition, as part of its Program and Management Priorities for FY 1994, the Assistant Secretary has proposed an action plan to consolidate the six separate McKinney Homeless Assistance Programs — Supportive Housing, Shelter Plus Care, Section 8 Single Room Occupancy Mod Rehab, Safe Havens, Rural Homelessness, and Emergency Shelter Grants.

Grantee Administration of Homeless Programs Should be Improved

An OIG audit of a **Atlanta, GA** grantee administering the Supportive Housing Demonstration Program (Report No. 94-AT-251-1008), disclosed at least \$228,000 in unpaid taxes, inadequate records for over \$632,000 in HUD grant funds, inadequate internal controls, and excessive fees charged to program clients. The OIG recommended that HUD terminate the grant and recapture funds as appropriate.

An OIG audit of a grantee in **Houston, TX** (Report No. 94-FW-251-1002), disclosed that although shelter and supportive services were provided for approximately 70 homeless persons under the Supportive Housing Demonstration Program, the grantee received about \$98,000 more than could be supported. Subsequent to the audit, the grantee notified HUD it was terminating the grant agreement and had filed for bankruptcy protection. The OIG recommended HUD take action to recover all unsupported funds.

Based on an OIG audit, the City of **Miami, FL** (Report No. 94-AT-251-1002), paid over \$300,000 for ineligible and questionable Emergency Shelter Grants Program activities. The City also failed to execute a grant agreement with Dade County and did not submit required reports to HUD on time. The OIG recommended the City provide additional information on its activities, reimburse the program for ineligible expenditures, implement the use of written agreements with the County, and implement procedures to monitor the use of Emergency Shelter Grant funds.

As a result of a joint investigation between the HUD OIG and the Department of Agriculture, four members of an **Arizona** nonprofit organization that

provided transitional housing under the Supportive Housing Demonstration Program were indicted for violating program requirements by placing unqualified family members and friends into HUD owned properties intended for the homeless.

Administration

General administration consists of functions that are necessary to carry out HUD programs responsibly and effectively. These functions include contracting; accounting; information management; budgeting; personnel management; training; and general building and office services. During this period, the OIG reviewed contracting activities in San Francisco.

An OIG audit of the **San Francisco Regional Contracting Division's** effectiveness and compliance in procurement planning and contract solicitation and award (Report No. 94-SF-163-0001) found problems similar to those disclosed in an independent consultant's 1992 study: some improper and possibly biased contract award recommendations were not detected, best and final offers were not always requested from all capable bidders, and bidders were inappropriately advised that their bids were below government estimates. These problems were attributed to a shortage of trained and experienced staff.

Actions were taken by the new office director to provide additional training, establish and use a computer-based contract log, and coordinate with the Offices of Housing and Finance and Accounting to implement procedures to facilitate the contracting needs of HUD Offices. Headquarters has given the HUD Field Offices the approval to hire an additional contracting specialist. The use of technical evaluation panels is another action that could be taken to correct the problems disclosed in the audit.

Employee Integrity

Employee integrity is essential to maintaining program integrity and assuring public confidence in the administration of HUD programs. Allegations made against employees are received from various sources, including other HUD employees, the OIG



Hotline, referrals from the Office of Audit, and anonymous or confidential complainants. Such allegations may involve violations of criminal statutes as well as HUD's Standard of Conduct. As a result of OIG investigations during this reporting period, 17 actions were taken against HUD employees. The violations included diverting over \$13,000 from the HUD imprest fund for personal use, using government equipment for outside business interests, forgery, submitting false statements to qualify for Federal benefits, conducting non-HUD business during working hours, and exceeding delegated authority in processing a loan application. The actions on these cases included termination, suspension, letters of caution, and indictment on criminal charges. One indictment resulted in a 5-year probation and \$20,000 restitution after the employee pled guilty to theft.

Hotline

The hotline operation receives inquiries and complaints from the public, program participants and Federal employees concerning HUD programs and operations. Inquiries are referred to the appropriate program area while complaints are either looked at by the OIG or referred to the appropriate program management official for resolution.

During the reporting period, 432 hotline complaints were received and 321 complaints were closed. The following actions illustrate the corrective actions taken as a result of hotline complaints.

A housing management agency was required to repay HUD \$5,900 in overpaid housing assistance payments. An investigation disclosed that the on-site property manager showed favoritism by allowing family members to move up on the waiting list and take early occupancy, thus giving them housing assistance to which they were not entitled at the time.

Cumulative housing assistance payments were issued to a Section 8 landlord following a report that the city's department of public and assisted

housing was delinquent in monthly compensation to the landlord.

Several tenants from an apartment complex were relocated to more appropriate units relative to size and family composition. These actions followed a complaint alleging that tenants were being improperly placed in units without regard to the number of occupants.

A complaint alleging receipt of assistance payments for a vacant unit resulted in the termination of assistance for the tenant and the assistance payments contract for the landlord. Additionally, the landlord will be assessed for any overpayments.

4

REINVENTING
THE OIG

"What distinguishes the HUD OIG staff is their commitment to making HUD better, and their willingness to try new and different routes ..."

*Inspector General
Gaffney*

As noted in the previous Semiannual Report to the Congress, the OIG's mission is independent and objective reporting to the Secretary and the Congress for the purpose of bringing about positive change in the integrity, efficiency, and effectiveness of HUD operations.

This commitment to positive change requires clear identification of the highest vulnerabilities within Departmental programs and activities and a commitment to focus OIG resources in these areas until the vulnerabilities are reduced to an acceptable level. The OIG's efforts with respect to HUD's top 10 management problems and Operation Safe Home meet these operational tests.

The OIG understands that a commitment to positive change also calls for a supportive organizational culture — a culture characterized by the six values that are part and parcel of the OIG mission statement. As summarized below, efforts to reinvent the OIG have focused on embedding these values throughout the organization.

OIG Value: Relationships among OIG components and staff are characterized by teamwork and respect.

- ▶ Believing that teamwork between auditors and investigators can be strengthened through greater mutual understanding, OIG audit and investigative managers will attend basic training in the opposite discipline during FY 1994.
- ▶ To foster respect and collaboration between auditors and investigators, headquarters and field staff, and professional and support staff, the OIG has expanded the scope of its diversity efforts (see following value) to encompass these relationships.
- ▶ To overcome frustration experienced by auditors dealing through criminal investigators to pursue civil prosecutions resulting from audits, the OIG has empowered auditors to deal directly with the

Department of Justice and the U.S. Attorneys on these matters.

- ▶ To provide a framework for audit and investigative teamwork, the Operation Safe Home initiative dealing with fraud in public housing administration relies on joint audit and investigation fraud probe teams.
- ▶ To ensure that all OIG support staff are treated in a fair and equitable manner, an intensive review of the duties and grade levels of support staff was commissioned. The review results will be presented to the OIG in June 1994.

OIG Value: Diversity is valued and promoted in the workforce.

- ▶ In September 1993, an independent analysis of the workplace environment was contracted to identify actions needed to ensure that OIG employees work in an environment free of discrimination and harassment, where communication is open, cooperation is fostered, and effective and productive working relationships are the norm. While the final results of the study will be provided to all OIG employees in May 1994, educational and organizational changes are scheduled to start in April 1994.
- ▶ To ensure conscientious and consistent follow-up on the recommendations emanating from the workplace environment study, the OIG has established a position of Human Resources Advisor. The position, expected to be filled in June 1994, is modeled after a similar position at the Department of Agriculture OIG. The Agriculture OIG provided extensive on-the-job training for HUD OIG staff.

OIG Value: Excellence in the workforce is fostered through continuing concern for professionalism and career development.

- ▶ Recognizing that secretarial and support personnel also need *career ladder* opportunities, the OIG established an Upward Mobility Program in November 1993. In January 1994, six secretarial/support staff were competitively selected to enter professional career tracks, with

assignments and training opportunities to assure they succeed in those career tracks.

OIG Value: As a general rule, emphasis is placed on "doing" rather than reviewing by delegating operational authority, responsibility, and accountability to the lowest appropriate level.

- ▶ In January 1994, to expedite the procurement of needed goods and services, the OIG decentralized budget authority to OIG field offices.
- ▶ To ensure accountability and speed the issuance of multi-area audits, in October 1993 the OIG placed full responsibility for all audits with the lead District Inspector General for Audit (DIGA). Previous policy called for multi-area audits to be issued by headquarters.
- ▶ Review of the OIG subpoena issuance system showed that, with proper legal consultation, OIG field managers have the expertise and experience to issue subpoenas. This delegation of authority by the Inspector General will be effective in May 1994.

OIG Value: Identifying and meeting client needs in a timely fashion is a primary concern. Clients are defined as the Secretary, the Congress, HUD managers and employees, and the public.

- ▶ To foster a continuing and meaningful dialogue with the Congress and the public, in November 1993 the OIG appointed a full-time Public and Congressional Affairs Officer.
- ▶ In developing Operation Safe Home, the OIG engaged in intensive consultation with the Secretary, HUD Principal Staff, Congressional staff persons, other Federal agencies, and affected industry groups.
- ▶ Upon empowering DIGAs to assume full responsibility for major, multi-area audits, headquarters Office of Audit was able to establish a unit charged with working collaboratively with HUD program offices in the design of needed legislative, regulatory, and procedural changes in HUD programs. The 17 staff currently assigned to that unit are engaged in 15 task force efforts.

- ▶ Since her confirmation in August 1993, the Inspector General has visited each HUD regional office, each time meeting with the Secretary's Representative and the principal regional staff, in addition to the OIG staff. All OIG Senior Executive Service staff have similarly accepted the responsibility of visiting at least one location within the ten regions within FY 1994.
- ▶ In November 1993, the OIG established a task force to comply with Executive Order 12862 to explore structured methods for identifying client needs and client evaluations of OIG work. Task force recommendations are due to OIG senior staff in July 1994.

OIG Value: OIG operations are focused on substance rather than process and rely on innovative as well as traditional methods to address issues of significance having potential payback in terms of improved integrity, effectiveness, and efficiency.

- ▶ Concluding that few substantive benefits were derived from OIG desk reviews of audits conducted under the Single Audit Act, in November 1993 the OIG began to close its National Review Center at Cherry Hill, New Jersey. At this time, 8 of the 18 staff have transferred to HUD program offices and 6 to higher priority OIG functions, 2 are in an upward mobility program and 2 have retired.
 - ▶ To strengthen its operational independence, in November 1993 the OIG established a position of OIG Counsel. The position was competitively announced in February 1994, with a selection anticipated in May 1994.
 - ▶ Recognizing that the personnel security function was not part of the OIG's statutory mission, the function was transferred to the HUD Office of Administration in March 1994.
 - ▶ To provide more expert and focused coverage of HUD's extensive and critically important automated data systems, in January 1994 the OIG established a separate ADP audit group within the Office of Audit. The group consists of 20 auditors, computer specialists and management analysts.
 - ▶ To speed the prosecution of serious fraud and corruption identified by probes at public housing authorities, the OIG is eschewing standard OIG reporting. Instead, results of the probes will be communicated directly to the DOJ in a referral format. Issues of a more programmatic nature will be discussed directly with program officials for their immediate attention.
- The same approach has already been shown to be successful in pursuing equity skimming violations in multifamily housing projects. Upon disclosing equity skimming, OIG is preparing brief referrals for presentation to DOJ. The reduction in administrative processing, previously required by formal reporting, has reduced the time to get a case to DOJ by almost a year and will save hundreds of staff days every year by tailoring work to the needs of the case.
- ▶ Determined to reduce the extensive processes and costs associated with implementation of FMFIA, and to make the concept of internal controls meaningful to HUD managers, the OIG and the CFO collaborated in a reinvention effort. The effort is discussed in greater detail in Chapter 1 under Management Control Environment.
 - ▶ Reassessing the policy of requiring OIG concurrence in actions to close audit recommendations, the OIG concluded the policy clouded management accountability. The requirement for OIG concurrence was eliminated in March 1994.
 - ▶ In November 1993, the OIG established a headquarters/field task group to reduce internal policies and procedures in compliance with Executive Order 12861 requirements to reduce internal policies and procedures. At the end of the reporting period, the task force had reviewed 200 manual chapters, staff bulletins, guides and regulations and recommended elimination of 110 of those documents. The task force will continue until all internal OIG policies and procedures have been scrutinized.



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					
94-DE-121-0001	02/25/94	Office of Housing Deficiency Judgments Program	0	0	0
94-SE-114-0001	11/22/93	Multifamily Preservation and Prepayment Program Processing, Multifamily Loan Management Branch	0	0	0
94-SE-101-0002	11/29/93	Computation of Operating Subsidy for Utility Costs, Low Rent Public and Indian Housing Programs	51769	51769	219661
94-SF-113-0002	03/15/94	Geneva Towers Apartments, HUD-Owned Multifamily Project 5 Audit Related Memoranda	163364	0	0
COMMUNITY PLANNING AND DEVELOPMENT					
94-AT-155-0001	12/27/93	Report of the Allocation and Award of Home Program Funding	0	0	0
94-HQ-151-0001	10/14/93	Multiregion Review of the Shelter Plus Care Program	0	0	0
94-HQ-152-0002	10/27/93	Review of the Hope 3 Program 1 Audit Related Memoranda	0	0	0
ADMINISTRATION					
94-SF-163-0001	11/12/93	Regional Contracting Division 3 Audit Related Memoranda	0	0	0
MISCELLANEOUS					
94-AO-171-0001	11/30/93	Contract Compliance and Review Services Contract, GNMA	0	0	0
94-FO-171-0001	03/30/94	Audit of the Government National Mortgage Association's Fiscal Year 1993 Financial Statements	0	0	0

EXTERNAL REPORTS ISSUED

REPORT NUMBER	ISSUE DATE	REPORT TITLE	TOTAL QUESTIONED COSTS	TOTAL UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
HOUSING					
94-AT-204-1004	11/23/93	Cleveland Avenue Homes Inc, Resident Management Technical Assistance Grant	0	0	0
94-AT-203-1005	12/02/93	Tennessee Housing Development Agency, Section 8 Housing Programs	11514	11514	0
94-AT-212-1007	12/22/93	Timberlake Apartments, Multifamily Mortgagor Operations	0	0	0
94-AT-203-1009	02/07/94	DOP Consolidated Human Services Agency, Section 8 Housing Program	2485	0	0
94-AT-214-1010	03/09/94	Hardaway Management Company Inc, Multifamily Management Agent	838522	672109	266338
94-AT-222-1011	03/09/94	Harper and Harper, Closing Agent Activities	2305	2305	0
94-AT-201-1012	03/11/94	Housing Authority of the City of Atlanta, Public Housing Management Operations	1505045	1138668	0
94-AT-212-1013	03/23/94	Bryan Woods Associates, Multifamily Mortgagor Operations	110134	0	0
94-BO-212-1001	11/01/93	Bristol Court Multifamily Project Fire Insurance Settlement	980881	553096	0
94-BO-203-1002	11/16/93	New Hampshire Housing Finance Authority, Section 8 Program	120000	120000	0
94-BO-212-1005	02/17/94	Village Arms Apartments, Multifamily Project Operations	27825	0	0
94-BO-214-1006	02/18/94	First Hartford Realty Corp, Management Agent	5114216	659645	0
94-BO-201-1007	03/21/94	Boston Housing Authority, Performance Audit	0	0	0
94-CH-212-1002	10/27/93	Spring Isle and Spring Isle II, Multifamily Mortgagor Operations	341297	275229	0
94-CH-202-1003	10/27/93	Zanesville OH Metropolitan Housing Authority, Safeguarding Monetary Assets	1935	431	0
94-CH-203-1004	11/10/93	Michigan State Housing Development Authority, Section 8 Existing and Housing Voucher Programs	0	0	0
94-CH-203-1005	11/17/93	Maywood IL Housing Authority, Section 8 Existing And Housing Voucher Programs	6467	0	0
94-CH-214-1006	12/02/93	Holliday Park Towne Houses Cooperative, Multifamily Mortgagor Operations	0	0	0
94-CH-203-1007	12/06/93	Fairfield Metropolitan Hsg. Authority, Section 8 Existing and Housing Voucher Programs	0	0	0
94-CH-202-1009	12/23/93	Superior WI Housing Authority, Safeguarding Monetary Assets and Inventory	43688	39260	0
94-CH-214-1011	01/05/94	Forest Hills Cooperative, Multifamily Mortgagor Operations	66466	59008	0
94-CH-202-1012	01/11/94	Champaign County Housing Authority, Comprehensive Review	567935	0	0
94-CH-201-1013	01/14/94	Chicago IL Housing Authority, Maintenance Operations	0	0	0
94-CH-202-1014	02/17/94	Montgomery County Housing Authority, Safeguarding Monetary Assets and Inventory	0	0	0
94-CH-202-1015	02/28/94	Ecorse MI Housing Commission, Low Income Housing Program	6228	6228	0
94-CH-202-1016	03/07/94	River Rouge MI Housing Commission, Low Income Housing Program	0	0	0
94-CH-217-1017	03/08/94	Centennial Mortgage, Inc, HUD-Approved Coinsurance Lender	0	0	0
94-CH-202-1018	03/23/94	Kankakee County IL Housing Authority, Comprehensive Review	0	0	0
94-CH-203-1019	03/29/94	Fort Wayne IN Housing Authority, Section 8 Existing and Housing Voucher Programs	0	0	0
94-CH-202-1020	03/30/94	Muskegon MI Housing Commission, Low Income Housing and Turnkey III Homeownership Programs	112409	112409	0
94-DE-203-1001	03/31/94	Adams County CO Housing Authority, Section 8 Program	0	0	0

REPORT NUMBER	ISSUE DATE	REPORT TITLE	TOTAL QUESTIONED COSTS	TOTAL UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
94-FW-203-1001	11/16/93	Oklahoma City OK Housing Authority, Section 8 Housing Voucher Program	0	0	0
94-FW-214-1003	01/12/94	Eastfield Management Company, Inc, Multifamily Management Agent	1402909	493051	0
94-KC-214-1002	02/25/94	Omega Realty Company, Inc, Management Agent Activities	73625	20500	0
94-KC-219-1003	03/14/94	Maplewood Loop Apartments, Multifamily Mortgagor Operations	1166600	350000	0
94-NY-203-1001	11/23/93	Albany Housing Authority - Section 8 Voucher Program	5424	0	0
94-NY-202-1002	12/22/93	Long Branch Housing Authority	0	0	0
94-NY-214-1003	03/22/94	Nanette A. Lindner Property Management Company, Multifamily Management Company	132774	132774	0
94-NY-202-1005	03/31/94	Glen Cove Housing Authority, Low Rent Housing Program	0	0	0
94-PH-214-1002	10/18/93	Crossgates Management, Inc, Management Agent	5931	2833	0
94-PH-212-1003	11/17/93	Edmondson Gardens Apartments, Multifamily Mortgagor Operations	230651	186202	68098
94-PH-221-1004	12/15/93	GMAC Mortgage Corporation, Nonsupervised Mortgagee	0	0	0
94-PH-201-1005	01/13/94	Allegheny County Housing Authority, Selected Management Operations	0	0	0
94-PH-209-1006	02/14/94	Housing Authority of the County of Beaver, Drug Elimination Program	18451	5294	0
94-PH-217-1007	02/16/94	Washington Capital Associates, HUD-Approved Coinsurance Lender	0	0	0
94-PH-212-1009	03/31/94	Timberwoods Mutual Homes, Inc, Multifamily Mortgagor Operations	215696	121892	71698
94-SE-214-1001	10/22/93	Ralph Guthrie, Co, Owner/Management Agent Operations	169847	0	0
94-SE-217-1002	01/10/94	Idaho Housing Agency, Section 8 Programs	0	0	0
94-SE-212-1003	02/07/94	River Glen Apartments, Project Operations	0	0	0
94-SE-212-1004	01/31/94	Sylvan Sunset Apartments, Troubled Multifamily Insured Project	0	0	0
94-SE-202-1005	03/30/94	Vancouver Housing Authority, Low Rent Housing and Resident Service	0	0	0
94-SF-212-1001	11/04/93	Sun City RHF Housing, Inc, Multifamily Mortgagor Operations	88538	0	0
94-SF-212-1002	12/20/93	Regatta Apartments, Multifamily Mortgagor Operations	32437	20040	0
94-SF-214-1004	03/31/94	Property Management and Development Corporation, Multifamily Management Agent	103225	0	0
94-SF-212-1005	03/31/94	Southcrest Apartments, Limited Review of Cash Disbursements	34378	3333	0
94-SF-212-1006	03/31/94	Westwood I Apartments, HUD-Insured Multifamily Project	1624711	213000	0
		22 Audit Related Memoranda	0	0	50895
		978 audits prepared by Independent Auditors and other Federal Agencies	182379	13887	0

COMMUNITY PLANNING AND DEVELOPMENT

94-AT-251-1002	10/18/93	City of Miami FL, Emergency Shelter Grant Program	300722	293878	0
94-AT-241-1003	10/27/93	Municipality of Carolina PR, Community Development Block Grant and Section 108 Loan Guarantee Assist	5102336	3898318	0
94-AT-241-1006	12/15/93	City of Jacksonville FL, Community Development Block Grant Program	467257	171732	0
94-AT-251-1008	01/14/94	Progress Point, Inc, dba Bright Beginnings, Supportive Housing Demonstration Program	632554	632554	598160
94-BO-241-1003	12/28/93	City of Springfield CDBG Program	0	0	0
94-BO-251-1004	01/19/94	Providence Housing Authority Section 8 Single Room Occupancy Program	74060	0	0

REPORT NUMBER	ISSUE DATE	REPORT TITLE	TOTAL QUESTIONED COSTS	TOTAL UNSUPPORTED COSTS	FUNDS PUT TO BETTER USE
94-CH-251-1001	10/15/93	Cook County Emergency Shelter Grants Program	24015	0	0
94-CH-251-1008	12/08/93	State of OH Emergency Shelter Grants Programs	0	0	0
94-CH-241-1010	12/30/93	Cincinnati OH CDBG Program	1470737	958737	0
94-FW-251-1002	12/17/93	Paraclete Foundation, Supportive Housing Demonstration Program, Traditional Housing Grant	98000	0	0
94-FW-241-1004	02/24/94	Austin TX Department of Planning and Development, CDBG Program	601607	209085	0
94-FW-241-1006	03/17/94	Wichita Falls TX Community Development Block Grant Program	536488	536488	0
94-KC-259-1001	11/10/93	Lincoln University	0	0	0
94-NY-249-1004	03/28/94	National Development Council Consulting Contracts with CDBG Recipients and Cooperative Agreement with HUD	64776	56927	0
94-PH-251-1001	10/18/93	Montgomery County Housing Opportunities Commission, Supportive Housing Demonstration Program	105340	105340	0
94-PH-244-1008	03/25/94	Logan Assistance Corp., HUD-Funded Property Acquisition and Relocation Programs	562033	360445	0
94-SF-251-1003	01/19/94	North County Interfaith Council, Inc, Transitional Housing Program 6 Audit Related Memoranda 309 audits prepared by Independent Auditors and other Federal Agencies	150906	87686	0

ADMINISTRATION

94-AO-263-1001	03/29/94	Interim Cost Audit	62252	62252	0
94-AT-269-1001	10/15/93	National Association for the Southern Poor, Cooperative Agreement for Technical Assistance 4 Audit Related Memoranda 19 audits prepared by Independent Auditors and other Federal Agencies	164465	162398	0
			124357	0	26883

TABLE A AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH NO MANAGEMENT DECISION AT 3/31/94 APPENDIX 2

REPORT NUMBER	REPORT TITLE	ISSUE DATE	REASON FOR LACK OF MANAGEMENT DECISION	TARGET FOR MANAGEMENT DECISION
*92CH1010	Detroit, MI Housing Department Section 8 Existing Housing Certificate, Voucher, and Moderate Rehabilitation Programs	01/30/92	Management decisions on 15 recommendations were deferred while the Assistant Secretary for Public and Indian Housing considered using sanctions or other actions. The Assistant Secretary has determined that corrective actions can be taken without resorting to sanctions. A corrective action is currently being developed.	06/30/94
*92TS0009	Multiregion Audit of Special Economic Development Activities	04/29/92	CPD is initiating major changes in the way services are provided to program participants. The impact of those changes is being assessed by CPD and OIG.	05/31/94
*92TS0011	Audit of HUD's Fiscal Year 1991 Consolidated Financial Statements	06/30/92	Management decisions have not been reached on 3 of the 36 recommendations contained in the report. While the Office of Administration has initiated actions partially addressing these recommendations, the Office has not finalized corrective action plan.	05/31/94
*92TS0014	Multiregion Review of Controls Over the Preparation and Use of Grantee Performance Reports	07/30/92	CPD is initiating major changes in the way services are provided to program participants. The impact of those changes is being assessed by CPD and OIG.	05/31/94
*92TS1017	Commonwealth Mortgage Company Nonsupervised Mortgagee Philadelphia, PA	09/11/92	A management decision was not made on one recommendation in the report. The mortgagee's parent company was taken over by the Resolution Trust Corporation (RTC). The matter was referred to RTC for legal review but RTC has not determined whether HUD may file a claim.	07/31/94
93HQ0804	Material Weakness Verification Reporting CDBG Program Income and Miscellaneous Revenue	03/26/93	CPD is initiating major changes in the way services are provided to program participants. The impact of those changes is being assessed by CPD and OIG.	05/31/94
*93HQ1001	Scranton, PA UDAG and CDBG Programs	03/31/93	The Office of Community Planning and Development has not been responsive to the 42 recommendations contained in the report. At April 15, a proposed corrective action plan was being prepared.	05/31/94
*93HQ0008	Multiregion Audit of CDBG Program Benefits to Low- and Moderate-Income Persons	04/27/93	CPD is initiating major changes in the way services are provided to program participants. The impact of those changes is being assessed by CPD and OIG.	05/31/94
*93AT1018	Municipality of Aguadilla, PR CDBG Program	06/08/93	A management decision was not made on 1 of the 25 recommendations in the report. That recommendation was referred to Headquarters in March 1994 for resolution.	06/30/94
*93SF1012	Los Angeles, CA CDBG Program	09/17/93	CPD has been working with the City of Los Angeles to resolve the deficiencies discussed in the report. However, a final corrective action plan has not been developed.	06/30/94
*93HQ0015	Multiregion Audit of Large Troubled PHAs Report on Performance and Status	09/24/93	PIH had not responded to the 16 recommendations in the report. However, a proposed corrective action plan was being processed for signature in April 1994.	05/31/94

Note to Table A: * Significant Audit Reports Described in Previous Semiannual Reports.

**SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS
WHERE FINAL ACTION HAS NOT BEEN COMPLETED AS OF 3/31/94**

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
83CH1051	Detroit Housing Department, Public Housing Agency Activities	08/26/83	11/15/84	Note 1
89PH1011	Department of Housing and Community Development, CDBG Subrecipient Monitoring	03/31/89	09/20/89	09/30/94
89PH1013	Community Development Block Grant Program Subrecipient Activities	07/17/89	01/12/90	09/15/96
90CH1006	New Center Hospital - Multifamily Mortgagor Operations	01/22/90	06/19/90	Note 1
90AT1008	CDBG Program - Use of Program Income	03/09/90	03/30/93	Note 1
90TS0012	CDBG Program - Rehabilitation at Entitlement Grantees	04/26/90	09/21/90	Note 1
90PH1014	Delaware County CDBG Program - Partnership for Economic Development and Other Selected Areas	06/12/90	11/01/90	Note 1
90TS1803	Interim Report - Housing Resources Management, Inc.	09/14/90	09/30/91	05/31/94
91TS0001	Limited Review of HUD's Process for Determining Undue Concentration of Assisted Persons	10/19/90	10/01/91	Note 1
91A00001	Multiregion Audit of the Emergency Shelter Grants Program	12/28/90	07/05/91	Note 1
91TS0006	Multiregion Audit of Interim Financing (Floats)	01/17/91	06/07/91	Note 1
91PH1005	Pittsburgh Housing Authority - CIAP	03/21/91	09/20/91	Note 1
91SF1003	Mundy Realty - Area Management Broker	03/28/91	07/12/91	06/12/97
91TS0012	Audit of the 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	Note 1
91NY1008	Burton Towers - Multifamily Mortgagor Operations	05/31/91	10/01/91	Note 1
91NY1009	Varick Homes - Multifamily Mortgagor Operations	05/31/91	10/01/91	Note 1
91KC1008	Sunjay and Company - Management Agent Operations	06/12/91	11/13/91	Note 1
91SF1007	Royce Enterprises Limited - Multifamily Management Agent	08/23/91	11/26/91	Note 1
91PH1014	Urban Redevelopment Authority - Housing Development Grant - Davison Square Apartments	09/19/91	01/13/92	06/30/94
92TS0001	PHA Compliance With Rent Reasonableness Requirements for Section 8 Existing Housing Program	10/10/91	06/08/92	Note 1
92KC1801	Community Development Agency - Purchase of Land in St. Louis Place Neighborhood	10/22/91	03/12/92	Note 1
92CH1003	Chicago Mental Health Foundation, Inc. - Supportive Housing Demonstration Program	11/07/91	01/10/92	Note 1
92TS0804	Corrective Action Certification - Hospital Insurance Program - Material Weakness No. 89-21	11/15/91	09/01/92	Note 1
92KC1002	Department of Housing and Community Development - Section 108 Loan Guarantee	01/10/92	03/01/94	05/23/94
92CH1010	Detroit Housing Department - Section 8 Existing Housing Certificate, Voucher, & Mod Rehab Programs	01/30/92	Note 3	Note 3
92TS0005	HUD's Implementation of the Federal Managers' Financial Integrity Act of 1982	02/28/92	09/23/92	Note 1
92PH1003	Community Development Block Grant Program	03/04/92	06/23/92	Note 1
92TS0006	Audit of Fiscal Year 1991 Financial Statements - Government National Mortgage Association	03/25/92	07/15/92	Note 1
92TS0007	Audit of Fiscal Year 1991 Financial Statements - Federal Housing Administration	03/27/92	09/29/92	12/31/95
92BO1008	Boston Financial Property Management - Management Agent	03/31/92	07/22/92	01/31/96
92TS0008	HUD's FY 1992 and 1993 Budget Estimating Processes for Section 8 Contract Renewals and Amendments	04/21/92	07/09/93	12/31/94
92TS0009	Multiregion Audit - Special Economic Development Activities	04/29/92	Note 4	Note 4
92AT1014	City of Jacksonville Department of Housing and Urban Development - Public Housing Operations	06/12/92	10/06/92	12/31/94
92TS0011	Audit of Fiscal Year 1991 Financial Statements	06/30/92	Note 4	Note 4
92PH1009	Community Development Block Grant Program	07/10/92	11/07/92	Note 1
92TS0014	MultiRegion Review of the Controls Over the Preparation and Use of Grantee Performance Reports	07/30/92	Note 4	Note 4
92BO1011	New Haven Housing Authority Management Operations	08/14/92	12/10/92	Note 1
92KC1003	Housing Authority of Kansas City, Low Rent Housing Program	08/18/92	03/16/93	Note 1
92PH0802	Philadelphia Housing Authority - Consolidation of Unresolved Audit Recommendations	08/27/92	08/27/92	Note 1
92SF1009	San Francisco Housing Authority - Low Income Public Housing Program	09/10/92	01/08/93	06/30/94
92TS1017	Commonwealth Mortgage Company - Nonsupervised Mortgagee	09/11/92	Note 5	Note 5
92SF1012	City of Los Angeles Housing Authority	09/25/92	01/20/93	Note 1
92PH1015	Department of Public and Assisted Housing - Management and Selected Development Operations	09/30/92	03/29/93	06/01/94
93HQ0002	Multiregion Audit of PHAs' Internal Controls over the Handling of Cash and Other Monetary Assets	10/16/92	09/23/93	07/29/94
93CH1001	Highland Park MI Housing Commission, Safeguarding Monetary Assets and Inventory, Low Income Housing	10/23/92	02/11/93	Note 1
93HQ0004	Interim Audit of Bond Refundings of Section 8 Projects	10/30/92	10/26/93	06/30/94
94AT1001	Memphis TN CDBG Program, Special Economic Development Activities	11/03/92	03/29/93	07/01/95
93CH1003	Cuyahoga Metropolitan Housing Authority, Low Income Housing Program	11/17/92	04/05/93	12/31/98
93AO1001	Fellowship Square Foundation, Inc., Multifamily Management Agent	11/24/92	07/27/93	07/31/94

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
93AT1004	St. Petersburg FL Housing Authority, Low Income Housing Program	12/09/92	09/27/93	09/01/04
93CH1006	North Chicago IL Housing Authority, Safeguarding Monetary Assets and Inventory, Low Income Housing	12/10/92	06/02/93	04/15/94
93CH1007	Lucas Metropolitan Housing Authority, Low Income Housing Program	12/29/92	04/05/93	04/02/94
93FO0001	HUD's Implementation of the Federal Managers' Financial Integrity Act of 1982	01/11/93	09/20/93	Note 2
93CH1008	Columbus OH CDBG Program, Benefits to Low- and Moderate-Income Persons	01/15/93	06/01/93	05/14/94
93BO1002	Lorenzo Pitts, Inc., Multifamily Project Manager and Management Agent	01/29/93	09/29/93	11/30/97
93NY1002	New York NY Department of Housing Preservation and Development, Limited Review of CDBG Program	01/29/93	07/06/93	07/06/94
93HQ0006	Multiregion Limited Review of the Public Housing Management Assessment Program (PHMAP)	02/04/93	09/24/93	06/30/94
93FW1006	Houston TX Housing Authority, Low Income Housing Program	02/05/93	06/10/93	04/30/94
93CH1013	Youngstown OH Metropolitan Housing Authority, Section 8 Existing and Housing Voucher Programs	02/26/93	06/09/93	06/01/94
93AO1003	District of Columbia Department of Human Services, Single Family Homeless Initiative	03/03/93	07/26/93	01/31/95
93BO1003	Carabetta Management Company, Multifamily Management Agent	03/05/93	09/29/93	09/20/94
93HQ0005	Limited Review of HUD'S Management and Control of Staff Resources	03/08/93	09/30/93	09/30/94
93CH1015	The Belmont, Multifamily Mortgagor Operations	03/12/93	07/21/93	08/31/96
93DE1001	Denver CO Housing Authority, Special Review of Procurement and Contracting, Low Income Hsg Program	03/16/93	08/23/93	07/31/94
93BO0002	Single Family Disposition Program, Boston Office	03/19/93	09/29/93	03/09/95
93PH1004	Annapolis MD Housing Authority, Low Income Housing Program	03/23/93	09/10/93	02/01/94
93FO0002	Audit of the Government National Mortgage Association's Fiscal Year 1992 Financial Statements	03/29/93	01/11/94	05/31/94
93HQ1001	Scranton PA UDAG and CDBG Programs	03/31/93	Note 4	Note 4
93SF1007	Guam Housing and Urban Renewal Authority, Related Aspects of Financial and Administrative Controls	03/31/93	07/26/93	12/31/93
93BO1005	Cooperative of Charlesnewtown, Inc., Section 8 Program	04/07/93	10/18/93	09/29/94
93FW0001	Management of Multifamily Property Disposition Inventory, Ft. Worth and Selected Field Offices	04/15/93	08/13/93	05/31/94
93HQ0008	Multiregion Audit of CDBG Program Benefits to Low- and Moderate-Income Persons	04/27/93	Note 4	Note 4
93HQ0010	Multiregion Audit of the Title II Preservation and Prepayment Program	04/27/93	12/30/93	Note 2
93FO0003	Audit of Federal Housing Administration's Fiscal Year 1992 Financial Statements	04/30/93	03/31/94	12/31/98
93HQ0012	Multiregion Audit of the Direct Endorsement Program	04/30/93	09/23/93	12/31/94
93HQ0013	Multiregion Audit of Refunding of Bonds for Section 8 Assisted Projects	04/30/93	03/16/94	06/30/94
93CH1019	Peoria IL Housing Authority, Low Income Housing Program	05/04/93	06/18/93	05/01/94
93SF1010	Professional Properties, Inc., Management Agent for Skyline Terrace Apartments	05/05/93	10/22/93	Note 2
93CH1020	Pontiac MI Housing Commission, Low Income Housing Program	05/14/93	09/28/93	09/10/94
93HQ1002	Community Realty Management, Inc., Multifamily Management Agent	05/25/93	12/17/93	Note 2
93CH1021	Aurora IL Housing Authority, Low Income Housing Program	05/26/93	09/28/93	04/30/94
93CH1022	The Meadows, Retirement Service Center, Marion OH	05/27/93	09/28/93	09/28/94
93PH1006	Newport News VA CDBG Program	05/28/93	12/16/93	10/01/94
93HQ1004	Professional Properties Inc., Multifamily Management Agent	06/03/93	12/08/93	Note 2
93AT1018	Municipality of Aguadilla PR Community Development Block Grant Program	06/08/93	Note 3	Note 3
93PH1809	Philadelphia PA Housing Authority, Special Report on a Limited Review of Contracting	06/29/93	11/26/93	11/01/94
93FO0004	Audit of HUD's Fiscal Year 1992 Consolidated Financial Statements	06/30/93	03/31/94	03/30/98
93NY1005	Syracuse NY CDBG Program	06/30/93	12/20/93	10/31/94
93SF1011	Casa Sandoval Apartments, HUD Held Multifamily Project	07/02/93	10/26/93	07/01/94
93BO1008	Konover Residential Corporation, Management Agent	07/13/93	11/23/93	09/30/94
93PH1008	District of Columbia Housing Finance Agency	07/19/93	12/20/93	09/30/94
93NY1006	Jersey City Emergency Shelter Grants Program	07/23/93	03/02/94	06/30/94
93HQ1005	VMS Realty Management, Inc., Management Agent	07/30/93	12/15/93	05/31/94
93CH1026	Yellowbird Limited, Multifamily Mortgagor Operations	08/05/93	02/01/94	01/28/95
93DE1006	Denver Community Development Corporation, CDBG Program	08/10/93	12/07/93	12/07/94
93FW1014	Heritage Village Retirement Service Center	08/13/93	12/10/93	08/12/94
93HQ1006	Retirement Housing Foundation, Inc., Multifamily Management Agent	08/17/93	03/31/94	04/29/94
93FW1015	City of San Antonio TX CDBG Program	08/27/93	12/13/93	11/21/94
93AT0003	HUD Servicing of Insured Multifamily Projects, Atlanta and Jacksonville Offices	09/02/93	12/20/93	10/15/94
93SF1012	Los Angeles CA CDBG Program	09/17/93	Note 3	Note 3
93BO1009	Lambert Park Apartments Multifamily Project	09/22/93	03/11/94	07/01/94
93SF1013	Santa Clara County CA Housing Authority, Section 8 Housing Program	09/22/93	01/27/94	01/15/95
93SF1014	Tucson AZ Health Care Limited Partnership, Multifamily Mortgagor Operations	09/23/93	01/21/94	08/31/94

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION TARGET DATE
93HQ0015	Multiregion Audit of Large Troubled PHAs, Report on Performance and Status	09/24/93	Note 4	Note 4
93HQ1008	Independence Mortgage Corporation of America, Inc.	09/24/93	03/31/94	06/30/94
93SF1016	Maricopa Co. Department of Hsg & Community Development Conventional & Sec 8 Hsg Programs	09/24/93	01/21/94	12/31/94
93FW1016	Anthony & Associates, Inc., Multifamily Management Agent	09/28/93	12/10/93	12/07/94
93PH1010	Philadelphia PA Office of Services to the Homeless and Adults, Emergency Shelter Grants Program	09/28/93	01/26/94	01/03/95
93SF1017	Richmond CA Housing Authority, Comprehensive Improvement Assistance Program	09/28/93	Note 4	Note 4
93AT1021	Charlotte NC Housing Authority, Public and Section 8 Housing Programs	09/30/93	03/24/94	10/15/94
93B00003	Management of Multifamily Property Disposition Inventory	09/30/93	01/27/94	07/14/94
93CH1031	State of IN Family and Social Services Administration Section 8 Existing and Hsg Voucher Programs	09/30/93	03/30/94	01/28/95
93HQ0017	Single Family Homeless Initiative	09/30/93	03/29/94	09/30/94
93HQ0018	Multiregion Audit of Delegated Processing Program	09/30/93	02/07/94	05/30/94
93NY1008	New York City Housing Authority, Low Rent Housing Program and CIAP	09/30/93	03/29/94	12/31/94

Audits Excluded:

18 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 June 30, 1994.
- 4 No Management Decision. Decision expected by May 31, 1994.
- 5 No Management Decision. Decision expected by July 31, 1994.

TABLE C

**INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED AND UNSUPPORTED COSTS
AT 3/31/94**

APPENDIX 2

(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	61	\$131,656	\$35,874
A2. For which litigation, legislation or investigation was pending at the commencement of the reporting period	19	35,271	21,994
A3. For which additional costs were added to reports in beginning inventory	0	4,454	411
A4. For which costs were added to non-cost reports	3	274	14
B1. Which were issued during the reporting period	54	26,104	12,800
B2. Which were reopened during the reporting period	0	0	0
Subtotals (A + B)	137	\$197,759	\$71,093
C. For which a management decision was made during the reporting period	76 ¹	112,511	14,739
(1) Dollar value of disallowed costs:			
• Due HUD	29 ²	13,386	2,532
• Due Program Participants	47	29,557	5,915
(2) Dollar value of costs not disallowed	33 ³	69,568	6,292
D. For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	17	33,457	22,018
E. For which no management decision had been made by the end of the reporting period	44 (122) ⁴	\$51,791 (\$41,394)	\$34,336 (\$26,950)

¹ 8 audit reports also contain recommendations that funds be put to better use.² 7 audit reports also contain recommendations with funds due program participants.³ 26 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 Table D for an explanation.

**INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT
FUNDS BE PUT TO BETTER USE AT 3/31/94**

(Dollars in Thousands)

REPORTS . . .	Number of Audit Reports	Dollar Value
A1. For which no management decision had been made by the commencement of the reporting period	11	\$8,642
A2. For which litigation, legislation or investigation was pending at the commencement of the reporting period	5	953
A3. For which additional costs were added to reports in beginning inventory	0	568
A4. For which costs were added to non-cost reports	5	5,477
B1. Which were issued during the reporting period	8	1,302
B2. Which were reopened during the reporting period	0	0
Subtotals (A + B)	29	\$16,942
C. For which a management decision was made during the reporting period	16 ¹	13,362
(1) Dollar value of recommendations that were agreed to by management		
• Due HUD	10 ²	6,605
• Due Program Participants	6	1,164
(2) Dollar value of recommendations that were not agreed to by management	2 ³	5,593
D. For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	5	953
E. For which no management decision had been made by the end of the reporting period	8 (7) ⁴	\$2,627 (\$2,225)

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

Explanation of Tables C and D

The Inspector General (IG) Amendments of 1988 require Inspectors General and agency heads to report cost data on management decisions and final actions on audit reports. The current method of reporting at the "report" level rather than at the individual audit "recommendation" level results in misleading reporting of cost data. Under the Act, an audit "report" does not have a management decision or final action until all questioned cost items or other recommendations have a management decision or final action. Under these circumstances, the use of the "report" based rather than the "recommendation" based method of reporting distorts the actual agency efforts to resolve and complete action on audit recommendations. For example, certain cost items or recommendations could have a management decision and repayment (final action) in a short period of time. Other cost items or nonmonetary recommendation issues in the same audit report may be more complex, requiring a longer period of time for management's decision 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.

PROFILE OF PERFORMANCE

OCTOBER 1, 1993 THROUGH MARCH 31, 1994

APPENDIX 3

	Audit	Investigation			Combined Total
		OIG/Joint Cases	Monitored Cases ¹	Total	
Cash Recoveries	\$15,637,428	\$2,945,620		\$2,945,620	\$18,583,048
Other Recoveries		24,070,160		24,070,160	\$24,070,160
Court Ordered Restitution		3,964,659	\$349,274	4,313,933	\$4,313,933
PFCRA Recoveries		646,209		646,209	\$646,209
Total Cash Recoveries	\$15,637,428	\$31,626,648	\$349,274	\$31,975,922	\$47,613,350
Cost Efficiencies	\$6,718,266				\$6,718,266
Commitments to Recover Funds	\$46,386,895	\$520		\$520	\$46,387,415
Cost Efficiencies Sustained	\$7,031,039				\$7,031,039
Fines Levied		\$5,580,034	\$35,250	\$5,615,284	\$5,615,284
Indictments		228	18	446	446
Convictions		210	12	222	222
Total Years Suspended Sentences/Probation		21/363	0/29	21/392	21/392
Total Years Prison Sentences		426	20	426	426
Administrative Actions Against Persons/Firms Doing Business with HUD	28	187	21	208	236
Subpoenas Served	6			53	59

¹ Cases where HUD/OIG is monitoring the investigation but has no active participation.

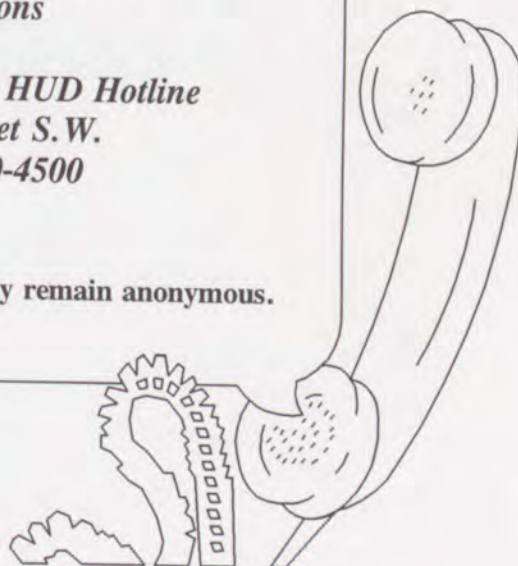
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U.S. Department of Housing and Urban Development
Office of Inspector General
Washington, D.C. 20410-4500

May 1994
HUD-1472-IG

