



SEMIANNUAL  
REPORT to  
the CONGRESS

As of September 30, 1995





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

January 16, 1996

Honorable Newt Gingrich  
Speaker of the House of Representatives  
Washington, DC 20510

Dear Mr. Speaker:

I am pleased to transmit to you the U.S. Department of Housing and Urban Development's Semiannual Reports to the Congress. These reports cover the period from April 1, 1995, through September 30, 1995, and reflect the Departmental and Congressional efforts to redesign and consolidate the Department's overlapping programs, including: elimination of onerous statutory barriers to effective local performance; consolidation and simplification of HUD programs; increased emphasis on market incentives and resident choice; more flexibility for states and localities in using HUD programs to meet their particular needs; and greater accountability for achieving intended program results. I fully concur with the Inspector General's recognition of the need for program redesign. Meanwhile, the Department is continuing its efforts to free our customers and employees from bureaucratic compliance processes that are often viewed as fragmented, burdensome, unneeded, and that fail to add real value to our products. For example, in the effort to streamline existing programs over the past year:

- FHA has initiated a series of very successful multifamily and single family loan sales which reduced workload and returned millions of dollars to the Treasury. FHA is also implementing a model single family processing center concept nationwide, which should result in economies of scale and improve customer response time dramatically.
- HUD has demolished over 4,000 nonviable public housing units to make room for safer, lower density, mixed income housing. Ten more projects have been scheduled for demolition.
- HUD's Office of Community Planning and Development has implemented consolidated program planning and application processes.
- Administration has begun implementing consolidated administrative processing centers.

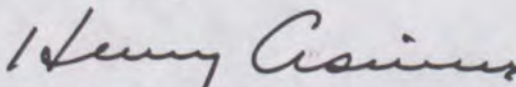
In addition to the Inspector General's endorsement of program redesign and a call for more program streamlining, the report summarizes the need for building a management infrastructure to support effective program execution and cites

five additional management infrastructure areas that need improvement. These "pillars" of management infrastructure are highlighted below followed by a few examples of management's accomplishments.

- **Human Resource Management**
  - .. A better union/management relationship
  - .. Establishment of a training academy
  - .. Provision of analytic tools for the Assistant Secretaries to match workload to staffing
- **Organizational Structure**
  - .. Eliminated a layer of Regional management and gave direct control of HUD Field staff to the respective Program Assistant Secretary
- **Data Systems**
  - .. A standard office automation environment has been implemented across the Department
  - .. The Federal Financial Management System was implemented for salaries and expenses
  - .. An initial version of Housing's Section 8 system has been implemented in all Field locations
  - .. PIH has implemented a system at all PIH Field Offices that provides automated accounting and budgeting support for Section 8 tenant-based assistance programs
- **Performance Measurement**
  - .. HUD has implemented a Strategic Performance System which includes management plans for major areas and a Presidential Performance Agreement. Progress and achievements are tracked in the Secretary's Performance Report.
- **Program Enforcement**
  - .. The District of Columbia Housing Authority has been placed in receivership and HUD assumed control over the Chicago Public Housing Authority.

The Inspector General's report also raises other concerns and makes a number of suggestions, that we will strongly consider in the coming months. We certainly share the Inspector General's concern that devolution should not result in the abandonment of accountability for taxpayer funds. The Inspector General concludes that "progress has been made, but much remains to be done". I concur with this general progress assessment, for while we have come quite far in transforming the Department, we still have a long way to go before we can say the job is completed.

Sincerely,



Henry G. Cisneros

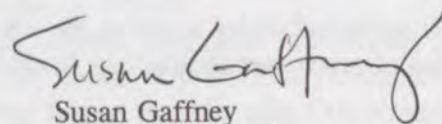
## INSPECTOR GENERAL'S MESSAGE

For some years, the Office of Inspector General (OIG) has been reporting that HUD performance problems are due to flaws in the design of HUD programs as well as systemic weaknesses in HUD's management of its programs. This period saw the introduction of major legislative proposals to streamline HUD programs, provide greater local flexibility in carrying out HUD programs, and ensure accountability for achieving intended program results. The OIG has long advocated a number of the program design changes being proposed; and we have appreciated the opportunities afforded the OIG to present our views at Congressional hearings held over the past 6 months.

While the program design issues are currently on center stage, HUD's management capability will be equally important in the long run. We have, therefore, devoted most of Chapter One of this Report to a discussion of HUD's progress in the areas of human resources management, organizational structure, data systems, performance measurement, program streamlining, and program enforcement. Overall, HUD has made some commendable strides, but much more needs to be done. The OIG is particularly concerned that the role of HUD staff and the shape of HUD's organization and program delivery system have been in a state of flux and are still evolving.

Chapters Two and Three, which outline our audit and investigative results this period, are a testament to the OIG's highly qualified, very independent, and mission-driven staff -- as well as to the support that we have received from the Secretary and the Congress. Operation Safe Home, a campaign against violent crime in public and assisted housing, fraud in the administration of public housing, and equity skimming in multifamily FHA insured housing, is yielding ever greater dividends. This period, for example, the lessons the OIG has learned from Operation Safe Home enabled us to develop several legislative proposals aimed at curbing violent crime in public housing -- proposals that Secretary Cisneros transmitted to the Congress on our behalf. At the same time, traditional OIG audits and white collar investigations reached into every key program area in HUD.

While the OIG's workload is extensive, our overriding purpose is to improve HUD operations so that HUD can better serve its beneficiaries. We will continue to welcome every opportunity to assist the Secretary and the Congress in bringing about that end.



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>	<i>Page</i>
Section 4(a)(2)-review of existing and proposed legislation and regulations.	Pages 1-8, 31-54
Section 5(a)(1)-description of significant problems, abuses and deficiencies relating to the administration of programs and operations of the Department.	Pages 1-54
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses and deficiencies.	Pages 31-54
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 9-54
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 31-54
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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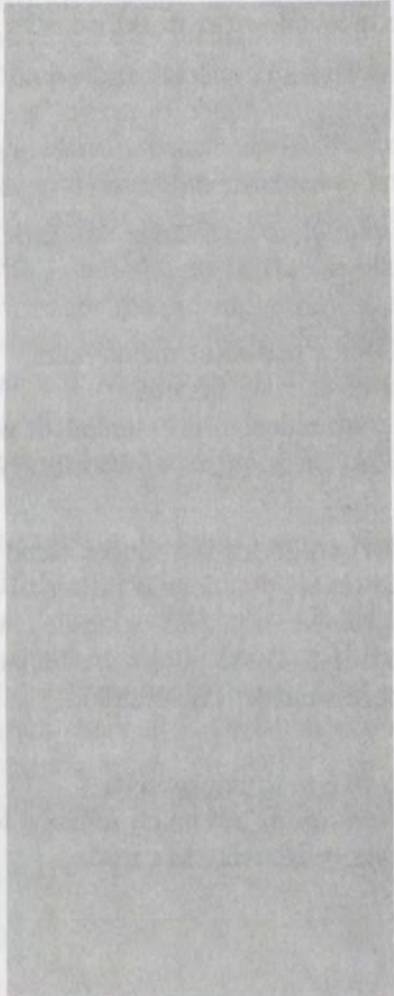
Appendix 1 — Audit Reports Issued

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Appendix 3 — Profile of Performance



# HUD Program Design and Execution Issues



## Program Design Issues

Over the past year, the OIG's top priority has been assisting Secretary Cisneros and the Congress in addressing major problems in the design of HUD programs. The OIG's March 1995 Semiannual Report to the Congress outlined OIG input to and perspectives on HUD's Reinvention Blueprint, and suggested alternative and interim statutory changes to improve performance in each of HUD's major program areas.

In the last 6 months, the OIG's focus on program design issues continued. At the request of Secretary Cisneros, we identified further opportunities — above and beyond those included in the Reinvention Blueprint — for HUD to absorb budget cuts by eliminating statutory functions not essential to the Department's core mission. We testified before Congressional Committees on legislation relating to the reinvention of HUD programs. We set in motion specific audit work to assist the Congress in its decision-making process.

Much of the HUD legislation that is currently being debated has common themes: elimination of onerous statutory barriers to effective local performance; consolidation and simplification of HUD programs; increased emphasis on market incentives and resident choice; more flexibility for states and localities in using HUD programs to meet their particular needs; and greater accountability for achieving intended program results. The OIG wholeheartedly endorses these directions, which would represent a sea change in the design of HUD programs. They are directions that the OIG has long advocated, in part as a means to reconcile HUD workload with HUD capability.

## Program Execution Issues

HUD capability is a critical factor in the reinvention effort. Over a period of many years, reports by the OIG, the General Accounting Office, and others have detailed systemic management weaknesses that plague HUD operations. While program redesign is essential, it will not be sufficient if HUD does not have the management capability to carry out its new statutory mandate.

Obviously, the current debate about the ultimate design of HUD programs introduces some uncertainty into HUD's management agenda. The OIG believes, however, that certain pillars of HUD's management infrastructure will be as critical under the legislative scenarios being debated as they are to improving HUD's performance under existing legislation. These pillars are human resources management, organizational structure, data systems, performance measurement, program streamlining, and program enforcement.

The remainder of this Chapter summarizes the status of HUD efforts to improve its management performance in these six key areas. Progress has been made, but much remains to be done. As an example, over the past year the Office of Multifamily Housing has made





significant progress in streamlining its operations through sales of HUD held mortgages, and in addressing troubled multifamily housing through formation of Special Workout Assistance Teams (SWAT). At the same time, progress in upgrading multifamily information systems has been slow at best; and multifamily system deficiencies have been a principal reason for uncertainty about the costs of HUD's mark-to-market proposal, which is a keystone of the HUD Reinvention Blueprint, as well as about HUD's ability to implement the proposal.

## Human Resources Management

HUD staff is becoming an increasingly precious commodity: staffing has decreased from 13,000 in January 1993 to a current level of 11,800; and HUD projections call for a further reduction to 7,500 over the next 4 years. Steps have been taken to enhance the capability of the dwindling HUD staff through, for instance, a better union/management relationship, establishment of a training academy, and provision of analytic tools to enable the Assistant Secretaries to better match workload and staffing.

However, the import of these steps is far outweighed by the apparent consensus that HUD's program delivery role has to change. Both the Department and the Congress seem to agree that HUD needs to eschew its focus on rulemaking and compliance monitoring. As HUD's Reinvention Blueprint put it: "Consolidation and devolution will change the way HUD interacts with families and communities, and, consequently, decrease the number of staff and dramatically change the types of skills required to maintain productive relationships."

HUD frequently describes the new role of HUD staff as community catalysts, and, less frequently, as performance monitors. Unfortunately, neither of these roles has been defined with the precision necessary to assess whether HUD staff has the capability — or can be trained at reasonable cost to obtain the capability — to carry them out. Thus, at a time when HUD should be aggressively preparing itself to carry out a new statutory mandate, HUD staff generally continue to devote themselves to business as usual.

Given the significant ambiguity surrounding the concept of HUD staff as community catalysts, the OIG is not able to assess the viability of this role. On the other hand, the OIG sees performance monitoring as an essential part of HUD's role. While devolution is desirable, accountability for taxpayer funding is critical; and this report details numerous instances where inadequate performance monitoring has led to significant misuse and abuse of federal funding.

## Organizational Structure

In 1993, in response to the National Performance Review, HUD initiated a reorganization to eliminate a layer of regional management and give direct control of field staff to each of HUD's major program cylinders — Housing, Public and Indian Housing (PIH), Community Planning and Development (CPD), and Fair Housing and Equal Opportunity (FHEO). The reorganization was not yet fully implemented when the December 1994 Reinvention Blueprint proposed more radical program changes and staff reductions. Before much thought could be given to the Reinvention Blueprint's impact on HUD's organization, HUD management thinking further evolved toward a "place-based" delivery concept.



Like the proposed community catalyst role for HUD staff, the place-based approach is largely lacking in practical definition, although the Secretary has indicated that it would mean a seamless (i.e., non-program differentiated) HUD organization at the local level. Obviously, such a goal is quite different from the goal of the field reorganization that was initiated in 1993 and just declared completed at the end of September 1995.

During the summer of 1995, the OIG informally surveyed HUD field staff on the results of the reorganization that was initiated in 1993. Field staff reported that they endorsed the elimination of the regional management layer, but that communication and cooperation among the program offices had suffered badly; and the promised empowerment of field program staff by HUD headquarters had not materialized. It would appear that superimposing the place-based approach on this situation will not be easy.

Meanwhile, we are aware of little focus on streamlining and reorganizing HUD's considerable headquarters staff, which number over 2,500; and the ultimate configuration of HUD field locations is still being planned.

HUD's staff morale and reputation can ill afford further costly interruptions in program delivery and performance through repeated reorganizations and changes in program direction. As a sine qua non of reinvention, HUD must set and stabilize its organization and program delivery structure.

## Data Systems

HUD is having some success in its efforts to implement effective data systems:

- ⊗ The Office of Administration has successfully implemented a standard office automation environment across the Department, and is improving HUD's overall information systems environment by developing an information architecture and publishing data and database administration standards to guide the future.
- ⊗ The Federal Financial Management System was implemented for Salaries and Expenses Funds beginning October 1, 1994.
- ⊗ An initial version of Housing's Section 8 system has been implemented in all field locations.
- ⊗ PIH has implemented a system at all PIH field offices that provides automated accounting and budgeting support for Section 8 tenant-based assistance programs.
- ⊗ FHA has implemented an Electronic Data Interchange pilot to process and pay single family insurance claims.
- ⊗ CPD completed its consolidated plan software and distributed it to over 1,000 grantees to aid them in developing their consolidated program plans. CPD has also developed the Comprehensive Disbursement and Performance Reporting system for eventual use by both grantees and HUD personnel. These two components of the Integrated Disbursement and Information System (IDIS) are scheduled to be operational in January 1996, and rolled out to grantees by September 1996.

However, other important system improvement efforts are lagging far behind. Most notably, Housing's significant insured multifamily housing programs continue to lack adequate information systems for day-to-day operations and program policy decisions, despite several iterations of



interim and long-term systems plans over the past half dozen years. Housing management recently completed an Information Systems Plan to guide the development of a new multifamily housing information system, as well as a strategy to establish a "data warehouse" from various existing systems as interim support for ongoing program management. Actions to implement these new plans remain slow.

Similarly, Housing's actions to provide a long overdue major overhaul of its antiquated single family housing mortgage insurance information systems are also slow. While an Information Strategy Plan was recently completed to identify program management information needs, HUD is pursuing a strategy of addressing those needs through piecemeal existing systems enhancements, rather than through a major new development effort.

In the grants management systems area, the strategy of allowing each major program cylinder to develop its own grants system has been revised. A new Departmental Grants Management System project has been initiated, with an objective of providing integrated grants management information systems for CPD, PIH and FHEO. The effort will attempt to build on progress already made on CPD's IDIS project.

While there have been notable accomplishments in the subsidized housing programs and administration systems areas, important components of those systems are not yet complete, including planned components for tenant income eligibility verification and general budget formulation and operational planning. Furthermore, as HUD better defines its new program oversight role, additional program performance information is likely to be needed.

Over the years, HUD's system improvement efforts have suffered from uncertain funding levels, a lack of strong systems development direction and accountability at the Department level, and a lack of emphasis on maintaining data integrity at the operating level. Since accurate, timely, and complete data would appear critical to HUD's serving as a community catalyst or a performance monitor, or to HUD's carrying out an effective place-based delivery system, these problems need to be addressed now.

Program set-asides for systems efforts would overcome the problems caused by uncertain funding levels. In order to ensure consistent direction and accountability for HUD's many system development efforts, as well as data integrity in operational systems, the OIG advocates establishment of a Chief Information and Technology Officer position. This would recognize the fact that integrated data systems and data integrity are no longer secondary administrative considerations; they have become integral to HUD's ability to function effectively.

## Performance Measurement

Transforming HUD from a compliance monitor into a performance monitor — within the context of greater flexibility for states and localities in using HUD programs to meet their particular needs — will be no mean feat. The transformation will require establishment of performance standards that relate to intended program results, rather than program inputs and processes; as well as information systems that accurately and reliably track actual performance against the standards.

Governmentwide requirements for this type of performance measurement are stated in the Chief Financial Officers (CFO's) Act of 1990, and significantly amplified by the Government Performance and Results Act (GPRA) of 1992. HUD, like most federal agencies, is still struggling



to identify and implement performance standards that are meaningful measures of program efficiency and effectiveness. HUD and the Office of Management and Budget — which is leading the CFO's Act and GPRA implementation efforts — reached agreement on HUD performance measures in September 1995. Significant modification of HUD information systems is expected to be necessary to generate the performance data, with increased reporting requirements for HUD program participants to generate needed data. These measures may be further changed by pending statutory program changes.

In the meantime, to its credit, in June 1994 HUD implemented a Strategic Performance System. The System comprises: (1) Management Plans that track progress against priority objectives for each major program area; and (2) a Secretary's Performance Report that tracks progress against objectives in the Management Plans and the Presidential Performance Agreement. While HUD continues to improve the System, certain basic problems remain:

- ⊗ Some of the performance objectives are lacking performance measurement data, because the performance requirements have not been built into HUD's strategic systems plans. For example, HUD lacks information for measuring impact results such as housing quality violations, crime statistics, and level of distressed conditions at individual public housing agency (PHA) developments.
- ⊗ Some of the performance data being reported are not reliable, because they are being generated by flawed data systems. For instance, the performance information for Public and Indian Housing Operating Subsidies contain information from the Public Housing Management Assessment Program (PHMAP). The OIG has consistently found problems with PHMAP data; a case in point is our audit this period of the Peoria, Illinois Housing Authority (see page 46).

Other examples of performance data problems caused by flawed systems include: inadequate indicators of the physical and financial health of insured multifamily housing projects, and a lack of information on successful program targeting of benefits to intended low-income beneficiaries.

- ⊗ Some programs — notably the Community Development Block Grant Program — lack meaningful performance measurement information because the flexibility and wide latitude allowed grantees makes common and comparative measurement very difficult.

## Program Streamlining

Pending the statutory redesign of HUD programs, and despite the continuing uncertainties surrounding HUD's organizational structure and program delivery role, HUD has implemented a number of significant program streamlining measures over the last year. For example:

- ⊗ FHA has initiated a series of very successful loan sales in both multifamily and single family programs. These sales have had the dual benefits of returning huge sums of money to the Treasury and significantly alleviating HUD's past inability to service and manage acquired assets.
- ⊗ FHA has successfully implemented a processing center concept for its single family programs in Denver, CO. This model is being implemented on a nationwide basis to derive economies of scale and better customer service.



- ⊗ PIH has successfully completed the demolition of nonviable public housing — as the initial component of HUD's strategy to replace large, older, deteriorating public housing with safer, low-density, mixed income housing. Since April of this year, over 4,000 nonviable units have been demolished; and there are plans to demolish 10 additional nonviable developments in large urban areas.
- ⊗ CPD has implemented consolidated program planning and application processes to alleviate administrative burdens and foster greater local coordination and decision-making on program needs and funding priorities.
- ⊗ The Office of Administration began to implement plans for consolidated processing centers for personnel and other support services, and has automated some processes, such as employee access to benefits information through a HUD BenefitsLine administered by the Employee Service Center.

However, HUD has not moved effectively forward with other reengineering efforts, such as the implementation of risk-based targeting strategies for monitoring program participants. Our financial statement audit tests found that HUD plans for risk-based monitoring of PHA performance of critical program functions, such as tenant income recertifications, were not fully carried out, with fewer than 50 percent of scheduled reviews conducted by some HUD field offices. Furthermore, while HUD actions to streamline its rules, regulations and handbooks may have met goals for reducing paper, many of the items terminated were useful in clarifying HUD's myriad program statutes and providing guidance to program participants.

## Program Enforcement

In previous Semiannual Reports to the Congress, the OIG has cited the Department's unwillingness to impose program sanctions as a systemic management weakness. HUD's willingness and capability to move against abuse of HUD program funds and HUD beneficiaries will be even more important under the devolution scenarios currently being discussed by the Congress. Absent a realistic threat of HUD enforcement action, devolution could well equate to revenue sharing.

HUD has made progress in this area over the last year. In May 1995, after the District of Columbia Housing Authority had been on HUD's list of troubled housing authorities for 16 years, HUD facilitated its being placed in receivership. Later that same month, after the Chicago Public Housing Authority had also been on HUD's troubled public housing authority list since the list was first established in 1979, HUD declared a breach of contract and assumed control. HUD has also moved to enter into new memoranda of understanding designed to improve the operations of other troubled public housing agencies.

For its part, the Office of Housing has formed SWAT teams consisting of recruited field office employees trained to work together to resolve problems at specific physically and/or financially troubled HUD properties. SWATs are given access to equipment, training, travel and contracted service resource levels not normally available to HUD's multifamily field servicing staff. SWATs initially identified 72 problem projects for targeting in the first year, with expanded goals for eventually targeting 300 to 500 projects. OIG's June 1995 assessment of the SWAT effort and the work completed on the initial 23 most troubled projects, concluded the effort was having a



positive impact in terms of better utilizing and further developing HUD's limited capacity to enforce its program requirements.

While we applaud these enforcement efforts, it is important to keep in mind that they are being carried out by small groups of people within HUD. Overcoming the problems of troubled public housing agencies is the province of the Office of Severely Distressed and Troubled Public Housing (OSDTPH) within the Office of PIH. OSDTPH is a headquarters staff of 40 persons, with only 6 staff and a group of outside consultants focused on large troubled PHAs, while the PIH field staff numbers nearly 1,200. The SWAT teams are a headquarters directed effort initially comprised of 27 persons, while Housing's multifamily staff numbers over 2,000.

HUD's current approach to these enforcement actions is understandable, since enforcement requires skills and abilities that are quite different from those acquired through compliance monitoring. Nonetheless, the current approach is clearly not adequate to address the magnitude and dimensions of the problems, which in the public and multifamily housing program areas alone pertain to an inventory of 3,200 PHAs with over 13,000 developments, and 15,100 insured multifamily projects, with complicated social and political implications to deal with as well. HUD management needs to expedite actions to more fully utilize its available capacity for enforcing its program performance requirements.



# Operation Safe Home



Operation Safe Home is a campaign, initiated in February 1994, to combat crime affecting HUD housing. The three target areas are violent crime in public and assisted housing, fraud in the administration of public housing programs, and equity skimming in FHA insured multifamily housing. These three types of wrongdoing represent particularly high risks to the well-being of residents of public, assisted, and insured housing and to HUD's programs.

Involvement of law enforcement at the federal, state and local levels is essential to Operation Safe Home. Cooperating agencies include the Federal Bureau of Investigation (FBI); the Drug Enforcement Administration (DEA); the Bureau of Alcohol, Tobacco and Firearms (ATF); the U.S. Marshals Service (USMS); the U.S. Secret Service (USSS); the U.S. Postal Service (USPS); and the Department of Justice (DOJ). Together with individual states, counties, cities, sheriff and police departments, and housing authority police, these agencies have been the key to the results achieved so far in this campaign.

The Operation Safe Home efforts of the HUD OIG have not gone unrecognized. Numerous awards were presented during this reporting period to OIG employees. The one we are particularly proud of is the Julie Y. Cross Memorial Award, which was presented to HUD OIG Special Agent Diane Hill by the Interagency Committee on Women in Federal Law Enforcement. This award is given once a year in the memory of U.S. Secret Service Agent Julie Y. Cross, who gave her life in the line of duty. The award recognizes a woman who has displayed exceptional performance and who serves as a model for women in the law enforcement profession. Special Agent Hill was cited for her work, courage, and stamina on several Massachusetts Operation Safe Home Task Forces.

## Combatting Violent Crime in Public and Assisted Housing

### Task Force Operations

Under the umbrella of Operation Safe Home, HUD OIG Special Agents are active in over 100 task forces throughout the country. Their efforts have resulted in:

Activity	Current Reporting Period	Cumulative to Date
Arrested	202	6,826
Seized		
Weapons <sup>1</sup>	175	558
Cash	\$3,344	\$1,062,158
Drugs (street value) <sup>2</sup>	\$33,654	\$2,854,172
Search Warrants Executed	14	737

<sup>1</sup> Includes 41 assault weapons and shotguns during this reporting period, for a total of 100 to date.

<sup>2</sup> Estimated value.





The fight against violent crime has been very aggressive. Federal, state, and local authorities around the country are enthusiastic about resolving the problems faced by the residents of public and assisted housing. Residents are also playing an important role, demonstrating a willingness to cooperate in our efforts. The following are examples of Operation Safe Home activities that occurred during this reporting period in which HUD OIG was actively involved:

### *California*

Operations took place in five major areas during this reporting period.

In SAN FRANCISCO, the Housing Task Force arrested approximately 165 individuals on various charges from possession and distribution of drugs to murder. Fugitive sweeps and "buy/bust" operations were used by the Task Force. In one particular sweep, 75 arrests were made.

In STOCKTON, 58 arrests were made after several months of undercover work at two public housing developments by the San Joaquin Anti-Violent Crime Task Force. To show their appreciation, residents of one of the housing developments threw a "Thank You" party for the law enforcement officers who helped to clean up their community. The Task Force includes the ATF, USMS, FBI, HUD OIG, U.S. Attorney's Office, Immigration and Naturalization Service (INS), the California Department of Corrections, San Joaquin County District Attorney, and the Stockton Police Department.

In SACRAMENTO, the Career Criminal Apprehension Team, comprised of the ATF, FBI, USMS, HUD OIG and the Sacramento Police Department and County Sheriff's Office, arrested a particularly dangerous individual at the Sierra Hills public housing development on four felony counts of sexual crimes, including rape, and two misdemeanor charges for violation of parole.

In separate operations, the LOS ANGELES Task Force arrested 14 individuals including members of two gangs involved in drug operations in several public housing developments. Charges ranged from attempted murder of a police officer to sale and possession of drugs. In connection with these arrests, a HUD OIG Special Agent presented police reports to the City Housing Authority Attorney on the individuals considered the most violent and dangerous living in the William Mead public housing development. Based on these reports, which included long criminal histories and demonstrated violent patterns, eviction notices were issued.

In HAYWARD and ALAMEDA, the Specialized Multi-Agency Safe Housing Task Force (SMASH) has been actively targeting violent crime in assisted housing areas. Nineteen arrests, the seizure of drugs valued in the thousands of dollars, weapons, and over \$7,000 in cash have resulted from this effort. In one operation, welfare fraud cases were filed by the U.S. Attorney's Office after searches of individual units disclosed evidence of unreported income.

### *Colorado*

The USPS, HUD OIG, DEA, U.S. Customs and local police departments have been actively involved in operations in and around public and assisted housing complexes in DENVER, AURORA, and GREELEY. During this reporting period, more than 100 individuals were arrested and large amounts of drugs and weapons were seized. For example:

In DENVER, after 3 search warrants were executed on 12 public housing units and Section 8 properties, 33 individuals were arrested and multiple drugs were seized. In another



incident, a task force was contacted by U.S. Customs after a trained drug dog alerted them to a suspicious package bound for the Boulevard Apartments, a Section 8 complex. The package contained hashish. One individual was arrested.

In AURORA, 21 felony charges and 19 misdemeanor charges were brought against 40 drug buyers and sellers who lived in or frequented public housing developments.

Following a 6-month undercover operation in GREELEY, nine individuals were arrested on theft and drug related charges at Pine Meadows Apartments, a HUD assisted housing complex.

### *Connecticut*

The FBI led multiagency task force in HARTFORD, which includes HUD OIG, continued to target areas controlled by the Los Solidos gang. For example, in April, the task force announced the indictment of 20 individuals on charges that include Federal Racketeering Influenced Corrupt Organization violations. In June, the task force, with approximately 130 law enforcement officers, made 40 arrests in and around 5 public housing sites.

The NEW HAVEN Gang Task Force, consisting of the FBI, DEA, ATF, INS, HUD OIG, New Haven Police, and U.S. Customs Service, culminated a 2-year investigation into large scale drug trafficking in public housing developments. The focus was on both incoming drugs from Columbian sources and street distribution in residential areas. The Task Force served 10 search warrants and arrested 20 drug traffickers who were then indicted by a federal grand jury. Large quantities of narcotics, firearms and several vehicles were seized. Approximately 300 law enforcement personnel participated in this operation.

### *District of Columbia*

Since August 1994, Project Uptown has focused much of its efforts at the Kelly Miller public housing complex in Northwest Washington. During this reporting period, the arrest of 15 members of the LeDroit Park Crew drug gang cleared the way for a different type of operation by public housing officials: inspecting and repairing apartments, posting eviction notices and taking identification pictures of residents. Also, in a holistic approach to crime control and prevention, DEA agreed to bring its drug prevention program to two elementary schools that border the complex; and Howard University, under contract with the District, will go on-site at the complex for 7 months and provide social services at each household. The HUD Inspector General presented awards to Officers, Agents, and Officials from the Assistant U.S. Attorney's office, the USSS, ATF, Metropolitan Police Department (MPD) and the DC Housing Authority for their work in removing the "Crew" from the complex.

On September 30, HUD OIG, the MPD and the DC Housing Authority sponsored a family day for the residents of the Kelly Miller community. The IG, the Mayor and other area officials joined the residents in an afternoon of food, games and rides. The development has new landscaping, fences, lighting, doors, and paint, and the abandoned cars are gone.

Another drug gang operating throughout the District was the target of FBI Safe Streets Task Force. Eleven search warrants and 13 arrest warrants were executed by the FBI, HUD OIG, USMS, and the MPD on the Fern Street Crew, a gang involved in narcotics, violent crimes and homicides. Thirteen were arrested and cash, drugs, guns, vehicles and three homes were seized.



HUD OIG also received recognition from the MPD for its work on a computerized crime mapping project to chart violent crime committed within DC public housing complexes.

### **Florida**

Surveillance of several public housing developments by the MIAMI Safe Home Task Force resulted in more than 60 arrests, the seizure of a large quantity of drugs, cash and a stolen weapon. As a result of these arrests, 17 public housing residents were evicted.

Similarly in OPA LOCKA, because of the Operation Safe Haven Task Force, 50 arrests were made and drugs, \$23,000 in cash, guns, and 2 vehicles were seized. This Task Force was initiated by the Dade County Housing Authority for the public housing units on Ali-Baba Avenue in Opa Locka and consists of ATF, DEA, HUD OIG, and the Metro Narcotics Special Investigation Division of the Dade County Police. One of the arrestees is a career violent offender currently on probation and now faces a minimum 15-year sentence. Evictions have also occurred as a result of the work of this Task Force.

### **Georgia**

As a result of a joint investigation by DEA, ATF and HUD OIG into violence on properties of the ATLANTA Housing Authority, members of the Miami Boys street gang pled guilty to multiple counts of conspiracy to distribute drugs and weapons violations. The Housing Authority presented an "Award for Heroism" to Agents who were involved in this operation.

In an effort to develop better community relations and reduce future problems, HUD OIG and other law enforcement representatives from the Atlanta area worked at the *Participate in the Lives of Youth* program. Over 15,000 children were fingerprinted, including those bussed in from Atlanta public housing developments. The fingerprinting was part of an identification packet that was provided to the parents.

In MACON, HUD OIG Special Agents assisted in organizing a basketball tournament in the Fort Hill community, an area of mixed public and assisted housing. Twenty teams competed in the tournament, which was sponsored by the Macon Police Department, U.S. Attorney's Office, and local businesses.

### **Illinois**

A number of law enforcement initiatives, called SWARMS (Strict Walkdown Abatement Relief Mission), are focused within the CHICAGO Housing Authority complexes. They involve the FBI, DEA, ATF, HUD OIG, U.S. Treasury, Illinois State Police and the Chicago Police Department. During this reporting period, they have arrested more than 700 individuals on charges that included battery, criminal trespassing, armed robbery, and possession of controlled substances. During one SWARM, 11 HUD OIG Special Agents participated in an effort where 74 arrests were made at the Robert Taylor Homes, Henry Horner, Cabrini Green and Ida B. Wells public housing developments. The Chicago Housing Authority's statistics show that between April and June, 170 small arms, 192 assault weapons, \$133,433 in cash and thousands of grams of marijuana, PCP, and cocaine with a street value of \$2.1 million were confiscated.



Indictments were announced against 39 high ranking members of a street gang that had a strong presence in approximately three-quarters of the public housing buildings in Chicago and used the buildings as their base for selling narcotics and guns. Investigations by a multiagency task force established that the gang had contributed extensively to the present distressed condition of the complexes. In one massive round-up, 29 of the gang members were arrested. The primary members of the task force were DEA, ATF, HUD OIG, U.S. Customs, Illinois State Police, Chicago Police, and the Chicago Housing Authority Police.

In a separate multiagency task force investigation into wholesale smuggling of heroin from Southeast Asia and Africa, arrest warrants were issued for 20 individuals on charges of conspiring to possess and distribute heroin. Twelve were taken into custody by the task force. The ring was centered in Chicago's public housing developments and the south suburbs.

### ***Kansas***

An intensive 2-week undercover drug operation by the KANSAS CITY Safe Streets Task Force resulted in the arrest of 10 dealers on state warrants and 9 other individuals on outstanding state felony warrants. Drug buys took place in various public housing and Section 8 neighborhoods. The FBI, INS, and HUD OIG, together with the police departments from Kansas City, MO, Kansas City, KS, and Overland Park, KS, make up this task force.

The DEA TOPEKA Task Force, including the Topeka Police, the Housing Authority Police and HUD OIG Agents, seized 100 marijuana plants and seeds growing behind the residence of the resident association president that was located in a Topeka public housing development.

### ***Louisiana***

Ongoing surveillance by the NEW ORLEANS Task Force at 11 public housing developments and various Section 8 areas of the city resulted in over 300 individuals arrested. Approximately 45 weapons, over \$100,000 in cash, hundreds of grams of drugs, and several vehicles were confiscated.

Clean Sweep initiatives undertaken by the Task Force include personnel from the Housing Authority maintenance and repair staff, community leaders, and volunteers, in addition to the federal, state and local law enforcement agencies that comprise the Task Force. The objective of a "sweep" is to literally clean up a neighborhood. During a 1-week period, members go into the selected neighborhood with rakes, shovels, etc., and make repairs, remove abandoned vehicles, talk with residents and distribute pamphlets and information about reporting crime and illegal activities. Three sweeps were successfully completed during this reporting period.

The Superintendent of the New Orleans Police Department presented a unit citation to the Task Force which is composed of Agents from ATF, DEA, HUD OIG, USMS, and USSS, in addition to the city's Police Department. The Agents and Officers were commended "for their continuing proactive police work in their search for narcotics and weapons which are destroying the future of many young persons resident in these areas of New Orleans."



## *Massachusetts*

Active operations in five major cities included a 5-month undercover operation targeting dealers in the Great Brook Valley public housing development in WORCESTER. This resulted in 28 indictments for buying and selling heroin and crack cocaine.

In a series of undercover "buy/busts" over a 6-month period, DEA, HUD OIG, and state and local police departments arrested 15 individuals in high density Section 8 neighborhoods in LAWRENCE.

The first of several defendants arrested by the CHARLESTOWN Code of Silence Task Force was sentenced to concurrent prison time of 210 months for drugs and 120 months for attempted murder and ordered to pay \$13,000 in restitution. A second defendant, who was selling drugs from her public housing unit, was sentenced to 10 years in prison, 5 years probation and a fine.

Continued efforts by the BOSTON "Clean Sweep II" operation resulted in 13 arrests on charges ranging from assault with intent to murder to drug possession. This operation at the Mission Hill and Franklin Field developments, by the Boston Police Department's Youth Violent Strike Force, the Boston Housing Authority, Massachusetts State Police, Bay Transit Authority, Massachusetts Department of Parole Corrections, and HUD OIG is a follow-up to the original 3-day sweep conducted in September 1994.

## *Michigan*

In a Crack Ridge Task Force initiative in TAYLOR, the ATF, HUD OIG and Taylor Police Department arrested 37 individuals and confiscated numerous weapons, drugs and several vehicles at the Southland and Pine Ridge assisted housing developments. In one incident, after receiving alerts from trained drug dogs, search warrants resulted in arrests and seizure of drugs at two assisted housing developments.

In support of the Task Force and as an additional deterrent, the County Prosecutor's Office initiated a "Push-Off Program," which requires the offender to pay a heavy fine to retrieve each seized vehicle.

## *Missouri*

Continued efforts under the Weed and Seed Program resulted in multiple arrests in ST. LOUIS. With the help of the Housing Authority, drug hotline complaints to the St. Louis Police Department were matched to Section 8 units to determine which locations to target. The Police and HUD OIG executed search warrants and arrested several individuals.

The Northeast Missouri Narcotics Task Force has documented 635 drug sales, issued 400 arrest warrants and executed 50 search warrants in four counties. Sweeps by HUD OIG and state and local law enforcement agencies were primarily conducted on public housing and Section 8 properties in the cities of MEXICO, KINGSTON and HANNIBAL.

## *Nebraska*

The newly formed Operation Mentiras Task Force, consisting of ATF, USMS, HUD OIG and the local police department, conducted operations in several OMAHA public housing complexes. They



arrested 130 illegal aliens who could be traced to public housing units, prevented a robbery and murder by placing the suspects under surveillance after receiving confidential information about the plan, arrested four known gang members, and confiscated several knives and guns.

## *New York*

In NEW YORK CITY, the Manhattan Narcotics Enforcement Unit, a Task Force comprised of the ATF, HUD OIG, New York City Housing Authority and city Police Department, arrested 11 individuals and confiscated over \$11,000 in cash, plus drugs and guns. In another operation, named Operation Gold Top, the Task Force developed information that a drug gang was producing and distributing drugs at several public housing complexes in Manhattan and the South Bronx. At three locations in public housing complexes, more than 1,000 vials of crack cocaine, \$1,500 in cash, electronic equipment and drug related paraphernalia were seized.

Approximately 500 law enforcement officers were involved in a massive sweep to reclaim the streets in the 40th Precinct in the BRONX which includes public housing complexes and Section 8 housing. Local residents cooperated with federal, state and city authorities, including HUD OIG, when they arrested 337 individuals, including 45 fugitives residing in the Diego Beekman complex.

In support of Operation Safe Home efforts in New York City, the Police Commissioner announced that 432 police officers will be added to the Housing Police Bureau. Also, the city plans to spend more than 50 percent of its \$40.5 million Drug Elimination Grant on Operation Safe Home activities, using the new officers to sweep through the city's 120 housing developments and target the sale of drugs. Simultaneously, the Housing Police Bureau Chief announced that crime in the developments has dipped 21.7 percent over last year. This was attributed to the aggressive crime strategy. In addition, a new housing police station constructed with HUD funds was opened on CONEY ISLAND. This adds 210 new officers to a station which protects approximately 25,000 residents who live in the developments within its jurisdiction.

## *Ohio*

Through the use of computers in CLEVELAND, outstanding felony arrest warrants were matched against public and assisted housing residents and other data banks with government funded benefits. Out of 11,000 outstanding warrants, 138 individuals were targeted as wanted felons living in public housing. Of those targeted, 28 were arrested in a cooperative effort by HUD OIG, ATF, the Cuyahoga Housing Police Department, the County Sheriff's Office, and the Ohio State Auditor's Office.

Search and arrest warrants were executed simultaneously in LIMA, OH, and DETROIT, MI, for members of a gang who are responsible for distribution of drugs at Lima public housing complexes, at least 10 drive-by shootings, assaults and 3 murders. In an undercover operation, the gang sold drugs they manufactured in Detroit to an undercover agent in Lima. During this 18-month investigation, drugs, over \$60,000 in cash, and 3 luxury vehicles were seized.

In a marijuana eradication effort, HUD OIG Special Agents assisted state and local authorities in confiscating 400 plants that were being cultivated in urban areas throughout TRUMBULL COUNTY, including some on public housing properties. The plants had a street value of approximately \$400,000.



## *Pennsylvania*

The Violent Traffickers Program conducted its largest raid against drug dealers operating in various public housing locations in North PHILADELPHIA. More than 400 Agents and Police Officers, including HUD OIG, participated in executing 3 search warrants and 37 arrest warrants. Fourteen individuals were arrested, including the alleged drug lord, and quantities of drugs and money were seized.

## *Rhode Island*

A 6-month investigation focused on drug trafficking that originated in Boston and New York and funneled into NEWPORT via public housing. More than 40 individuals were arrested; most lived in or dealt narcotics in the Tonomy Hill and Park Field public housing developments. Eviction proceedings are being initiated against all the residents involved. The task force included DEA, HUD OIG, the U.S. Naval Criminal Investigation Service, and the Newport and Middleton Police Departments.

## *Texas*

HUD OIG Special Agents have been active on several task forces that focus on crime in public housing developments throughout the state. Following a 2-month investigation at the Irvinton Village public housing development, the HOUSTON Task Force arrested 18 individuals on both federal and state drug charges. In FORT WORTH, 46 individuals, including 16 residents, of the Cavile, Butler and Ripley Arms developments were arrested on drug charges.

In early April, Phase I of a 60-day concentrated effort began at five public housing complexes in DALLAS. The task force included 25 Agents and Officers from the FBI, ATF, DEA, HUD OIG, and the Dallas Police Department. Their goal was to sweep the complexes and arrest a large number of individuals at one time. With 24 search warrants, 122 individuals were arrested on state charges. Phase II, named Operation Summer Heat, culminated with the arrest of 58 individuals following undercover surveillance and drug buys.

## *Virginia*

A 2-year investigation by the DEA, IRS, HUD OIG, and the RICHMOND Police Department resulted in the conviction of 10 gang members for a variety of narcotics, firearms and money laundering charges. Sentencing ranged from 18 months to 20 years in prison. The gangs were operating in two public housing developments. In a post-enforcement initiative, HUD OIG staff met with Resident Council officers from all the Richmond public housing developments to discuss strategies for preventing drug and violent crime activities in their communities. In addition, OIG and HUD program staffs joined the FBI and the U.S. Attorney's Office in a *Partnerships Against Crime* forum at the annual conference of the Virginia Association of Housing and Community Development Officials.



## Witness Relocation Efforts

Witnesses to violent crime have historically been fearful of cooperating with law enforcement because of threats to their lives and those of their loved ones. In the past, the OIG has worked sporadically with other federal, state and local law enforcement agencies in using HUD resources to relocate witnesses. Under Operation Safe Home, this effort has increased substantially due to the enhanced cooperation between law enforcement and public housing agencies. Since the inception of Operation Safe Home, the OIG has facilitated the relocation of 183 witnesses/families. During this 6-month reporting period alone, 35 witnesses/families were relocated. Examples of witness relocations facilitated by OIG Agents during this period include the following:

- ⊗ At the request of the gang investigator in the District Attorney's Office, a witness who provided testimony about gang members operating in public housing developments was relocated. The gang members were convicted on drug charges.
- ⊗ A witness who provided information concerning a gang suspected of shootings and cocaine trafficking around assisted housing developments was relocated. Prior to becoming a witness, the individual had been shot by gang members.
- ⊗ Two witnesses in a case involving narcotics trafficking in public housing were relocated.
- ⊗ A witness who provided information that was subsequently used in issuing warrants in public housing developments was relocated.
- ⊗ A witness and her family were relocated after they provided assistance to the U.S. Attorney's Office in an investigation of drug trafficking and a homicide in a public housing development.
- ⊗ At the request of the DEA, a cooperating witness was relocated after providing information crucial to a DEA case involving drug trafficking in public housing.
- ⊗ At the request of the FBI and the U.S. Attorney's Office, a witness and her family were relocated when the witness received a death threat after providing testimony related to drugs and violent crime in a HUD assisted complex.

## Impediments to Operation Safe Home

Since the inception of Operation Safe Home, the OIG has learned a great deal about the nature of violent crime in and around public and assisted housing developments, techniques that are useful in combatting these crimes, and obstacles that stand in the way of law enforcement efforts. These obstacles include insufficient resources for witness relocation, weaknesses in resident screening and eviction, mixed populations of elderly and disabled persons, and inadequate Operation Safe Home Task Force funding.

### *Witness Relocation*

Resolution of the many violent crime cases investigated by the OIG and other law enforcement agencies often hinges on the availability and testimony of witnesses to the crimes. In an effort to





dissuade testimony, physical threats, including death threats, are frequently made against witnesses. Under Operation Safe Home, the OIG has dramatically increased its role in utilizing HUD housing resources for witness relocation. In addition to the 183 witnesses/families the OIG has facilitated in relocating since the inception of Operation Safe Home, in 1994, HUD amended the Federal Preference Rule to facilitate the relocation of public housing residents who have either provided information on criminal activity to law enforcement or will be testifying as witnesses at trial, and fear reprisals for their cooperation. In spite of these efforts, however, the OIG has found the current witness relocation program to be insufficient because:

- ⊗ Public housing agencies frequently refuse assistance on the basis that the existing federal preference is only one of many such federal preferences, and witnesses need to "wait their turn."
- ⊗ Public housing agencies are reluctant to accept a witness from another agency, thereby giving the witness a preference over families on their own waiting lists.
- ⊗ Transfers of witnesses within the housing agencies where they reside are generally unacceptable because the witnesses remain too accessible to those who might seek to harm them.
- ⊗ Assigning a Section 8 certificate or voucher to a witness negatively impacts on any cooperating housing agency because the agency has a limited supply of such certificates or vouchers.
- ⊗ HUD has not fully supported the program by providing guidance to public housing agencies in establishing policy for the witness relocation effort.

### ***Resident Screening and Eviction***

In cooperation with other federal, state and local law enforcement agencies and public housing officials, the OIG continues to identify, arrest and seek prosecution of violent criminals residing in public and assisted housing. We have found, however, that there are three unnecessary federal legislative impediments to the effective screening and eviction of criminal residents. These impediments: (1) provide administrative grievance rights to residents, which unnecessarily extend the public housing eviction process, sometimes for up to a year; (2) fail to place responsibility for disclosure of current illegal drug use on the public housing applicant or resident; and (3) limit public housing agency access to national criminal information available through the National Crime Information Center.

### ***Mixed Populations of Elderly and Disabled Persons***

Under current HUD regulations, non-elderly disabled persons are eligible for admittance into public housing for the elderly. More than one-half of all admissions into elderly housing today are not elderly persons, but rather disabled people, including recovering drug addicts and alcoholics. This mixing of the elderly and non-elderly disabled has created severe problems for public housing agencies, as it has caused some elderly developments to become unstable and to deteriorate. Both of these groups have distinct lifestyles and support service needs that must be recognized. In addition, incidents of assault and intimidation of elderly residents by non-elderly disabled persons have occurred as a result of this population mix. In connection with our



Operation Safe Home activities, we have found that these problems are fairly common. A deputy superintendent of one city police department advised us that elderly housing in his city is plagued by allegedly recovering drug users who sell drugs from their units. The users know they can move into formerly elderly housing by entering a rehabilitation program for as little as 30 days, thereby qualifying for the unit as a "disabled" person. The superintendent's comments are consistent with comments received during a recent conference with representatives of the International Association of Chiefs of Police.

In 1992, the Congress attempted to deal with these problems by enacting section 622 of the Housing and Community Development Act of 1992. This law amended section 7 of the Housing Act of 1937. Section 7, as amended, allows public housing agencies to designate, on a "going forward" basis, projects or portions thereof as: (1) all elderly; (2) all non-elderly disabled; or (3) mixed elderly/disabled. Two aspects of section 7, however, hamper its effectiveness. First, public housing agencies who undertake designations are prohibited from involuntarily relocating disabled persons from their existing units, i.e., the disabled cannot be forced by the agencies to vacate and move elsewhere in order to create the desired population in a particular project. Second, the designation process is bureaucratic and cumbersome because public housing agencies must prepare and submit detailed "allocation plans" for HUD's approval. With almost 3,400 public housing agencies nationwide, only 10 such plans have been approved by HUD. Public housing agencies claim that this allocation plan requirement, and HUD's regulations implementing the requirement, are too burdensome, and thus serve to discourage designations.

### ***Operation Safe Home Task Force Funding***

Since the initiation of Operation Safe Home, the OIG has participated in over 100 law enforcement task forces dedicated to combating violent crime in public and assisted housing. Each of these task forces entails special funding needs, and additional funding is essential if these necessary operations are to continue. Funds have been used to assist local police in short-term task forces to address those areas within their public housing most plagued by violent offenders, and to assist larger federal task forces with operating expenses. Limited OIG funding has also been used to support the purchase of contraband evidence. Evidence purchasing funds are very limited in traditional law enforcement agencies, and are almost nonexistent for local police. In addition, HUD Drug Elimination Grants cannot be used for the purchase of contraband evidence and are further limited in that they cannot be provided to federal entities. Evidence purchases are critically important in seeking sentencing that will remove criminals from the street.

## **Legislative Initiative**

In September 1995, the OIG presented to HUD Secretary Cisneros a legislative proposal to be sent to the Congress to eliminate the four significant barriers the OIG believes are impeding law enforcement efforts to reduce violent crime in and around public and assisted housing. The legislation proposed by OIG would:

- ⊛ Enhance HUD's Witness Relocation Program by requiring the Secretary to reserve from the Headquarters Reserve up to \$5 million in Section 8 funds (during FYs 1996 and 1997) for use by public housing agencies in providing rental assistance to families



who have cooperated with law enforcement agencies and who need to be relocated for their own physical protection. This proposal creates a needed funding mechanism for relocating these threatened witnesses/families.

- ⊗ Strengthen the ability of public housing agencies to effectively screen and promptly evict applicants/residents of public and assisted housing who pose the greatest threats to their communities. First, the proposal would make any person who is a current illegal user of a controlled substance ineligible for public or assisted housing. A person's illegal use of a controlled substance within the preceding 12 months would create a rebuttable presumption that the person is a current illegal user of a controlled substance. The presumption could be overcome by a convincing showing that the person has ceased all illegal use of controlled substances. Every tenant and member of the tenant's household would be required to certify in writing, at the time of initial occupancy and at least annually thereafter, that they are not current illegal users of a controlled substance. Second, the proposal would allow public housing agencies to obtain access to criminal conviction data maintained by the National Crime Information Center for purposes of screening, lease enforcement and eviction. Third, the proposal eliminates public housing agency discretion to continue using legally unnecessary and time-consuming administrative grievance procedures to evict tenants based upon criminal or other activity that threatens other tenants, or based upon drug-related criminal activity on or near the premises. The proposal also broadens the grounds for lease termination to include criminal "or other" activities that threaten other residents.
- ⊗ Grant public housing agencies more discretion and flexibility in designating developments for elderly families only, disabled families only, or elderly and disabled families. Under the proposal, agencies would no longer be required to prepare allocation plans in support of their development designations and submit them to HUD for approval. The proposal also provides for assistance by the public housing agency in relocating persons or families who are to be relocated as a result of the agency's decision to convert an existing development to elderly housing or disabled housing. This relocation assistance includes payment of actual or reasonable moving expenses and the provision of comparable housing to all residents who must be relocated. Comparable housing may include other public housing or Section 8 tenant-based housing.
- ⊗ Enhance Operation Safe Home by requiring the Secretary to reserve up to \$1 million per year in emergency modernization funds to support law enforcement task force efforts to combat violent crime in public housing. While such funding will not eliminate violent crime from public housing, it will go far in encouraging local police and federal law enforcement agencies to focus their efforts on addressing such violent crime.



## Combatting Fraud in Public and Indian Housing Administration

Since the announcement of Operation Safe Home, the FBI/DOJ/OIG commitment to investigate and prosecute fraud in public housing administration has resulted in 94 indictments, 68 pleas/convictions, sentences that include 531 months of incarceration, and fines/restitutions totaling in excess of \$867,100. Results from the current reporting period include 6 indictments, 10 pleas/convictions, sentences that include 287 months of incarceration, and fines/restitutions totaling in excess of \$199,000.

Recognizing that effective fraud prevention will require the involvement and commitment of top housing authority management, the OIG has drafted a proposed housing authority fraud policy which PIH has endorsed. The policy, which should be issued within the next few months, identifies the components of an effective fraud policy and the responsibility of housing authority management in fraud prevention.

Examples of significant results during this reporting period include the following.

### *Colorado*

A HUD OIG investigation led to the sentencing of a DENVER Housing Authority employee. The individual diverted approximately \$10,000 in Section 8 landlord checks to her second employer's business account and then split the proceeds with him. The second employer has been indicted for his alleged involvement.

### *Georgia*

A former maintenance foreman for the BLAKELY Housing Authority pled guilty to submitting false statements to HUD. The foreman, along with a former executive director of the Authority, created a fictitious company, which submitted a bid for roof repairs funded with HUD Comprehensive Improvement Assistant Program (CIAP) funds. The executive director then fraudulently arranged for the fictitious company to win the bid. Additionally, another maintenance supervisor and a contractor pled guilty to creating a fictitious contracting company and fraudulently obtaining a \$48,000 contract. The executive director had previously pled guilty to his involvement. This was a HUD OIG investigation.

### *Maryland*

A contractor and two former employees of the BALTIMORE Housing Authority (BHA) were sentenced for paying and receiving illegal gratuities over a 2½-year period. The contractor arranged for or made payments totalling \$16,000 to the employees in order to receive favorable treatment in HUD funded renovation and repair work. The contractor has also been indicted for filing false information with the IRS. This was a joint investigation by the FBI and HUD OIG.



In a separate case, a father and son pled guilty as the result of an FBI/HUD OIG investigation. The individuals paid approximately \$10,000 in illegal gratuities to a BHA official in return for receiving substantial federally funded rehabilitation work.

### *New Jersey*

In IRVINGTON, a contractor/landlord pled guilty to participating in a scheme with an employee of the Irvington Housing Authority (IHA) to steal at least \$250,000 from the Authority over a 3-year period. The employee caused checks to be issued to the contractor/landlord for services that were never provided. The contractor/landlord then cashed the checks and split the money with the employee. The employee, a former leased housing specialist, was found guilty of embezzling approximately \$750,000 in Section 8 funds from IHA. The 6-year joint FBI/HUD OIG investigation led to the prosecution of the individual on charges of conspiracy to defraud the government, theft of government funds and money laundering.

### *New York*

The debarment of a former commissioner with the WHITE PLAINS Housing Authority was upheld in an administrative ruling. The individual had been convicted of attempting to receive a bribe from a contractor for his preferential consideration in the award of a contract. As a result of an investigation by the local District Attorney's Office and HUD OIG, the individual was suspended after his indictment and debarred after his conviction.

Six members and associates of the Gambino and Colombo Organized Crime families, including two window manufacturing company owners and a former president of a carpenters union, were sentenced during this reporting period. These individuals participated in illegal acts to obtain multi-million dollar, CIAP funded window installation contracts with the NEW YORK CITY Housing Authority (NYCHA). Charges included bid rigging, false statements to HUD, labor pay-offs, extortion and mail fraud as a racketeering enterprise. This investigation was conducted by the Organized Crime Task Force composed of Agents from the FBI, NYCHA OIG and HUD OIG.

### *Pennsylvania*

Two former PHILADELPHIA Housing Authority (PHA) supervisors/directors and a contractor were charged and sentenced for their involvement in a scheme to solicit, accept, and pay illegal gratuities in return for inspecting work done on emergency repair contracts from 1988 through 1991. The former supervisors were sentenced for extorting over \$27,000 from contractors before they would approve emergency wall and fire repairs. The contractor paid illegal gratuities to PHA employees in return for inspecting work done on emergency repair contracts. The sentencings come as part of a long-running investigation of contracting practices at the PHA resulting in the convictions of 10 officials and 6 contractors. The FBI and HUD OIG investigated the case.

In a related case, a rehabilitation contractor, one of four individuals targeted by a joint FBI/IRS/HUD OIG investigation, was sentenced in federal district court to 3 months house arrest, 3 years probation and ordered to pay up to \$25,000 in restitution. Earlier, the contractor and co-



defendants were found guilty of tax evasion and defrauding HUD of \$300,000 in rehabilitation grants.

### *Virginia*

A former Section 8 supervisor of the Chesapeake Redevelopment and Housing Authority in NORFOLK was sentenced to 30 months incarceration, 3 years probation, and ordered to make restitution to the Housing Authority of \$15,000. The supervisor was involved in a scheme to embezzle rental assistance funds by issuing duplicate payments to cooperating residents and landlords in exchange for a portion of the excess payments. This was a joint FBI/HUD OIG investigation.

### *Washington*

A joint investigation by HUD OIG Agents and Auditors and the Bureau of Indian Affairs resulted in the indictment of a former executive director of the Yakama Nation Housing Authority in WAPATO. The individual pled guilty to embezzlement and conversion of goods and funds valued at approximately \$92,000. Sentencing included 15 months incarceration, \$15,000 in fines/restitutions, and 3 years supervised probation.

### *Wisconsin*

Two HERTEL contractors were indicted for making false statements in a mail fraud scheme in an attempt to defraud HUD and the St. Croix Chippewa Housing Authority. The individuals are accused of falsely certifying that they paid subcontractors and material suppliers on a project to build housing units for the Authority. The FBI and HUD OIG estimate the loss to HUD at \$183,000.

## Combatting Equity Skimming in FHA Insured Multifamily Housing

The multifamily equity skimming aspect of Operation Safe Home relies on aggressive, affirmative litigation to stop owners and management agents from illegally diverting funding away from rental housing projects to their personal use. The OIG, and the HUD Offices of Housing and General Counsel, are working together to develop equity skimming cases and present them to U.S. Attorneys. Considering the previous lack of enforcement in this area, accomplishments have been very significant. Since the inception of Operation Safe Home, 47 equity skimming cases representing \$30,904,069 have been closed. During the current reporting period, 15 cases were closed and 13 new cases were started involving equity skimming of \$3,713,413 and an estimated \$3,494,254, respectively.

Examples of significant activity during this reporting period include:



### *Arizona/New Mexico*

The former management agent for three multifamily housing complexes located on the Navajo Reservation at FORT DEFIANCE and TSAILE, AZ, and RED LAKE, NM, pled guilty to diverting \$96,000 in project funds for his own use. The individual managed the three reservation complexes for the Fort Defiance Housing Corporation. Two had FHA insured mortgages; the other had a Farmers Home Administration mortgage. The complexes, which received Section 8 rental assistance, were allowed to deteriorate and many of the 188 units became uninhabitable. The plea resulted from a joint HUD OIG investigative and audit effort, as well as assistance from the Department of Agriculture OIG.

### *California*

The OIG identified \$338,000 of improper or unsupported expenses in an audit of a management agent operating several HUD assisted projects in LOS ANGELES. In managing one cooperative, the agent paid an identity-of-interest company over \$262,000 for maintenance costs which were ineligible or questionable. Although HUD required a separate trust account with sufficient funds to repay the security deposits owed to the tenants, the agent did not fully fund the cooperative's liability. The agent also improperly repaid owner advances when the cooperative had no surplus cash and failed to maintain current accounting records. The audit recommended that HUD pursue appropriate legal action through DOJ, and evaluate the agent's suitability to continue as management agent for any HUD assisted projects. If DOJ declines to take action, the agent should be required to return the assets taken from the project and fully fund the tenants' security deposit account.

### *Colorado*

The DENVER Housing Office issued limited denials of participation (LDP) against the owners of two HUD insured multifamily housing projects. The owners of the Landmark and Sundowner Apartments borrowed and/or disbursed \$170,000 and \$137,000, respectively, for ineligible expenses while the projects were in default and/or had no surplus cash available. The owner of Landmark had received a LDP in 1992 for similar reasons. The owners repaid the respective amounts to the projects and the mortgages were then sold at auction. The owners are no longer involved with HUD.

### *Florida*

The Jacksonville Office affirmed a 1994 LDP against the owner/manager of the Rookery Bay Apartments in NAPLES. The LDP was issued because project funds were used to pay non-project expenses, such as partnership legal fees, advances, excess management fees and partnership insurance and travel, while the project was in default. HUD is currently reviewing other properties owned and managed by this individual.



## *Georgia*

HUD has successfully resolved a potential civil suit for equity skimming against the owner of a multifamily apartment complex in ATLANTA. A HUD OIG audit found that while the mortgage was in default, the owner made unauthorized distributions of project funds; made distributions to himself from funds borrowed for debt service and guaranteed by the project; and had ineligible and unsupported disbursements. These disbursements totalled over \$913,000. In response to a demand letter from the U.S. Attorney and to avoid being sued by the federal government, the owner agreed to personally pay a percentage of the ineligible distributions identified in the audit. The agreement provided for no further disclosure of any other terms of the settlement.

## *Illinois*

A settlement agreement resolving all recommendations in a HUD OIG audit was executed with Burnham Plaza Associates in CHICAGO. The complex went into default in 1988 and was assigned to HUD by 1990. The settlement requires a restitution payment in the amount of \$300,000, with the last payment due by August 1996. The restitution amount represents \$263,937 of funds that were improperly withdrawn after default plus audit costs and penalties.

## *Kansas*

In LEAVENWORTH, the owner/management agent of Benchmark Davis, Inc., pled guilty to skimming over \$290,000 in project funds from the Valley View and Hillcrest Manor Apartments. The HUD OIG investigation originated from an anonymous complaint.

## *Maine*

The Assistant U.S. Attorney recently signed a stipulation agreement with HUD and the owner of Lambert Park Apartments in BATH calling for repayment of project funds. A 1993 HUD OIG audit of the complex disclosed that the former owner diverted \$224,349 from project operating funds. The project was foreclosed by HUD in January 1993. DOJ has received an initial payment of \$50,000 from the owner which will go back into the complex.

## *Minnesota*

An OIG audit found that the owner and management agent of the Marion Housing I and RidgePointe East housing developments in MINNETONKA violated their Regulatory Agreement. The owner and management agent advanced over \$135,000 in HUD funds to RidgePointe East through a letter of credit which was not an obligation of the development. As a result of the audit and subsequent investigation, an individual entered into an agreement to pay HUD \$160,000 and transfer title of all project inventory in order to settle the issue of equity skimming.





## *Missouri*

A 1991 HUD OIG audit found serious mismanagement at the Parkgate Apartments in KANSAS CITY, which led to project failure and losses to HUD of \$3.6 million. The owner improperly used \$50,000 in project funds; made \$77,000 in questionable payments to an identity-of-interest company; failed to disclose a second mortgage in a coinsurance application; and neglected or deferred an estimated \$450,000 in maintenance. An OIG investigation confirmed the equity skimming and false claims. During this reporting period, the owner was sentenced to 5 months incarceration, 5 months home detention, 3 years probation and ordered to pay restitution and fines of over \$200,000.

## *Maryland*

The former project manager of Harborside Village, a HUD assisted complex in JOPPA, pled guilty to embezzling approximately \$278,000 in project funds. The individual was sentenced to 30 days in prison, 5 years probation, 250 hours of community service and ordered to pay \$75,000 in restitution. The HUD OIG assisted the Harford County Police Department in the investigation.

## *Massachusetts*

A 1994 HUD OIG review of Marion Gardens, an insured Section 221(d)(3) multifamily project with 94 units located in LYNN, disclosed that the project owner diverted over \$194,000 from operating funds while the project was in a non-surplus cash position. After the case was presented to the Assistant U.S. Attorney, a demand letter was issued to the project owner. After more than a year of negotiations, a settlement was reached in which the owner will pay HUD \$10,000 up front, \$1,500 per month thereafter for 2 years, and a final lump sum payment of \$164,000 plus interest. All payments will be made to HUD and will then be placed in a HUD controlled escrow account to fund needed project repairs. Should the owner default on any of the payments, HUD reserves the right to proceed with all administrative and judicial remedies available to enforce the judgment. On September 29, 1995, HUD received the initial \$10,000 payment.

## *Nevada*

The owner of Montara Meadows in LAS VEGAS agreed to repayment terms in settlement of a HUD OIG audit which identified improper payments to owners from project funds. The complex has 174 housing units for people of retirement age and provides its residents with meals, maid and laundry services, recreational activities, and other services. The mortgage was assigned to HUD in 1989 because of fiscal default. In 1994, the owner obtained a loan to repay owner advances while the mortgage was still in default. HUD accepted the owner's settlement offer to repay the entire amount of misused funds, approximately \$146,000.



## *New Jersey*

In RUTHERFORD, the owners of 16 projects located in Florida, Kentucky, Ohio and Indiana agreed to final settlement terms and repaid HUD monies which were diverted from the projects while the mortgages were in default. The project owners misused \$648,278 in operating funds for projects whose mortgages had been assigned to HUD and were in default. The diversions were first discovered by contractors employed by HUD to service the mortgages in 1992. After unsuccessful negotiations with the owners for the return of the misused funds, the matter was referred to the OIG. After further review by HUD OIG and subsequent demands for the return of the funds, the owners repaid \$463,144 in June 1995. In August 1995, the owners repaid \$185,134, for a total settlement of \$648,278.

An OIG audit of an owner/agent in HOBOKEN found that the agent, which manages 21 HUD insured projects, maintained the projects in good physical condition, established good tenant relations and complied with tenant eligibility requirements. However, the agent, which had an identity-of-interest relationship with the owner, made \$591,000 in cash distributions to the owner and repaid \$407,000 in outstanding loans when sufficient surplus cash was not available. The agent also used \$254,000 in project funds to pay the salaries of supervisory staff, and used project funds to pay for such items as tuition for the children of the management agent's employees and donations to a civic organization. Since the time of the audit, the owner/agent has repaid HUD \$243,073 for ineligible costs.

## *North Carolina*

An OIG review of records at Salem Gardens Apartments showed that the owners of the WINSTON-SALEM complex had received ineligible project payments of \$142,681 despite HUD's warning that the project was not being properly maintained. The owners also filed ineligible claims of \$183,958 for Section 8 subsidies on units that did not meet housing quality standards. Meanwhile, drug activity and other crimes were of growing concern to local residents. In order to avoid litigation, the owners agreed to make repairs estimated at \$354,995; install security systems designed to deter drug activity and other crimes; and make management changes to promote positive management/tenant relations.

## *Ohio*

As a result of a HUD OIG audit of Northgate Apartments in CINCINNATI, the project owners repaid misused funds totalling \$26,858. HUD insured the 126-unit complex for over \$5 million and was assigned the mortgage in October 1987, after the owners defaulted. The owners reimbursed the \$14,564 in project funds and \$12,294 in excess management fees after these matters were brought to their attention.

## *Pennsylvania*

In PHILADELPHIA, the owner of Powelton Apartments, a 42-unit complex with an \$881,000 mortgage, entered into a workout/settlement agreement requiring repayments of \$79,000 the owner made in unauthorized distributions. An OIG review of project operations disclosed that the



owner may have improperly distributed \$158,000 between 1987 and 1993. The distributions were made while the project had no surplus cash. The mortgage went into default in October 1990.

Also in PHILADELPHIA, a joint HUD OIG audit and investigative effort led to a former finance director of the HUD assisted Abbottsford Homes development pleading guilty to theft of government property for embezzling almost \$33,000 in funds intended for the resident management corporation.

The owner/agent of a 102-unit project in HOLLIDAYSBURG violated HUD requirements and failed to support over \$1 million in expenditures. The owner/agent repaid advances when the project was not in a surplus cash position, paid management fees after the management certification had expired, paid over \$155,000 in invoices from an identity-of-interest firm for questionable charges, could not adequately support over \$268,000 in disbursements, and deposited over \$1.1 million into a clearing account from the project rental account when only \$696,000 could be identified as expenses of the project. An OIG audit recommended that the owner/agent support over \$1 million and repay any ineligible costs. In addition, HUD should evaluate the advance and repayment transactions between the project and the agent.

### *Puerto Rico*

The Department has successfully resolved a pending civil suit against the owners of Hospital Hermanos Melendez in BAYAMON. Following a request for an audit by the Assistant Secretary for Housing, the HUD OIG discovered that from 1987 to 1993 the mortgagor had misspent or paid, without proper support, over \$12 million in violation of the Regulatory Agreement. In response to a demand letter prepared by HUD Counsel, the mortgagor arranged to refinance the \$9.7 million mortgage conventionally, thus resolving the audit findings by eliminating HUD's risk from the possible insurance loss. In addition, the mortgagor repaid \$114,000 representing the cost of the audit.

HUD recovered \$1.1 million and confirmed that another \$341,000 was returned to the Bayamon Country Club complex in resolution of a HUD OIG audit and pending civil suit against the project owners. The City of Bayamon helped fund this FHA insured multifamily project by giving the owners a Housing Development Grant (HDG) from HUD. During a 1992 audit, HUD OIG found ineligible and unsupported development costs and therefore, concluded that the owners were not entitled to the full housing development grant and were obligated to return some funds already received. The owners strongly disagreed, but prior to litigation, agreed to settle and returned \$600,000 to HUD and withdrew any claim for the remaining \$517,000 in HDG money held by the city. HUD's Atlanta Field Counsel, acting in its special legal capacity with the U.S. Attorney in Puerto Rico, led the settlement negotiations on behalf of DOJ and the Department.

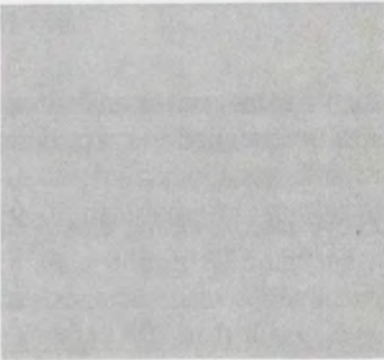
### *Washington, DC*

The owner/agent of a nursing home withdrew over \$600,000 of ineligible surplus cash from the project, paid \$642,500 in excess management fees, made payments of \$493,000 for ineligible, unreasonable or unnecessary purposes, and obligated another \$460,000 for future ineligible payments. The owner entered into a 10-year operations lease with an identity-of-interest company, enabling the owner to receive monies in excess of the monthly mortgage payment. Between January 1993 and October 1994, the owner received \$760,000 in excess lease payments

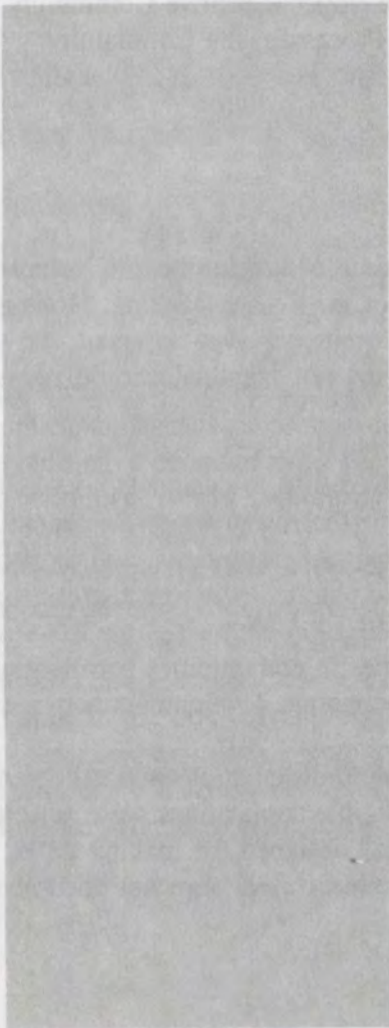


and future excess payments are estimated at \$2.6 million. An OIG audit recommended that the owner/agent be required to reimburse the project for all ineligible expenses and implement control systems to comply with the Regulatory Agreement.





# Other Significant Audits and Investigations



In addition to focusing this period on the general state of HUD's management environment, major program execution areas, and Operation Safe Home, the OIG continued to carry out a balanced program of audits and investigations of HUD programs and operations.

During this reporting period, OIG audits resulted in cash recoveries, including those obtained under Operation Safe Home, amounting to \$26.3 million, with another \$27.6 million in commitments to recover funds. Investigative efforts, including recoveries made, arrests executed, and indictments/convictions obtained under Operation Safe Home, resulted in 202 persons arrested for violent crimes, 410 persons indicted, 170 convicted, and cash and other recoveries of \$4.3 million. This section illustrates the audits and investigations conducted during the period.

## Community Planning and Development

The Office of Community Planning and Development (CPD) administers programs that provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeownership opportunities, homeless shelters, neighborhood restoration, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. During this reporting period, audits and investigations focused on the Empowerment Zone (EZ), Enterprise Community (EC) and Economic Development Initiative (EDI) Grant Selection Processes; the Community Development Block Grant (CDBG) Program; the HOME Program; and HOPE 3 Implementation Grants.

### **EZ, EC AND EDI GRANT SELECTION PROCESSES**

At the request of the Chairman of the Senate Appropriations Subcommittee on Veterans Affairs, HUD and Independent Agencies, and the Chairman of the Senate Banking, Housing and Urban Affairs Subcommittee on Housing Opportunity and Community Development, the HUD OIG audited the EZ and EC designation process. We also audited the EDI grant selection process because of the program's close ties to the EZ/EC process.

The Omnibus Budget Reconciliation Act of 1993 authorized HUD to designate six EZs and up to 65 ECs in urban areas. The program is intended to combine the resources of the federal government with those of state and local governments, educational institutions, and the private and nonprofit sectors to implement a comprehensive strategic plan to revitalize distressed areas. The Multifamily Housing Property Disposition Reform Act of 1994 authorized the EDI Grant Program, intended to increase economic development activities in communities by allowing grant recipients to borrow against future block grant awards for economic development activities.

The audit disclosed that the processes used in making EZ/EC designations and EDI grant awards did not provide reasonable assurance that the best eligible applications were selected for benefit designations and funding awards. The original process designed for making EZ/EC designations was not fully followed and the alternative procedures used were not documented.



More importantly, assessments of the eligibility, as well as an application's relative rating and ranking against other applications, were inadequately documented to enable an independent reviewer to determine the bases for decisions made. As a result of these process weaknesses, we were unable to determine the reasonableness of:

- ⊗ The final designation of six EZs from a total of 22 EZ applications that were generally categorized as "strong" by the application review process;
- ⊗ The final selection of 14 EC applications that were categorized as "weak" or no longer under further consideration by the application review process; and
- ⊗ A decision to limit EDI grants to six strong rated EZ applicants who did not receive EZ designations.

The CPD staff responsible for the EZ/EC application review process advised the OIG that they avoided detailed written rating, ranking and decision processes -- in favor of group discussions and general consensus ratings -- given the newness and complexity of the program concept, and their perceived need to maintain an openness and flexibility in the decision process. The HUD Secretary advised that he used the CPD staff's general input, as well as his personal knowledge and perspectives on individual community needs, in making the final designations and award decisions. While the Secretary had the authority to make the final designations, the basis for selections should have been limited to the application of the specific selection criteria provided in the program statute and published in the Notice Inviting Applications. It is not evident that this occurred in each of the final designations.

The basis for the selection of 14 lower rated EC applicants was undocumented. The final selections did not logically flow from the defined application review process, giving the appearance that the process was open to favoritism.

The EDI awards, totalling \$300 million dollars, were made in a non-competitive manner pursuant to a Notice of Funding Availability (NOFA) published in the Federal Register on December 7, 1994. This NOFA stated that the EDI awards for December 1994 would be non-competitive and restricted to the 78 previous EZ applicants. In our opinion, the EDI program statute -- section 232 of the Multifamily Housing Property Disposition Reform Act of 1994 -- requires that all EDI awards be made on a competitive basis using specified selection criteria to evaluate applicants. Because a competition was required by the EDI program statute, we believe that CPD should have complied with Section 102(a) of the Department of Housing and Urban Development Reform Act of 1989 in making the December 1994 EDI awards. Section 102(a) of the HUD Reform Act was designed to ensure accountability and integrity in the way in which the Department competitively awards assistance. The requirements of Section 102(a) include Federal Register notice, at least 30 days prior to any application deadline, of the criteria by which selection for the assistance will be made. The December 7, 1994 NOFA identified selection criteria but provided EDI applicants with only 10 days to submit applications. This NOFA stands in marked contrast to the EDI NOFAs preceding and post-dating it, which provided for a competitive selection process and expressly recognized the applicability of Section 102(a) of the HUD Reform Act to EDI awards. We do not believe that Congress intended for HUD to arbitrarily decide when it will comply with the HUD Reform Act in making different grants under the same program statute.



In response to our draft audit report, CPD obtained a legal opinion from HUD's Office of General Counsel to support prior verbal advice that Section 102(a) of the HUD Reform Act did not apply to EDI funding. The Office of General Counsel opined that Section 102(a) applies only where a program statute uses the word "competition" or "competitive." Because the EDI program statute does not expressly use these words, the Office of General Counsel concluded that competition is not required and the HUD Reform Act is inapplicable. In the Office of General Counsel's view, EDI funding is discretionary, non-formula, non-demand assistance that is not provided on the basis of a competition. We believe this is an unduly restrictive interpretation of Section 102(a) of the HUD Reform Act and its implementing regulation, 24 C.F.R. Part 12. Until the December 7, 1994 EDI NOFA, HUD had complied with Section 102(a) of the HUD Reform Act in making funding decisions under a wide range of program statutes that specify selection criteria but that do not use the word "competition" or "competitive." In addition, the preamble to HUD's implementing regulation makes clear that only three categories of HUD programs are excluded from Section 102(a)'s coverage: (1) formula programs; (2) demand programs; and (3) discretionary, non-formula, non-demand assistance that is not provided on the basis of a competition. The regulation at 24 C.F.R. 12.10 lists the four programs that fall within this third category, and states that HUD will add other programs, as appropriate. HUD never added EDI to this regulatory list of programs excluded from Section 102(a)'s coverage. The Office of General Counsel's opinion affirming the propriety of the December 1994 EDI award process does not account for these discrepancies.

Notwithstanding the Office of General Counsel's opinion -- with which we disagree -- we still contend that the manner in which HUD solicited and selected EDI applications was unfair to potential or actual applicants. As noted above, the EDI NOFA was restricted to the 78 previous EZ applicants. The NOFA required a 1:1 match of EDI with Section 108 loan authority. Consequently, only entitlement communities with outstanding Section 108 loan authority could apply. The NOFA had a 10-day response time, and 45 communities applied by the December 17th deadline. The Secretary made the final EDI award announcements at the same time as the EZ designation announcements, on December 21, 1994. At the time of the issuance of the EDI NOFA, 13 communities were under consideration for final EZ designations by the Secretary. Only 6 of these 13 could receive EZ awards, as authorized by the 1993 statute. From our interviews of those involved in the EDI review and selection process, it appeared that EDI funds were only intended for 7 of the final 13 strong rated EZ applicants that would not receive EZ designations. In this regard, it is our opinion that the targeting of the EDI NOFA to all 78 original EZ applicants was unfair.

Our draft audit recommendations that the eligibility and quality of the questioned cases be reassessed were removed from the final audit report, based on management's stated disagreement. However, the report was provided to HUD Congressional Oversight Committees for their consideration of whether HUD has acted in accordance with Congressional intent. We are also retaining our recommendations that HUD assure adequate documentation of the basis for all future selections and awards. (Report No. 95-HQ-154-0002)





## CDBG PROGRAM

The CDBG Program enables communities to carry out a wide range of activities directed toward neighborhood revitalization, economic development, and improved community facilities and services. Audits and investigations found that accountability over the use of CDBG funds was sometimes lacking.

The OIG audited the use of program income generated from the CDBG small cities single purpose grant by the City of CAPITOLA, CA. In 1988, the city received \$226,900 of income from the sale of property acquired with CDBG grant funds. The sale proceeds were deposited into the city's general fund. Several months later, the city purchased another parcel, and, in order to meet a CDBG program objective, intended to use the new land for mixed-use development that included 17 units of low-income housing. The city, however, has not developed the proposed housing, and therefore has not appropriately used program income. We recommended that the city provide a firm commitment and a timetable for meeting a national program objective. If it is unable to do so in a reasonable time, HUD should recover the income. (Report No. 95-SF-243-1011)

An OIG audit disclosed that the City of DETROIT, MI, through its oversight agency, the Planning and Development Department (PDD), did not effectively monitor the operations of its CDBG recipients. The PDD did not effectively review monthly subrecipient performance reports, make on-site visits to verify subrecipient documentation, procedures and cost reimbursement information, or take timely corrective actions on findings reported by independent auditors. One subrecipient could not verify that over \$103,000 it spent was used according to its subrecipient agreement. The PDD also failed to provide adequate direction and resources for its monitoring staff. Until the city corrects the weaknesses, both HUD and the city will have no assurance that subrecipients conduct their CDBG funded activities according to subrecipient agreements and HUD requirements. The audit recommended that the Michigan State Director of CPD require the city to implement formal procedures for monitoring subrecipients, analyze staffing needs and ensure that independent auditor findings and monitoring review deficiencies are corrected. Also, any funds spent for which documentation cannot be provided should be reimbursed to the CDBG Program. (Report No. 95-CH-241-1007)

An OIG review of the PHILADELPHIA, PA Housing Development Corporation (agency), a subgrantee of the city's Office of Housing and Community Development, found that repair and rehabilitation work was well done, and costs incurred appeared reasonable. However, the agency needs to strengthen its controls over mortgage loans receivable and improve its contracting procedures. An agency reorganization in 1993 reduced staff and other resources available to service loans. As a result, no actions have been taken on delinquent loans and only a portion of the program income currently due has been received. There was also little accountability over loans receivable due in future years. In addition, the agency did not always allow for maximum open competition and fairness in the award of contracts, and may not always have paid the lowest price available. The audit recommended development of servicing procedures for rental rehabilitation loans, and procedures to ensure the lowest responsive and responsible bidders are awarded contract work. (Report No. 95-PH-241-1007)

An OIG audit found that in administering its CDBG Program, the City of MARIÓN, IL, lacked an effective internal control system. The City did not assign accountability for the custody and



use of revolving loan files; have adequate policies and procedures relating to the loan application and approval process; monitor loan recipients to find out if the loans provided an economic benefit to the community; or have policies and procedures for loan collection and write-off of uncollectible accounts. The audit recommended that the City implement adequate procedures for administering its revolving loan fund program. (Report No. 95-CH-241-1003)

## HOME PROGRAM

The HOME Program provides grants to states, local governments and Indian tribes to implement local housing strategies designed to increase homeownership and affordable housing opportunities for low- and very low-income persons. Funds can be used for tenant-based assistance, housing rehabilitation, assistance to first-time homebuyers, and new construction.

The OIG reviewed the HOME and Small Cities Programs administered by the City of MECHANICVILLE, NY, in order to determine if administrative and internal control weaknesses identified in the city's latest financial audit affected the city's ability to safeguard assets and accomplish program objectives. The review found that the city provided little or no oversight to the consultant entrusted to administer the programs, thus allowing the consultant to control all aspects of the procurement process. The consultant, whose performance has been inadequate and has resulted in the inefficient and uneconomical use of grant funds, has received over \$208,000 for his work since November 1990. Because inaccurate information was provided to HUD by the consultant, the city could not fully support much of the information contained in its grant applications and performance reports. Some of the inaccuracies may have influenced favorable HUD actions on grant matters. Widespread lapses existed in documentation supporting the propriety and effectiveness of the rehabilitation programs using HOME and CDBG funds. In over half of the rehabilitated properties we inspected, work items contained in the contracts were either not done or were poorly performed. Despite this, the consultant authorized payments to the contractors. The review also found that favoritism may have been a factor in the approval of two rehabilitation grants. Unless significant improvements are implemented to ensure that the city has necessary controls to safeguard and properly use grant funds, it is unlikely that the city will have the capacity to administer grants in the future. We believe the city's reliance on the consultant has been misplaced, and recommended that the city be required to implement procedures to improve its ability to account for the use of grant funds. (Report No. 95-NY-243-1802)

The LAKE COUNTY, IL Consortium generally complied with applicable regulations and effectively expanded the supply of housing for low- and moderate-income persons in administering its HOME Program. However, an OIG audit found that Lake County, the Consortium member responsible for program monitoring, did not always maintain documentation to support the scope or methodology of its monitoring reviews, the corrective actions required, or completion dates of required corrective actions. In addition, NORTH CHICAGO, another Consortium member, could not document that HOME funds were spent, and did not properly document costs or verify that participants met the program's income eligibility limits. The audit recommended that Lake County be required to support the scope and methodology used in its monitoring reviews of Consortium members, and that North Chicago be required to support its HOME Program costs and participant eligibility and remit any unsupported expended program funds to HUD. (Report No. 95-CH-255-1005)



## HOPE 3 IMPLEMENTATION GRANTS

The purpose of HUD's HOPE 3 Implementation Grant Program is to provide ownership opportunities to low-income families, who are first-time homebuyers, to purchase federal, state or local government owned single family properties. Grant applications are accepted only from private nonprofit organizations, cooperative associations, and public bodies cooperating with private nonprofit organizations.

The OIG examined activities of 10 HOPE 3 grant recipients and found a number of concerns, including misuse of grant funds, improper accounting for grant funds and sales proceeds, improper selection of rehabilitation contractors, transfer of properties with health and safety problems, approval of ineligible homebuyers, excess or inadequate subsidies to homebuyers, and failure to report accurate and timely information to HUD. Since HUD's current reinvention includes downsizing and program consolidation, it is unlikely that the HOPE 3 Program will continue in its present form after the 1995 grant round. However, we believe the Department needs to provide technical assistance or stop funding those grantees having difficulty carrying out the program. HUD needs a plan on how to deal with grantee performance; the plan should describe how poor performers will be identified, how performance will be evaluated, and what actions will be taken under given circumstances.

The Assistant Secretary for CPD indicated a willingness to address the concerns expressed in the audit report. Specifically, the Assistant Secretary said that CPD has amended HOPE 3 regulations, extended technical assistance to grantees, and started to develop a team within the Office of Affordable Housing to manage the HOPE 3 Program. In addition, CPD is developing guidance to assist field offices in monitoring HOPE 3 Program production and closing out slow performing grantees. (Report No. 95-SF-152-0006)

## OIG INVESTIGATIONS

As a result of a HUD OIG and NEW YORK CITY Department of Housing Preservation and Development (HPD) investigation, one HPD employee, two employees of a building maintenance company and the firm itself, were debarred for 3 years. OIG audit and investigative efforts determined that the assistant comptroller and a bookkeeper for the maintenance company and an HPD senior superintendent conspired to embezzle some \$35,000 in CDBG funds from the company's account. They used the stolen funds to purchase cocaine. All three had prior criminal records and pled guilty to theft of government funds. The OIG audit found that the company had created an environment conducive to embezzlement by the extremely lax and inefficient handling of the over \$100 million HUD funded contract.

A landlord in NEW YORK, NY, was ordered to pay HUD a \$5,000 civil penalty after fraudulently applying for a \$230,000 Section 312 rehabilitation loan. The false statements he submitted were discovered prior to the loan approval and HUD incurred no loss. This Program Fraud Civil Remedies Act case follows an OIG investigation that resulted in criminal charges to which the landlord pled guilty. In addition, HUD issued a 12-month limited denial of participation against the landlord.



In an investigation involving community development funds, the former sheriff for SUFFOLK COUNTY, NY, was sentenced to 5 years probation and fined \$3,500. He was charged with receiving payments from a property developer and failing to report them to the IRS. The developer previously pled guilty to fraud and political corruption in an ongoing joint HUD OIG investigation with the Justice Department and the IRS.

In SAN JUAN, PR, two individuals were each sentenced to 5 years probation and ordered to pay \$10,000 in restitution for conspiracy and submitting false claims to HUD to obtain CDBG funds. They submitted false invoices showing reimbursement for fictitious deliveries to a landfill. Four defendants have pled guilty and one is expected to plead. The sixth defendant committed suicide. This investigation was conducted by the FBI, OIG and the Puerto Rico Office of the Comptroller.

In PHILADELPHIA, PA, a site manager was sentenced to 4 months house arrest, 5 years probation and ordered to pay \$21,000 in restitution. The manager and three co-conspirators were previously found guilty of tax evasion and defrauding HUD of \$300,000 in rehabilitation grants. This investigation was conducted by the FBI, IRS, and HUD OIG.

Following a joint investigation by the FBI, IRS and HUD OIG, a PHILADELPHIA, PA contractor who had been implicated with his father in a scheme to defraud the HUD property rehabilitation program, but was allowed to plead guilty to IRS tax fraud charges, was sentenced to 3 years probation and fined \$5,000. The contractor must also file amended tax returns with correct information for the last 3 years.

## Multifamily Housing Programs

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. During this reporting period, OIG audits and investigations focused on the Multifamily Preservation Programs; Multifamily Workout Agreements; Owner and Management Agent Operations; and the Housing Development Grant Program.

### **MULTIFAMILY PRESERVATION PROGRAMS**

The OIG has been, for the past 2 years, an aggressive and vocal critic of HUD's project-based assistance programs. In numerous reports to the Congress and in several appearances at Congressional hearings, we have expressed our views that those programs are significantly flawed and need to be radically changed. The current Multifamily Housing Preservation Programs are more examples of the adverse impact project-based rental assistance has upon tenants and taxpayers.



## *Current Preservation Programs*

In each of the past 3 years, our Office has issued nationwide audit reports that were critical of the Preservation Programs. Collectively, the reports raised three serious issues that impact on decisions about the future of the programs. We questioned HUD's capacity to both underwrite preservation projects and to service new loans; the cost of the program; and the impact the program was having on tenants and projects. In summary, we concluded that the current Preservation Programs need to be repealed.

In April 1993, we issued a report discussing HUD's processing of Plans of Action under the Title II Preservation and Prepayment Program. When our review started in December 1992, 118 projects had received approval of their Plans of Action. While the Title II Program was succeeding in preserving affordable housing, we concluded that the lack of HUD staff capacity in terms of numbers and expertise caused overvalued properties and inappropriate incentives awarded to owners. Consequently, the long-term cost of preserving the affordable housing was enormous. HUD's insurance risks increased dramatically in order to provide owners with their equity takeout. Section 8 subsidies rose significantly to pay off the equity takeout loans.

As a follow-up to our April 1993 report, we issued a second report on the Title II and Title VI Preservation Programs in April 1994. We concluded that the Preservation Programs were not flexible enough for HUD to ensure that scarce federal resources were used efficiently to preserve affordable housing. Flexibility was not designed into the programs because the laws were an overreaction to the needs of a selected number of tight rental markets. We recommended that HUD seek legislative relief from the current rigid programs requirements.

A third OIG audit report on the Preservation Programs was issued in July 1995. When our review started in December 1994, HUD had approved 296 Plans of Action preserving about 37,900 units of housing. Once again we concluded that the Preservation Programs should be repealed primarily because the current program is much too costly and risky to HUD. For example, for the 296 projects with approved Plans of Action, several important cost factors were noted as follows:

- ⊗ \$1.067 billion for 5 years in Section 8 subsidies and flexible subsidies, or \$28,178 per unit.
- ⊗ \$793 million in increased HUD insurance risk for Section 241 loans, or \$20,935 per unit.
- ⊗ The approved projects represent only 17 percent of all those that have filed Notices of Intent and only 9 percent of all projects that are eligible to participate in the program. If all eligible projects were to participate at this rate of funding, about \$7.3 billion in new HUD insurance would be created and over \$1.9 billion in annual Section 8 subsidies would be required.

We also concluded that the Preservation Programs are adversely affecting the tenant profiles at the projects and aging buildings are not receiving adequate repair funding from the equity loans. Tenant profiles changed from mixed-income to ones that are predominantly Section 8 subsidized, creating an overconcentration situation in many project locations. For example, for the 296 projects with approved Plans of Action at December 1994, changes were as follows:



- ⊗ Title II projects went from being 32 percent subsidized to 76 percent subsidized.
- ⊗ Title VI projects went from being 45 percent subsidized to 87 percent subsidized.

In addition, we noted that only about 10.5 percent of all equity takeout loans for approved Title II projects were earmarked for repairs to the projects. This further impacts on the quality of the units and on HUD's future risks in the projects.

The last section of our report dealt with our analysis of alternative proposals that had been offered by HUD on one hand and by the housing industry on the other. Both proposals recognize the need to repeal the current laws. HUD's "New Preservation" proposal was made as part of HUD's larger bill that outlined a blueprint for the elimination and consolidation of current HUD programs. The industry's capital grant/loan approach was suggested as a lower cost alternative to the current programs.

While both proposals are improvements over the current programs, we believe neither proposal goes far enough in getting HUD out of the project-based assistance programs. Our position remains that the Preservation Programs should be repealed, allowing project owners the uncontested option to prepay their mortgages and providing tenants with housing vouchers for rental or homeownership assistance, coupled with services that will aid families in freeing themselves from welfare dependency and pursuing self-sufficiency. Unlike the current programs or the proposals offered by HUD and the housing industry, HUD could decide to preserve projects in those isolated cases where affordable housing for low-income families is not available, but in a way that would not rely upon the continuation of project-based assistance. (Report No. 95-BO-114-0001)

## MULTIFAMILY WORKOUT AGREEMENTS

The OIG completed a multi-region review of the effectiveness of multifamily project workout agreements and found that HUD lacks controls to track the financial equity it has acquired as a result of these agreements made with owners of certain multifamily projects. That equity is an asset given by the owner in exchange for forbearance on HUD held mortgages. HUD, however, has not established the required controls for field offices to use to keep track of that equity, and therefore has no assurance that its money will be received if the owners sell or convert the property, or refinance the mortgage. HUD's policy for approving workout agreements requires that owners provide HUD with an "equity kicker" (a share of the owner's equity) whenever HUD grants financial forbearance on HUD held mortgages. Although all 16 new 6- to 9-year workout agreements that we reviewed at 4 HUD field offices had provisions for giving HUD an equity kicker, only 1 of the field offices had attempted to track HUD's equity. Office of Housing officials stated that they were aware of the need to track the equity kickers; however, because of more urgent work, they had not yet addressed the issue. We recommended that HUD improve controls to track the project equity HUD acquires as part of the workout agreement. (Report No. 95-SF-111-0004)



## OWNERS AND MANAGEMENT AGENTS

OIG audits continue to disclose violations by owners and management agents of multifamily housing projects. These violations ultimately impact on the residents as projects begin to deteriorate both physically and financially. The cases described below are in addition to those addressed in the discussion of Operation Safe Home.

An OIG review of two HUD insured cooperatives in FORD HEIGHTS, IL, found a number of serious problems. Both cooperatives have defaulted on their mortgages, and the current total of outstanding principal and interest owed HUD exceeds \$1.2 million. A former management agent was terminated after it was discovered that he misappropriated over \$160,000, monies which could have been used to make repairs. The cooperatives have not been properly maintained and required repairs have not been completed. As a result, the project has deferred maintenance and needed improvements that now exceed \$1.6 million. The cooperatives' maintenance problems have been exacerbated because the units are single family dwellings. In addition, many cooperative members, who have invested years' worth of member carrying charges into the cooperatives, now find that because both mortgages are in default, their investments are at risk. Finally, Ford Heights is an economically depressed community with a stagnant housing market. The OIG believes new and untraditional solutions may be needed to deal with the cooperatives. Whatever the ultimate solution, the OIG recommended that the Director of Housing establish as a priority the development and implementation of a plan to address these serious conditions. (Report No. 95-CH-212-1815)

A management agent in LOS ANGELES, CA, paid over \$2 million in 1993 to its three identity-of-interest companies for services that may have been either unnecessary or not reasonable. For example, the agent established one corporation solely as a "pass through company" to purchase carpets and drapes, and then charged HUD projects the supplier's invoice price plus an additional 5-10 percent mark-up. The agent also used a company to paint dwelling units that charged HUD projects more than the competitive market rate. An OIG audit recommended that excess costs charged to HUD by the agent be reimbursed and that questionable costs be justified, the agent discontinue its use of identity-of-interest vendors if it cannot provide adequate justification for costs, and the agent's practice of using a corporation to add mark-ups to actual costs be investigated. (Report No. 95-SF-214-1008)

HUD and a project owner in NEWPORT, RI, need to take action to increase cash flow in order to prevent the project from further deteriorating and possibly becoming part of HUD's property disposition inventory. An OIG audit disclosed that, since 1990, the project has incurred vacancy losses of over \$811,000. As a result, the project is not generating sufficient cash to maintain operations and make repairs necessitated by aging of the property. To compensate, the owner/management agent has deferred maintenance, delayed repair of vacant units until they are actually rented, and deferred collection of nearly \$530,000 in management fees. Estimated needed repairs totalled over \$908,000 by March 1995. The audit recommended that the HUD Rhode Island State Office adopt an asset management strategy to protect HUD's interest in the project. (Report No. 95-BO-212-1006)

Two multifamily projects were not managed effectively by an agent in BALTIMORE, MD. During the most recent physical inspection report, HUD rated one project below average and one



unsatisfactory. Although both projects needed extensive renovations, funds were not available to make the needed repairs. An OIG audit disclosed that \$727,450 in project funds were used for ineligible purposes, primarily for payroll expenses in excess of amounts approved by HUD. Another \$109,700 in expenses were unsupported. In addition, the owner and/or management agent misused reserve for replacement funds and failed to adequately fund these accounts for both projects. The audit recommended recovery of ineligible costs and documentation of unsupported costs, as well as rehabilitation of the projects to bring them up to satisfactory condition. (Report No. 95-PH-212-1012)

An OIG audit found that a project in PHILADELPHIA, PA, is in serious physical and financial condition. Physically, the project has been rated unsatisfactory by HUD and extensive renovations are needed. However, funds are not available to make needed repairs. As a result, vacancies have increased, further reducing the amount of available funds. Financially, project funds were misused and mismanaged. Ineligible staff salaries were charged to the project and HUD was overcharged for housing assistance payments. Because of the owner/agent's actions, the owner defaulted and the project was assigned to HUD. This is the second owner to default on the project. In April 1995, the owner said it is doubtful that he or his partner will invest the additional monies needed to cover the past due mortgage payments and make the necessary physical repairs to the project. If HUD does foreclose, we believe the Department should study the project to determine what needs to be done to make it viable and whether it is an advisable use of scarce resources. We suggest that HUD consider selling the project as is, without HUD guarantees or insurance. (Report No. 95-PH-212-1010)

An OIG audit of an elderly Section 8 subsidized project in EAST HAVEN, CT, disclosed that HUD's procedures have allowed the project's Section 8 contract rents to rise 28 percent above the fair market rent for the surrounding area. As a result, HUD has paid an average of \$215,000 annually in excess rents for the last 4 years. Contrary to the housing assistance payments contract, tenants were charged over \$16,000 for the purchase and installation of carpeting for their units. In addition, the project owners did not comply with the Regulatory Agreement pertaining to certain management and accounting procedures. The audit recommended that the HUD Connecticut State Office implement the instructions contained in a 1995 HUD Notice for all future rent adjustments, and that HUD consider renegotiating contract rents to market rents at the project's contract renewal. HUD should also require the owners to refund the tenants for carpeting, and charge only reasonable and necessary expenses to the project. (Report No. 95-BO-212-1004)

## **HOUSING DEVELOPMENT GRANT (HDG) PROGRAM**

The HDG Program is intended to increase the availability of rental housing for lower-income people in areas where there is a severe shortage of such housing. Development grants are used to help private developers construct or substantially rehabilitate rental housing. During the reporting period, we completed an audit of an HDG recipient at the request of the HUD Cleveland Area Office.

The City of TOLEDO, OH, paid a subrecipient over \$147,000 in excess HDG funds. The excess payments occurred because the owner's cost certification overstated the development costs, and the amount of the grant depended on the amount of the development costs. The overstated





development costs also caused the owner's equity in the project to be underfunded by \$17,740. We recommended that the Director of Multifamily Housing in Cleveland require the city to provide support for the questioned costs or repay the \$147,670 in excess funds paid to the subrecipient; and require the subrecipient to offset the equity shortage by paying the city or prepaying the subrecipient's bonds. (Report No. 95-CH-216-1008)

## OIG INVESTIGATIONS

The former chairman of the board for a HUD insured hospital in DETROIT, MI, was sentenced to 21 months confinement, fined \$11,000 and ordered to pay \$39,000 in restitution to a bank and \$42,195 to the IRS for fraudulently obtaining a bank loan and income tax evasion. This joint investigation by the FBI, IRS and HUD OIG, which was based on the results of an OIG audit, focused on the transfer of \$1.7 million in hospital funds by the former chairman of the board and the former hospital administrator, in violation of the HUD Regulatory Agreement.

The former management agent of an FHA insured cooperative in WASHINGTON, DC, pled guilty to interstate transportation of stolen property. A joint FBI/HUD OIG investigation disclosed that the agent withdrew \$12,500 from the cooperative's general operating reserve account and used the funds for personal benefit.

In BOSTON, MA, the former owner of a security services firm and his deputy were each sentenced to 37 months in prison and ordered to pay a \$1,350 special assessment. Another employee was sentenced to 1 year and 1 day in prison and ordered to pay a \$1,350 special assessment. The security firm had contracts with HUD to provide armed security guards at several HUD owned complexes, but failed to provide the services. This was a joint FBI/HUD OIG investigation.

Following an OIG audit/investigation, the former management agent of a HUD assisted project in WILMINGTON, DE, was charged with theft of nearly \$8,000 in project funds. The stolen funds were earmarked to pay IRS trust fund withholding taxes for project employees.

## Financial Management

### FHA FINANCIAL STATEMENTS

Price Waterhouse audited FHA's financial statements for the Fiscal Year ended September 30, 1994. In Price Waterhouse's opinion, with which the HUD OIG concurs, the financial statements present fairly, in all material respects, FHA's financial position, results of its operations, government equity, and cash flows in conformity with generally accepted accounting principles.

Price Waterhouse's report on internal controls included the same five reportable conditions disclosed in the prior year's audit. The first four are classified as material weaknesses and relate



to the need for HUD to: (1) implement its plan to mitigate resource shortages; (2) place more emphasis on early warning and loss prevention when monitoring insured mortgages; (3) complete action to resolve Secretary held mortgages; and (4) continue improvements in accounting and financial management systems. In addition, Price Waterhouse reports that, based on their analysis and discussions with OMB, FHA is not in strict compliance with the Credit Reform Act. In this regard, FHA's current systems have limited ability to monitor and report cash flows on a case-level basis, and estimates were used when systems could not provide required information.

While FHA has taken certain actions to address recommendations made in audit reports on FHA's prior years' financial statements, corrective actions are not complete. In addition, Price Waterhouse has made a new recommendation to develop an implementation schedule. It would include providing improved Credit Reform information and integrate information needs with FHA's credit and asset management plan. (Report No. 95-FO-131-0003)

### **HUD'S CONSOLIDATED FINANCIAL STATEMENTS**

HUD OIG issued a report on Price Waterhouse's audit of HUD's consolidated financial statements and our reviews of HUD's performance information for the Fiscal Year ended September 30, 1994. Price Waterhouse was unable to express an opinion on the financial statements, noting that the material internal control weaknesses and system non-conformances that remained in FY 1994 include those that necessitated their disclaiming an opinion on HUD's financial statements in prior years. The most serious internal control weaknesses pertain to HUD's grant and subsidy programs, including its largest, Section 8 subsidy payments. Existing internal control and financial systems still do not provide adequate assurance that funds provided to housing authorities and multifamily project owners are correctly calculated based on recipients' eligibility, and that the objectives for which funding is provided are achieved.

Price Waterhouse's report on internal controls included four issues that were classified as material weaknesses and relate to the need for HUD to: (1) improve controls to ensure that the \$28 billion in subsidy and grant programs are expended in accordance with laws and regulations; (2) complete improvements to its automated systems; (3) emphasize early warning and loss prevention in FHA monitoring activities; and (4) rapidly resolve defaulted Secretary held single family and multifamily loans.

In addition, Price Waterhouse also reports that certain data from the 1980 Census (rather than the 1990 Census) were used in allocated CDBG funds for FY 1994. Finally, ongoing OIG audits have disclosed that the processes for awarding funds for the Major Reconstruction of Obsolete Projects and the Economic Development Initiatives Programs may not have complied with the HUD Reform Act of 1989.

While HUD has taken some steps to address these deficiencies, corrective actions are not complete. (Report No. 95-FO-177-0004)



## Public and Indian Housing

During this reporting period, we reviewed various program activities at public and Indian housing authorities (PHAs). Those activities included utility cost conservation, public and Section 8 housing, the Acquisition Program and various contracting, accounting, and staffing matters.

### PHAS' UTILITY COSTS

The OIG conducted a multi-district review to determine if PHAs are using proven technology and practices to actively manage and control utility costs. The review showed that there are still opportunities to reduce the \$1.5 billion annual cost of utilities. Although there is little current information about nationwide public housing energy conservation needs or the savings that can be achieved, our work showed that:

- ⊗ PHAs that have taken advantage of techniques for reducing utility costs have reduced their costs significantly and the savings will continue. Specific reduction techniques we learned about include energy performance contracting, computerized energy management systems, increased resident responsibility for utility use, and free or low-cost energy conservation assistance from utility companies and other sources.
- ⊗ Many PHAs have not taken advantage of the latest technology or practices that have reduced costs in the past. Examples of the latest technology include high efficiency fluorescent lighting with electronic ballasts, occupancy sensors for turning lights on and off, super efficient refrigerators, and geothermal (ground source) heat pumps.
- ⊗ There are impediments (real and perceived) to reducing utility costs at PHAs, and action is needed to reduce the impact of these impediments. Some of these impediments are lack of knowledge about the opportunities and their benefits; lack of expertise, staff time, or training; lack of funds for taking advantage of the opportunities; not making residents responsible for utility usage; and inhibition of energy conservation by the operating subsidy funding structure.

The environment for housing authorities is changing, and housing authorities may soon be competing with privately owned housing for residents. The opportunities and steps discussed in this report could have an even more significant impact if this occurs. Reduced energy costs can provide housing authorities with lower operating costs and increased operational efficiency. Energy efficiency can become a competitive advantage for housing authorities who want to attract residents through increased resident comfort and decreased operating costs. The audit recommended that HUD issue a notice to PHAs encouraging them to take various actions that will help them become more energy efficient, and that HUD provide assistance to PHAs in establishing performance standards for energy conservation. (Report No. 95-SE-101-0001)



## PUBLIC AND SECTION 8 HOUSING PROGRAMS

An OIG audit of the Housing Authority of the City of RALEIGH, NC, disclosed that the Authority did not maintain its public housing projects in good repair. One project was completely vacant and required about \$3 million in repairs before it could be occupied. Three of eight other projects we inspected needed substantial repairs, and all 16 units inspected in the eight projects failed HUD's housing quality standards. Poor maintenance has resulted in substandard living conditions for residents, excessive vacancies, and deterioration of the Authority's housing stock. According to Authority officials, a tight rental market forced them to accept and retain lower quality units in the program. The Authority spends about \$5.4 million annually in housing assistance to owners. The results of our inspections, and the Authority's explanation for it, provide little assurance that the expenditures are effectively used in providing quality housing. The audit recommended improvements in maintenance, securing vacant units, allocating costs, and inspecting Section 8 units. (Report No. 95-AT-204-1009)

An OIG audit of the PEORIA, IL Housing Authority disclosed that the Authority submitted incorrect or unsupported information to HUD when reporting its score under the Public Housing Management Assessment Program for 1992 through 1994. HUD would have continued to designate the Authority as a troubled performer if the Authority had used accurate data in computing its scores. The Authority also failed to support the reasonableness of program salary costs. Salaries appeared higher than local public practice by \$132,000 for 1994 and \$161,500 for 1995. In addition, the Authority improperly paid for legal services, exceeding its contract amount by over \$88,000. Further, the Authority failed to properly administer its Comprehensive Improvement Assistance, Comprehensive Grant, and Homeownership Programs. The audit recommended, among other things, that the inconsistencies in the Public Housing Management Assessment Program be justified or supported and that the score be revised appropriately. (Report No. 95-CH-202-1011)

Although the Authority is actively and aggressively taking steps to improve its overall operations, an OIG audit of the FULTON COUNTY, GA Housing Authority found weaknesses in the administration of its public housing and Section 8 activities. The areas of operational weaknesses identified in the audit include housing maintenance; contract procurement and administration; Section 8 portability collections; and recordkeeping.

Our inspections showed that 95 percent of Authority owned units and 100 percent of the privately owned Section 8 units did not meet minimum housing quality standards (HQS). Additionally, the Authority's current management placed a priority on improving operations in order to be removed from HUD's troubled status list. This led the Authority to allow contractors to perform many of its planning and administrative functions to achieve its objectives -- all without key managerial staff on board. As a result, some contractors were overpaid and there was no reasonable assurance that quality work was performed. We recommended that appropriate action be taken to correct the identified problems and that controls be implemented to prevent any recurrence of these problems. (Report No. 95-AT-202-1010)

An OIG audit disclosed that the SPRINGFIELD, IL Housing Authority did not effectively manage its Section 8 Programs. Specifically, the Authority failed to identify all HQS violations during their inspections; did not determine whether rents were reasonable and within fair market



rent limits; had no formal allocation plan for salaries; failed to meet HUD limits for voucher payment standards; and had a conflict of interest with a city alderman. In addition, in November 1994, a local bank seized nearly \$400,000 of Authority funds to repay an Authority loan that went into default in 1992. A court of law upheld the bank's action. We recommended, among other things, improvement of supervision over the Section 8 Programs through better staff monitoring and assignment of staff responsibilities, correction of all HQS violations, and training for the Inspections Department personnel on the application of HQS. (Report No. 95-CH-203-1004)

An OIG audit found that HUD and five PHAS in the area responded to the LOS ANGELES earthquake disaster promptly and provided needed assistance to displaced families under extremely adverse conditions. However, HUD did not establish appropriate policies and procedures to prevent duplication of the Federal Emergency Management Agency (FEMA) benefits paid to displaced families. Furthermore, the PHAS did not always properly verify income or use verified income to adjust assistance.

HUD and FEMA officials decided that HUD's Section 8 housing assistance was not a duplication of FEMA's rental assistance. However, we believe that a duplication of benefits occurred whenever Section 8 and FEMA rental assistance was provided to families for the same periods. As a result, HUD paid at least \$1.1 million in Section 8 assistance to more than 3,026 displaced families for the same period that FEMA provided their rental assistance.

The PHAS did not always obtain income verification from third parties, follow up on indications of understated income, or make retroactive adjustments or terminations of assistance based on verified income. We believe these deficiencies occurred primarily because the PHAS' disaster response workload exceeded their staffs' capabilities. Since HUD did not perform on-site monitoring, it was not aware of the situation. As a result, some families received more, or less, Section 8 assistance than they were entitled to. We recommended that HUD evaluate its procedures for providing housing assistance in response to future disasters to minimize the duplication of Section 8 and FEMA assistance. We also recommended that, if HUD intends to provide Section 8 assistance for future disasters, it ensure PHAS are provided with additional staff, and HUD field offices are required to accomplish on-site reviews. (Report No. 95-SF-103-0005)

## ACQUISITION PROGRAM

An OIG audit found that the JOHNSTON, RI Housing Authority accomplished its goal of providing opportunities for homeownership. The Authority acquired 20 homes, at an average cost of \$111,526, that are in good condition and were purchased and repaired within HUD's cost guidelines. However, the Authority made no public announcement of its Acquisition Program and thus did not assure open and free competition for professional service contracts. The Authority's decision to permit town officials or relatives of an Authority commissioner to sell their homes to the Authority raised possible ethical questions. In addition to recommendations to correct the deficiencies found, the audit recommended that the ethics matter be referred to the State Ethics Board for a determination. If the Rhode Island Code of Ethics was violated, appropriate sanctions should be applied. (Report No. 95-BO-202-1003)



## CONTRACTING, ACCOUNTING, AND STAFFING

The OIG audited the CHILLICOTHE, OH Metropolitan Housing Authority and found that the Authority did not correctly award seven noncompetitive consultant contracts totalling \$225,444. The contracts, which were for consulting services for the Comprehensive Improvement Assistance and Comprehensive Grant Programs, were all awarded to the same consultant. In awarding the contracts, the Authority did not take effective action to obtain full and open competition and evaluate the reasonableness of the consultant's prices and profits. In addition, we found that management did not implement effective controls to assure disbursements were properly supported and eligible, which increased the risk of loss or misuse of funds. We recommended specific steps to obtain full and open competition and the preparation of cost estimates and analyses to evaluate the reasonableness of prices. We also recommended improvements in internal controls. (Report No. 95-CH-202-1010)

Based on an audit of the Housing Authority of the City of LAREDO, TX, the OIG recommended, and the San Antonio Office issued, limited denials of participation against six Authority officials. The officials abused their positions by either directing that certain applicants be improperly placed ahead of other applicants for housing; using Authority staff and equipment for non-Authority business; not following state law governing travel reimbursements to housing commissioners; participating in the award of contracts despite conflicts of interest; or altering Authority documents to cover up a perceived conflict of interest in the Section 8 Program. Specifically, two commissioners and the executive director actively participated in the Authority's award of contracts worth \$120,000 for educational services to a nonprofit corporation in which they all had an interest. The chairperson took advantage of her position by using Authority staff as a chauffeur for the herself and her family while running personal errands. The executive director, maintenance supervisor, and administrative assistant improperly used staff and equipment to support an event sponsored by a local organization of which they are members. (Report No. 95-FW-202-1008)

Following a citizen complaint, a HUD OIG review of the CHARLESTON COUNTY, SC Housing Authority confirmed management irregularities. We concluded that the executive director created a conflict of interest that has been unresolved for over 3 years; spent an excessive amount of time on non-housing related activities during work hours; and did not always follow prudent business practices in hiring personnel. In addition, we found that the Authority failed to act aggressively on known cases of tenants' underreporting income and did not properly segregate excess insurance proceeds from general funds. We recommended that a limited denial of participation be issued against the executive director until the conflict of interest issues are removed or resolved. Additionally, we recommended that tenants known to be underreporting their incomes be evicted or provide justifiable reasons why they should not be evicted. (Report No. 95-AT-204-1805)

A HUD OIG audit of the MADISON COUNTY, IL Housing Authority disclosed that the recently retired executive director had a conflict of interest; instructed Authority personnel to exclude income from tenant employee rent calculations; failed to correct previously reported travel policy violations; and hired temporary and contract employees without obtaining board approval. Additionally, HUD requirements were not always followed and internal controls were weak. For example, the Authority submitted its year-end Section 8 statements late; failed to reimburse HUD for excess subsidies received; miscalculated its administrative fees; and incorrectly reported



housing assistance payments and interest income. These, as well as other administrative functions, including cash management, lacked adequate internal controls, leaving the environment open to misuse and abuse. We recommended that the Illinois Director of Public Housing assure that the Authority implements controls to correct the weaknesses. We did not recommend any action against the retired executive director. However, the Authority is in the process of setting up a check list system to ensure that all requirements and policies are met regarding procurement, hiring, and travel. (Report No. 95-CH-202-1012)

## OIG INVESTIGATIONS

In NEW YORK, NY, the Fraud Task Force, composed of the HUD, Health and Human Services, Amtrak, and New York City Housing Authority OIGs, New York City Department of Investigation and U.S. Postal Inspectors, has arrested 34 subjects since its inception; 23 have been convicted and 3 indicted thus far. Activity during this reporting period included the arrest of 14 individuals, all participants in the Section 8 Program, for their part in a scheme in which they received over \$325,000 in rent subsidies for which they were ineligible. The individuals included a New York City Police Officer, a New York City Corrections Officer, a Board of Education employee, a Federal Drug Administration Consumer Safety Officer, and a New York City Housing Authority Contracts Officer. Four of the subjects are being prosecuted federally for mail fraud and theft of government funds, and ten will be prosecuted by the District Attorney.

Another Fraud Task Force investigation led to the sentencing of an Amtrak employee to 3 years probation and \$10,000 in restitution to HUD. The investigation disclosed that the employee fraudulently obtained over \$11,700 in HUD Section 8 rent subsidies for which she was ineligible.

An individual pled guilty to fraudulently obtaining over \$30,000 in public assistance benefits and Section 8 rent subsidies from the New York City Human Resources Administration and HUD. As part of the plea agreement, the individual will make a partial payment to HUD for \$10,000. The individual is one of 30 charged with defrauding HUD's rent subsidy or CDBG Programs as investigated by the Fraud Task Force.

A NEW YORK CITY Housing Authority employee was suspended for 30 days as a result of her arrest by HUD OIG for Section 8 fraud. The contracts officer was eventually charged with forgery and falsifying income, W-2s and verifications of employment. As a result of the scheme, the employee received over \$28,000 in Section 8 rent subsidies to which she was not entitled. The individual was one of a total of 102 city and federal employees who have been arrested on welfare and Section 8 fraud charges pursuant to a joint task force investigation under the direction of the U.S. Attorney for the Southern District of New York.

An AUGUSTA, GA Section 8 landlord was sentenced to 30 months in prison and 3 years probation and ordered to pay \$121,000 in restitution. The landlord, who was previously charged with 74 counts of mail fraud, false claims, conspiracy, false statements and perjury, received rent subsidy payments for a property that she owned and lived in. She also defrauded the Department of Agriculture by falsely certifying that she had children in day care, and receiving funds for the children. This investigation was conducted by the HUD and Department of Agriculture OIGs.



A joint FBI/HUD OIG investigation led to a partner in a HUDSON, MI, housing development company pleading guilty to embezzling over \$262,000 in HUD housing assistance payments intended for the maintenance and management of a 24-unit apartment complex.

A PHILADELPHIA, PA businesswoman was charged with obtaining over \$21,000 in rent benefits to which she was not entitled. She allegedly filed fraudulent applications for continued occupancy in subsidized housing while receiving a \$125,000 FHA insured mortgage for a home she purchased in New Jersey. Her reported annual income was over \$131,000. She also purchased a business for \$65,000 which includes apartment rental units. This was an OIG investigation.

Following a HUD OIG investigation, a tenant pled guilty to underreporting business and personal income and assets in order to receive \$21,000 in rental assistance from the PHILADELPHIA, PA Housing Authority. The tenant failed to report income derived from her ownership of a hairdressing business, along with rental income from a building that she owned. She also failed to report that she actually lived in a single family residence that she purchased with her husband, who was never listed as a family member. The tenant was subsequently sentenced to 6 months house arrest, 4 years probation, and ordered to pay \$23,328 in restitution.

A HUD OIG Agent, four Secret Service Special Agents, and a King County Police Deputy served a search warrant at a public housing complex in SEATTLE, WA. The suspects were allegedly involved in subscription cellular telephone fraud, alleged bank check counterfeiting, production of counterfeit identifications, bank fraud and credit card fraud. Numerous records, appliances, and other evidence were seized. The tenant did not report that her husband resided in the unit with her or reveal his income to the Housing Authority. The husband and wife were arrested for theft incident to the search.

A former HUD assisted resident and her spouse were indicted on charges of conspiracy and theft. The resident allegedly concealed her spouse's residency and income in order to continue to qualify for HUD rental assistance. She received over \$18,000 in benefits to which she was not entitled. The potential for fraud was initially discovered by the Washington State Department of Social and Health Services, which referred the matter to the Housing Authority of the City of Pasco and Franklin County, YAKIMA, WA. The Authority then referred the matter to the HUD OIG for investigation.

A STEUBENVILLE, OH city employee was sentenced for grand theft and tampering with records. She received 4 years in prison (concurrent), 5 years probation, and was ordered to pay \$25,000 in restitution. To date, the employee has repaid \$7,500. The employee was previously charged, along with three other individuals, with paying themselves thousands of dollars in Section 8 monies they were not eligible to receive. This was a joint investigation by HUD OIG and the Ohio State Auditor's Office.

HUD and Agriculture OIG Agents arrested an individual in KNOXVILLE, TN, for defrauding both federal agencies. The defendant allegedly created numerous fictitious identities in several states and inappropriately obtained food stamps and Section 8 housing by using these identities. The loss to HUD is over \$40,000. The U.S. Attorney's Office requested that the defendant be





arrested before indictment, as the criminal activity was current and continuing through the time of arrest.

Following a HUD OIG investigation, a former tenant at an assisted housing development in NEWPORT NEWS, VA, was charged with making false statements to obtain Section 8 assistance and obtaining money from HUD under false pretenses. The tenant underreported her income over a 6-year period, resulting in an overpayment of more than \$28,000 in Section 8 benefits.

Two BLOOMINGTON, IL public housing tenants were convicted on one count of theft and three counts of state benefit fraud charges. A HUD OIG investigation disclosed that false statements made to the Housing Authority resulted in overpayment of approximately \$11,400 in Section 8 Program benefits. One of the tenants was a dispatcher for the State University Police Department when indicted.

## Single Family Housing

The Single Family Housing Programs are designed to encourage loans to first-time home buyers and others who might not qualify for conventional mortgage loans. During this reporting period, HUD OIG looked into the Premium Collections System and conducted an audit of a loan correspondent in the Mortgage Insurance Program. In addition, instances of malfeasance by mortgagee personnel, brokers, speculators, and investors continued to be disclosed.

### PREMIUM COLLECTIONS SYSTEM

The HUD OIG reviewed HUD's Single Family Premium Collections System to assess its effectiveness and the management control over its operations. The System records, controls, reconciles and monitors monthly mortgage insurance premium payments received from servicing mortgagees. It also provides for preparation of notices for advance annual premiums, late charges due, and production of mortgagee and program performance reports. The audit found that:

- ⊗ data errors for risk-based loans are causing millions of dollars in overstated receivables as well as millions in cash not being applied to the proper accounts in the Mutual Mortgage Insurance (MMI) fund;
- ⊗ there is no system for HUD to identify and pursue collection of late funds owed to the MMI fund; and
- ⊗ the subsystem for Section 530 loans is not producing reliable delinquent balance data needed to monitor and pursue collections from poor performing mortgages.

Overall, the audit concluded that the System is lacking adequate controls over many of its operations and processes. The Office of Housing agreed with our findings and recommendations, but stated that most problems cited in the report would be corrected with the implementation of the new Single Family Premium Collection System. However, at the time of our audit, the new



system, which is being developed in phases, did not have a scheduled completion date. (Report No. 95-DP-166-0004)

## MORTGAGE INSURANCE PROGRAM

The HUD OIG audited a VILLA PARK, IL corporation's internal controls relating to the origination of FHA insured single family loans. Out of 16 loans reviewed, the audit disclosed that 10 were improperly originated. Nine of these ten loans were originated by the same loan officer. Six of the ten improper loans contained false information about the borrowers' intention to occupy the properties, i.e., strawbuyers. Other problems with loan origination included no face-to-face interviews, mishandled loan documents, overstated borrower assets, no verification of income, and improper verification of borrowers' gift funds. These deficiencies occurred because of poor loan origination practices and procedures. Consequently, reliance on the corporation's origination process resulted in HUD's assuming abnormally high risks for insuring the ten loans, valued at \$645,934. We recommended that the Mortgagee Review Board take the appropriate sanctions and that the Assistant Secretary for Housing consider administrative sanctions against the loan officer responsible for nine of the ten improperly originated loans. (Report No. 95-CH-221-1009)

## OIG INVESTIGATIONS

The LONG ISLAND Task Force, formed in April 1991 under the direction of the U.S. Attorney's Office in New York, has made significant progress in their investigation into fraudulent mortgages throughout Long Island. Members of the Task Force include HUD OIG, the FBI, USPS, and the IRS. As a result of their efforts during this reporting period:

- ⊗ Officials of a LONG ISLAND, NY title company were banned from ever practicing in the mortgage/real estate field after causing the origination of over \$1 million in fraudulent HUD insured and conventional mortgages, the evasion of \$300,000 in title company and personal income from being reported to IRS, and using the proceeds (over \$250,000) to make illegal kickbacks in violation of the Real Estate Settlement Procedures Act. The officials were sentenced to a cumulative 23 months in prison, 6 years probation and ordered to pay restitution in the amount of \$475,000.
- ⊗ An attorney and a notary public were found guilty and sentenced to 8 months in prison and 8 years probation in a loan origination scheme involving FHA mortgages that ultimately resulted in losses of \$500,000.
- ⊗ A former Freddie Mac official was sentenced to 21 months in prison for embezzling \$400,000 that was earmarked for rehabilitation of government foreclosed properties.
- ⊗ A loan officer, a real estate broker and two speculators pled guilty to conspiring to defraud HUD by providing false information to originate mortgages to the speculators and others. HUD's loss to date exceeds \$600,000.

An individual in MEMPHIS, TN, identified his girlfriend as his landlord when he submitted an application for an FHA mortgage and claimed that he was paying her rent. A HUD OIG investigation disclosed that not only did he not pay rent but he was not listed as a tenant on his friend's application for Section 8 rental assistance, thus understating the total household income.



His friend has pled guilty to submitting false information to the Memphis Housing Authority which resulted in her receiving more than \$10,000 in rental assistance to which she was not entitled.

A former HUD closing attorney in MEMPHIS, TN, pled guilty to embezzling over \$80,200 when he delayed the transfer of HUD funds and used the proceeds for his personal business. The scheme was discovered when a severe storm prevented the attorney from conducting any closings and interrupted the cash flow.

A JACKSON, TN mortgage company owner was sentenced to 22 months imprisonment and 36 months supervised probation for embezzling over \$53,500 in checks made payable to HUD for the One Time Mortgage Insurance Premium (OTMIP) Payment. The owner then sold the loans to investors and indicated through the use of false escrow account checks that the OTMIP had been paid and that the loans were in the process of being endorsed for insurance. The investigation was conducted by the HUD OIG and the FBI.

A BEAUMONT, TX contractor was barred from HUD and all executive branch programs for 5 years and agreed to repay HUD \$40,000 plus interest for filing 27 false claims for maintenance work on HUD owned single family properties. The Department had already paid \$9,000 in claims to the contractor but refused to pay an additional amount based on HUD OIG audit and investigative work.

Two ATLANTA, GA contractors were sentenced and a third individual was arrested for their participation in a scheme which involved obtaining 46 Title I loans amounting to over \$1.2 million for properties they did not own and using the money to finance illegal commercial activities. One contractor, previously found guilty, was arrested by HUD OIG Special Agents and Deputy U.S. Marshals for failing to appear for sentencing. He was ordered held without bond and forfeited over \$400 in cash and jewelry to help defray costs for the court appointed attorney. He was also sentenced to 46 months in prison, 3 years probation and ordered to pay \$775,074 in restitution. The second contractor was sentenced to 12 months in prison, 3 years probation and ordered to pay \$713,000 in restitution.

A LOUISVILLE, KY real estate agent and a seller were indicted for falsifying the amount of a down payment, inflating the mortgagor's income, and falsifying closing costs in order to obtain an FHA mortgage to purchase a property. They later lied to the HUD OIG Special Agent during the investigation. The property has gone into foreclosure, resulting in an \$18,000 loss to HUD.

Based on a HUD OIG investigation, approximately 100 homebuyers in PHILADELPHIA, PA, will share in the \$11,253 that two attorneys were ordered to pay after entering a settlement agreement with the U.S. Attorney on behalf of HUD. The attorneys gave a portion of the title insurance charges paid by the homeowners to a real estate broker from whom they rented space. This is in violation of the Real Estate Settlement Procedures Act.

Nine individuals, including one lawyer, were indicted on bankruptcy fraud schemes in CHICAGO, IL, by the U.S. Attorney's Office. This followed a year-long undercover operation by the FBI, HUD OIG, USPS, and an Investigator for the U.S. Bankruptcy Court, using a HUD property during the operation. These individuals were preying on approximately 100 people who were



either distressed homeowners who were about to lose their homes in foreclosure sales, individuals who were in financial difficulty, or creditors who were affected by the filing of multiple fraudulent bankruptcies in court.

In PHOENIX, AZ, a joint HUD OIG and FBI investigation disclosed that a businessman, using various aliases, created a business in which he promised homeowners with mortgages in default that he would bring their mortgages current if they deeded their property to him. The homeowners remained in the property and paid rent to the businessman, who delayed the foreclosures by filing bankruptcy. The rental income was transferred to out of state bank accounts and laundered through the purchase of gold coins. Sentencing included 16 months in prison, 5 years probation, a \$100,000 fine, and restitution to HUD and the Department of Veterans Affairs (VA) in the amount of \$120,000. The approximate combined loss to the agencies was \$1 million.

In MINNEAPOLIS, MN, HUD OIG and the FBI found that an individual obtained more than 50 FHA insured and VA guaranteed mortgages. The total mortgage amounts are in excess of \$3.2 million. The individual was sentenced to 18 months in prison, 3 years probation, and ordered to pay \$100,000 in restitution.

Three TAMPA, FL investors pled guilty to bank fraud. They obtained fraudulent FHA insured mortgages to purchase several properties. The guilty pleas stemmed from an ongoing investigation by the FBI, IRS, and the HUD and VA OIGs, which has resulted in numerous indictments and convictions. Additional charges are expected.



# APPENDIX 1 - AUDIT REPORTS ISSUED

## Internal Reports

### Housing

- 95-BO-114-0001 HUD'S Multifamily Preservation Program, July 14, 1995.  
95-FO-131-0003 Audit of the Federal Housing Administration's Fiscal Year 1994 Financial Statements, May 19, 1995.  
95-SE-101-0001 Reducing Utility Costs at PHAs, May 31, 1995.  
95-SF-111-0004 Multidistrict Review of the Effectiveness of Multifamily Project Workout Agreements, April 21, 1995.  
95-SF-103-0005 Processing of Section 8 Assistance For Victims of the Los Angeles Earthquake, July 26, 1995.
- 2 Audit Related Memoranda

### CPD

- 95-AT-155-0002 Multidistrict Audit of the HOME Program, April 10, 1995.  
95-HQ-154-0002 Empowerment Zone, Enterprise Community & Economic Development Initiative Grant Selection Processes, August 31, 1995.  
95-SF-152-0006 Effectiveness of Selected HOPE 3 Grant Recipients, September 29, 1995.

### Administration

- 95-DP-166-0004 Controls over the Single Family Premium Collection System Need Strengthening, July 28, 1995.
- 1 Audit Related Memorandum

### HUD-Wide

- 95-FO-177-0004 U.S. Department of Housing and Urban Development, Audit of FY 1994 Financial Statements, August 28, 1995.

## External Reports

### Housing

- 95-AT-204-1009 City of Raleigh NC Housing Authority, June 7, 1995. Questioned: \$38,671.  
95-AT-202-1010 Fulton County Housing Authority, Public Housing Management Operations, Atlanta GA, August 2, 1995. Questioned: \$319,464; Unsupported: \$319,464.  
95-AT-204-1011 City of Raleigh NC Housing Authority, Renovation of Walnut Terrace Apartments, August 14, 1995.  
95-BO-202-1003 Johnston RI Housing Authority, Acquisition Program, April 20, 1995.  
95-BO-212-1004 Woodview Apartments, Multifamily Mortgagor Operations, East Haven, CT, May 31, 1995.  
95-BO-212-1005 Connecticut Valley Institute, Inc., D/B/A Charles River Hospital West, Chicopee, MA, June 13, 1995.

## External Reports

- 95-BO-212-1006 Rolling Green Apartments, Multifamily Mortgagor Operations, Newport, RI, July 12, 1995.
- 95-CH-203-1004 Springfield IL Housing Authority, Section 8 Programs, April 10, 1995. Questioned: \$6,581.
- 95-CH-216-1008 City of Toledo OH, Housing Development Action Grant, July 25, 1995. Questioned: \$147,670; Unsupported: \$147,670.
- 95-CH-221-1009 Alliance Mortgage Corporation, Single Family Mortgage Insurance Program, Villa Park, IL, August 8, 1995.
- 95-CH-202-1010 Chillicothe OH Metropolitan Housing Authority, Low-Income Housing Program, CIAP, Comprehensive Grant Program, August 14, 1995. Questioned: \$46,865; Unsupported: \$18,712.
- 95-CH-202-1011 Peoria IL Housing Authority, Comprehensive Review, September 7, 1995. Questioned: \$88,119; Unsupported: \$88,119.
- 95-CH-202-1012 Madison County Housing Authority, Collinsville IL, Safeguarding Monetary Assets and Inventory, September 22, 1995. Questioned: \$212,212; Unsupported: \$27,438.
- 95-DE-207-1003 Crow Creek Housing Authority, Management of Cash Assets, Fort Thompson, SD, May 10, 1995.
- 95-DE-207-1004 Cheyenne River Housing Authority, Management of Cash Assets, Eagle Butte, SD, August 11, 1995.
- 95-FW-202-1008 Laredo TX Housing Authority, Comprehensive Grant Program, Admin Practices, Drug Elimination & Comprehensive Improvement Assistance, June 30, 1995. Questioned: \$44,609; Unsupported: \$1,140; Better Use: \$80,247.
- 95-NY-214-1003 Ward Street, Ltd, Multifamily Project Operations, Rochester, NY, May 31, 1995.
- 95-NY-214-1004 Applied Housing Management, Inc., Hoboken, NJ, July 17, 1995. Questioned: \$363,073.
- 95-PH-212-1008 Country Club Terrace, Multifamily Mortgagor Operations, Hollidaysburg, PA, May 9, 1995. Questioned: \$1,161,679; Unsupported: \$1,095,879.
- 95-PH-212-1009 Chesapeake Townhouses, Multifamily Mortgagor Operations, Chesapeake, VA, May 30, 1995. Questioned: \$12,365.
- 95-PH-212-1010 Verona Apartments, Multifamily Mortgagor Operations, Philadelphia, PA, July 6, 1995. Questioned: \$216,554; Unsupported: \$136,120.
- 95-PH-212-1011 Grant Park Care Center, Multifamily Mortgagor Operations, Washington, DC, July 6, 1995. Questioned: \$2,497,382; Better Use: \$3,093,490.
- 95-PH-212-1012 Monumental Management, Inc., Multifamily Mortgagor Operations, Baltimore, MD, September 29, 1995. Questioned: \$978,238; Unsupported \$250,780.
- 95-SF-214-1007 G & K Management Company, Inc., Use of Identity-of-Interest Vendors, Culver City, CA, June 23, 1995.
- 95-SF-214-1008 SK Management Company, Use of Identity-of-Interest Vendors, Los Angeles, CA, June 30, 1995. Questioned: \$26,743; Unsupported: \$26,743.
- 95-SF-214-1010 StoneRidge Management Corporation, Multifamily Management Agent, Los Angeles, CA, August 28, 1995. Questioned: \$338,800; Unsupported: \$210,847.
- 95-SF-214-1012 Alpha Property Management, Inc., Use of Identity-of-Interest Vendors, Los Angeles, CA, August 31, 1995. Questioned: \$63,781.

25 Audit Related Memoranda. Questioned: \$304,573 Unsupported: \$58,857.

### CPD

- 95-CH-241-1003 City of Marion IL Community Development Block Grant Program, April 3, 1995.
- 95-CH-255-1005 Lake County Consortium, Home Program, Waukegan, IL, May 1, 1995. Questioned: \$47,694; Unsupported: \$47,694.
- 95-CH-241-1007 City of Detroit MI Community Development Block Grant Program, Subrecipient Monitoring, June 22, 1995.
- 95-FW-255-1009 State of Arkansas Development Finance Authority, HOME Program, Little Rock, AR, July 3, 1995.
- 95-SF-249-1009 Bethlehem House Project, Inc., Special Purpose Grant, Highland, CA, July 14, 1995. Questioned: \$141,872; Unsupported: \$71,136.
- 95-SF-243-1011 Capitola, CA, CDBG Program, Use of Program Income, August 31, 1995. Better Use: \$226,900.

3 Audit Related Memoranda. Questioned: \$416,726; Unsupported \$416,726.

# External Reports

## Administration

95-AO-262-1001

Cooperative Agreement DU100K0000 16616, Final Cost Audit, Washington, DC, April 7, 1995. Questioned: \$108,221; Unsupported: \$66,923.

95-CH-262-1006

Leadership Council For Metropolitan Open Communities, Chicago, IL, May 8, 1995.

7 Audit Reports issued by other Federal Auditors. Questioned: \$168,936.

## HUD-Wide

1 Audit Related Memorandum

**TABLE A**  
**AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH**  
**NO MANAGEMENT DECISION AT 9/30/95**

APPENDIX 2

\*Significant Audit Reports Described in Previous Semiannual Reports

Report Number & Title	Reason for Lack of Management Decision	Issue Date/ Target for Management Decision
*93HQ1001. Scranton, PA UDAG and CDBG Programs.	Management decisions made on 26 of 42 recommendations. For the remaining 16 recommendations, management and OIG reached agreement in September 1995. However, OIG is awaiting documentation showing auditee notification of the actions necessary for management decision.	03/31/93/ 11/30/95
*93HQ0015. Multiregion Audit of Large Troubled PHAs, Report on Performance and Status.	Management decisions made on 11 of the 16 recommendations. Management decisions for the remaining 5 recommendations were received in September 1995 and are currently under review. Referral to the Deputy Secretary in October 1995 is anticipated.	09/24/93/ 10/31/95
*94AT1012. Atlanta, GA Housing Authority, Management Operations.	Management decisions made on 23 of 24 recommendations. For the remaining recommendation, management and OIG do not agree on the necessary actions. The OIG anticipates referral of the matter to the Deputy Secretary by November 1995.	03/11/94/ 12/31/95
*94PH1008. Logan Assistance Corporation, HUD-Funded Property Acquisition and Relocation Programs, Philadelphia, PA .	Management decisions reached on 12 of 13 recommendations. The remaining recommendation was referred to the Assistant Secretary for CPD in April 1995. The Assistant Secretary's decision received in September 1995 is currently being evaluated.	03/25/94/ 10/31/95
94NY1004. National Development Council Consulting Contracts With CDBG Recipients and Cooperative Agreement With HUD, New York, NY.	Management decision reached on 1 of the 5 recommendations subsequent to the period. For the remaining 4 recommendations, OIG does not concur in the actions taken and has notified management. The OIG is awaiting management's comments.	03/28/94/ 11/30/95
*94FW1005. New Orleans, LA Housing Authority, Public Housing Operations.	Management decisions made on 7 of 24 recommendations. Proposed management decisions for the remaining 17 recommendations have been rejected as being unresponsive. It is anticipated that management will provide responsive management decisions by November 1995.	06/29/94/ 11/30/95
*94FO0003. Audit of FY 1993 HUD Consolidated Financial Statements.	Management decisions reached for 3 of 6 recommendations. For the remaining 3 recommendations, OIG and management are continuing discussions to reach management decisions.	06/30/94/ 12/31/95
*95SFO001. Multiregion Audit of Section 236 Program, Excess Rental Income Collections.	Management decisions reached for 12 of 17 recommendations. Management has not been responsive to the remaining 5 recommendations.	12/21/94/ 12/31/95
*95FO0001. Audit of Section 8 Budgeting and Accounting System.	Management generally agrees with the 11 reported recommendations. However, management has not provided a formal response because of difficulty in dealing with policy issues and policy issues that have affected the fiscal year 1997 budget request. Management is currently preparing a response to address these issues and our recommendations.	03/27/95 10/31/95



Report Number & Title

Reason for Lack of Management Decision

Issue Date/  
Target for  
Management  
Decision

\* Significant Audit Reports Described in Previous  
Semiannual Reports.

Report Number & Title	Reason for Lack of Management Decision	Issue Date/ Target for Management Decision
01-00001	...	...
01-00002	...	...
01-00003	...	...
01-00004	...	...
01-00005	...	...
01-00006	...	...
01-00007	...	...
01-00008	...	...
01-00009	...	...
01-00010	...	...
01-00011	...	...
01-00012	...	...
01-00013	...	...
01-00014	...	...
01-00015	...	...
01-00016	...	...
01-00017	...	...
01-00018	...	...
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01-00040	...	...
01-00041	...	...
01-00042	...	...
01-00043	...	...
01-00044	...	...
01-00045	...	...
01-00046	...	...
01-00047	...	...
01-00048	...	...
01-00049	...	...
01-00050	...	...

THIS REPORT HAS NOT BEEN REVIEWED BY THE BOARD OF DIRECTORS  
 AND IS NOT BEING SUBMITTED TO THE BOARD OF DIRECTORS FOR REVIEW  
 DATE: 1/15/02

## TABLE B

APPENDIX 2

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS  
WHERE FINAL ACTION HAS NOT BEEN COMPLETED AS OF 9/30/95

Report Number	Report Title	Issue	Decision	Final Action
83CH1051	Detroit MI Housing Department, Public Housing Agency Activities	08/26/83	11/15/84	Note 1
89SF1004	Las Vegas NV Housing Authority, Low-Income Housing Program	01/20/89	07/18/89	Note 1
90AT1008	Atlanta GA Community Development Block Grant Program, Use of Program Income	03/09/90	03/30/93	Note 1
90PH1014	Delaware County CDBG Program, Partnership for Economic Development and Other Selected Areas	06/12/90	11/01/90	Note 1
91TS0001	Limited Review of HUD's Process for Determining Undue Concentration of Assisted Persons	10/19/90	10/01/91	Note 1
91TS0006	Multiregion Audit of Interim Financing (Floats)	01/17/91	06/07/91	Note 1
91PH1005	Pittsburgh PA Housing Authority, Comprehensive Improvement Assistance Program	03/21/91	09/20/91	Note 1
91TS0014	Multiregion Audit of the Approval and Monitoring of Management Agents of Multifamily Projects	04/30/91	11/06/92	Note 1
92KC1801	St. Louis MO Community Development Agency, Purchase of Land in St. Louis Place Neighborhood	10/22/91	03/12/92	Note 1
92PH1003	Baltimore MD Community Development Block Grant Program	03/04/92	06/23/92	Note 1
92TS0007	Audit of Fiscal Year 1991 Financial Statements, Federal Housing Administration	03/27/92	09/29/92	12/31/95
92TS0009	Multiregion Audit, Special Economic Development Activities	04/29/92	04/22/92	01/31/96
92AT1014	Jacksonville FL Department of Housing and Urban Development, Public Housing Operations	06/12/92	10/06/92	11/17/95
92TS0011	Audit of Fiscal Year 1991 HUD Consolidated Financial Statements	06/30/92	09/30/94	Note 1
92PH1009	Huntington WV 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	03/21/95	01/31/96
92SF1009	San Francisco CA Housing Authority, Low-Income Public Housing Program	09/10/92	01/08/93	Note 1
92PH1015	DC Department of Public and Assisted Housing, Management and Selected Development Operations	09/30/92	03/29/93	Note 1
93HQ0004	Interim Audit of Bond Refundings of Section 8 Projects	10/30/92	10/26/93	Note 1
93CH1003	Cuyahoga Metropolitan Housing Authority, Low-Income Housing Program, Cleveland OH	11/17/92	04/05/93	12/31/98
93NY1002	New York NY Department of Housing Preservation and Development, Limited Review of CDBG Program	01/29/93	07/06/93	Note 1
93HQ0006	Multiregion Limited Review of the Public Housing Management Assessment Program	02/04/93	09/24/93	Note 1
93AO1003	DC Department of Human Services, Single Family Homeless Initiative	03/03/93	07/26/93	Note 1
93HQ0005	Limited Review of HUD's Management and Control of Staff Resources	03/08/93	09/30/93	Note 1
93FO0002	Audit of Government National Mortgage Association's Fiscal Year 1992 Financial Statements	03/29/93	01/11/94	Note 1
93HQ1001	Scranton Urban Development Action Grant and Community Development Block Grant Programs	03/31/93	Note 4	
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	Note 1
93FO0004	Audit of HUD's Fiscal Year 1992 Consolidated Financial Statements	06/30/93	03/31/94	03/30/98
93CH1026	Yellowbird Limited, Multifamily Mortgagor Operations	08/05/93	02/01/94	Note 1
93HQ1006	Retirement Housing Foundation, Inc., Multifamily Management Agent	08/17/93	03/31/94	Note 1
93SF1012	Los Angeles CA Community Development Block Grant Program	09/17/93	09/30/94	Note 1
93HQ0015	Multiregion Audit of Large Troubled PHAs, Report on Performance and Status	09/24/93	Note 3	
93SF1017	Richmond CA Housing Authority, Comprehensive Improvement Assistance Program	09/28/93	09/26/94	Note 1

Report Number	Report Title	Issue	Decision	Final Action
93HQ0018	Multiregion Audit of Delegated Processing Program	09/30/93	02/07/94	Note 1
94CH1004	Michigan State Housing Development Authority, Section 8 Existing and Housing Voucher Programs	11/10/93	04/18/94	Note 1
94AT1005	Tennessee Housing Development Agency, Section 8 Housing Programs	12/02/93	09/21/94	12/12/95
94CH1010	Cincinnati OH Community Development Block Grant Program	12/30/93	03/30/94	Note 1
94AT1008	Progress Point, Inc., dba Bright Beginnings, Supportive Housing Demonstration Program	01/14/94	07/07/94	Note 1
94CH1013	Chicago IL Housing Authority, Maintenance Operations	01/14/94	07/28/94	03/31/97
94PH1007	Washington Capital Associates, HUD-Approved Coinsurance Lender	02/16/94	09/30/94	Note 1
94FW1004	Austin TX Department of Planning and Development, Community Development Block Grant Program	02/24/94	08/12/94	Note 1
94AT1012	Housing Authority of the City of Atlanta, Public Housing Management Operations	03/11/94	Note 4	
94PH1008	Logan Assistance Corp., HUD-Funded Property Acquisition and Relocation Programs	03/25/94	Note 3	
94AT1017	North Carolina Housing Finance Agency, Section 8, Hope 3 and Homeless Programs	04/28/94	03/31/95	08/30/96
94PH1010	Pennsylvania Department of Community Affairs, Permanent Housing for Handicapped Homeless Persons	05/11/94	03/29/95	Note 2
94FO0002	Audit of Fiscal Year 1993 Financial Statements - Federal Housing Administration	06/08/94	09/12/94	Note 1
94FW1005	New Orleans Housing Authority, Public Housing Operations	06/29/94	Note 4	
94FO0003	Audit of Fiscal Year 1993 HUD Consolidated Financial Statements	06/30/94	Note 5	
94CH1031	Hartman and Tyner, Inc., Multifamily Management Agency	07/08/94	11/23/94	Note 2
94SF1008	San Bernardino County, CDBG Program	07/13/94	11/16/94	10/31/96
94BO1009	TFG Management Company, Inc., Multifamily Management Agent	07/25/94	11/02/94	11/01/96
94AT1025	CARP of GA, Inc., Supportive Housing Demonstration Program and Single Family Homeless Initiative	09/08/94	03/10/95	03/10/96
94PH1016	Baltimore MD Housing Authority, Public Housing Activities	09/23/94	03/01/95	12/31/95
94AT1026	Puerto Rico Department of Housing, Section 8 Program	09/27/94	03/31/95	03/30/96
95AT1003	Metropolitan Dade County FL CDBG Program	11/02/94	09/28/95	06/30/96
95FW1001	Pioneer Management Company, Inc., Multifamily Management Agent, Dallas, TX	11/14/94	07/06/95	06/01/96
95FW1003	Albuquerque NM CDBG Program	12/15/94	01/23/95	04/14/96
95SF0001	Multiregion Audit of Section 236 Program, Excess Rental Income Collections	12/21/94	Note 5	
95BO1002	Brook Village North, Multifamily Project Operations, Nashua, NH	01/13/95	03/07/95	09/30/96
95NY1001	1199 Housing Corporation, Multifamily Mortgagor Operations, New York, NY	01/24/95	09/15/95	09/30/96
95PH1003	Fayette County Housing Authority, Management Operations, Uniontown, PA	02/08/95	09/06/95	08/08/96
95AT1007	Mobile AL Housing Board, Section 8 Housing Activities	02/10/95	06/22/95	10/31/95
95PH1004	Abbottsford Homes, Tenant Management Corporation, Philadelphia, PA	03/02/95	08/09/95	09/30/95
95FW1007	New Orleans LA, HOME Investment Partnerships Program	03/24/95	09/29/95	04/15/96
95FO0001	Audit of Section 8 Budgeting and Accounting	03/27/95	Note 3	
95SF1006	Phoenix AZ, HOPE Implementation Grant	03/30/95	06/15/95	12/22/95
95DE1002	Turtle Mountain Housing Authority, Management of Cash Assets, Belcourt, ND	03/31/95	07/03/95	07/01/96
95NY1002	Buffalo Housing Associates, Inc., Multifamily Project Operations, Buffalo, NY	03/31/95	09/15/95	02/01/98

**AUDITS EXCLUDED:**

20 audits under repayment plans

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

**NOTES:**

- 1 Management did not meet the target date. Management decision is over 1 year old.
- 2 Management did not meet the target date. Management decision is under 1 year old.
- 3 No management decision. Decision expected by October 1995.
- 4 No management decision. Decision expected by November 1995.
- 5 No management decision. Decision expected by December 1995.

TABLE C

APPENDIX 2

INSPECTOR GENERAL ISSUED REPORTS WITH  
QUESTIONED AND UNSUPPORTED COSTS AT 9/30/95

(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	30	\$36,638	\$23,336
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	17	27,934	9,886
A3 For which additional costs were added to reports in beginning inventory	—	4,006	340
A4 For which costs were added to non-cost reports	1	20	—
B1 Which were issued during the reporting period	27	7,751	2,984
B2 Which were reopened during the reporting period	1	1,439	1,439
Subtotals (A+B)	76	\$77,788	\$37,985
C For which a management decision was made during the reporting period	40 <sup>1</sup>	44,536	19,221
(1) Dollar value of disallowed costs:			
• Due HUD	11 <sup>2</sup>	5,818	785
• Due Program Participants	28	23,720	12,409
(2) Dollar value of costs not disallowed	15 <sup>3</sup>	14,998	6,027
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	10	11,669	5,345
E For which no management decision had been made by the end of the reporting period	26 (69) <sup>4</sup>	\$21,583 (12,976)	\$13,419 (6,759)

<sup>1</sup> 7 audit reports also contain recommendations that funds be put to better use.

<sup>2</sup> 5 audit reports also contain recommendations with funds due program participants.

<sup>3</sup> 9 audit reports also contain recommendations with funds agreed to by management.

<sup>4</sup> The figures in brackets represent data at the recommendation level as compared to the report level. See Table D for explanation.

**TABLE D**  
**INSPECTOR GENERAL ISSUED REPORTS**  
**WITH RECOMMENDATIONS**  
**THAT FUNDS BE PUT TO BETTER USE**  
**AT 9/30/95**  
(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	5	\$1,863
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	4	1,888
A3 For which additional costs were added to reports in beginning inventory	—	12,056
A4 For which costs were added to non-cost reports	1	147
B1 Which were issued during the reporting period	3	3,401
Subtotals (A + B)	13	\$19,355
C For which a management decision was made during the reporting period	7 <sup>1</sup>	15,211
(1) Dollar value of recommendations that were agreed to by management	2 <sup>2</sup>	12,273
• Due HUD	5	1,514
• Due Program Participants		
(2) Dollar value of recommendations that were not agreed to by management	2 <sup>3</sup>	1,424
D For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	3	743
E For which no management decision had been made by the end of the reporting period	3 (3) <sup>4</sup>	\$3,401 (3,320)

<sup>1</sup> 7 audit reports also contain recommendations with questioned costs.

<sup>2</sup> 1 audit report also contains recommendations with funds due program participants.

<sup>3</sup> 1 audit report also contains recommendations with funds agreed to by management.

<sup>4</sup> The figures in brackets represent data at the recommendation level as compared to the report level. See explanation below.

## EXPLANATIONS 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  
APRIL 1, 1995 THROUGH SEPTEMBER 30, 1995

	AUDIT	INVESTIGATION	COMBINED TOTAL	FY 1995
Cash Recoveries	\$26,351,395	\$47,887	\$26,399,282	\$41,223,560
Other Recoveries/Seizures <sup>1</sup>		\$1,158,811	\$1,158,811	\$4,447,977
Court Ordered Restitution		\$3,017,011	\$3,017,011	\$6,491,069
PFCRA Recoveries		\$125,000	\$125,000	\$204,603
Total Cash Recoveries	\$26,351,395	\$4,348,709	\$30,700,104	\$52,367,209
Cost Efficiencies	\$13,941,056		\$13,941,056	\$15,295,966
Commitments to Recover Funds	\$27,605,495		\$27,605,495	\$39,996,311
Cost Efficiencies Sustained	\$12,799,599		\$12,799,599	\$13,482,219
Fines Levied		\$278,209	\$278,209	\$320,329
Arrests/Search Warrants		473	473	2,643
Indictments		410 <sup>2</sup>	410	987
Convictions		170 <sup>2</sup>	170	295
Total Years Suspended Sentences/Probation		1/32	1/32	6/298
Total Years Prison Sentences		562	562	724
Administrative Actions Against Persons/Firms Doing Business with HUD	32	82	114	189
Subpoenas Served	18	63	81	152

<sup>1</sup> Does not include 175 weapons seized under Operation Safe Home.

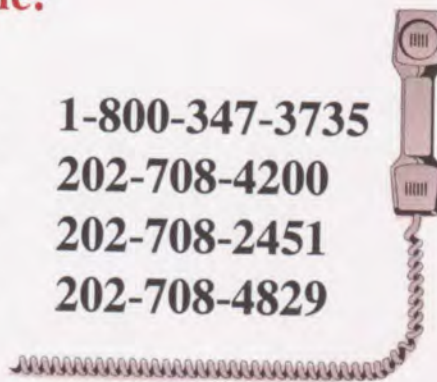
<sup>2</sup> 95 indictments and 19 convictions related to Operation Safe Home.



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Office of Investigation  
Room 8270  
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