

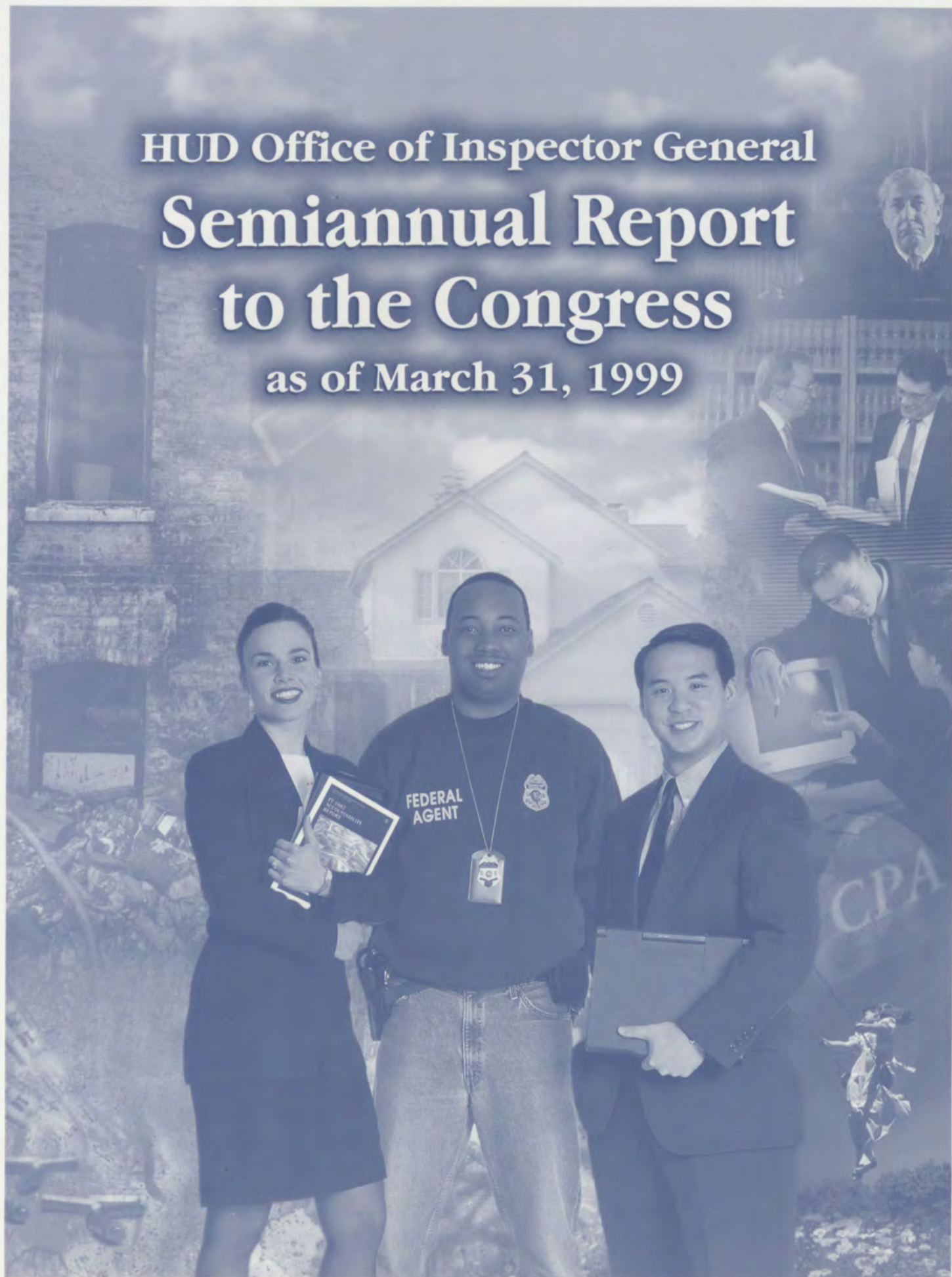


I am pleased to provide this copy of our latest Semiannual Report to the Congress.

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HUD Office of Inspector General  
**Semiannual Report**  
**to the Congress**  
as of March 31, 1999





# OIG MISSION STATEMENT AND VALUES

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

OIG values are as follows:

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



## INSPECTOR GENERAL'S MESSAGE

The HUD 2020 Management Reform has had, is having, and will have a profound effect on HUD operations. In keeping with the Office of Inspector General's statutory responsibility to keep the Congress fully and currently informed, this is our fourth Report to the Congress that focuses on the HUD 2020 effort.

After almost 2 years, the HUD 2020 Management Reform is still a work in progress, with substantial slippage from milestones projected by Booz-Allen Hamilton in March 1998. Meanwhile, HUD continues to suffer from the management deficiencies that HUD 2020 was intended to correct. (See Chapter 1.)

It is important to recognize that there are consequences to this prolonged transition period. Major audits completed this period of the Empowerment Zone, HOPE VI, and Drug Elimination Grant Programs indicate that HUD needs to devote substantially more attention and resources to these programs before we can be reasonably sure they are having their intended results. (See Chapter 3.) And OIG disclosures of fraud, waste, and abuse continue unabated. (See Chapters 2 and 4.)

But the situation is perhaps best illuminated through a specific example. Consider the case of the Puerto Rico Public Housing Administration (PHA).

- Under Secretary Henry Cisneros, HUD entered into partnership agreements or memoranda of agreement (MOAs) with a series of large, troubled housing authorities. HUD's latest MOA with the Puerto Rico Public Housing Administration was executed in June 1996. The MOA was to continue in operation for 2 years.
- In December 1996, HUD took the PHA off the troubled list, based on the Public Housing Management Assessment Program (PHMAP). Under Secretary Cuomo, HUD has acknowledged the shortcomings of the PHMAP system; and, under HUD 2020, PHMAP will be replaced by a new assessment system in the year 2000.
- In June 1998, the OIG issued an assessment of the PHA's progress under its MOA with HUD. We found that the PHA had not lived up to its obligations under the MOA. The PHA acknowledged that, but responded that it had met the overall goal of the MOA, which had been for the PHA to get off HUD's troubled list. Based on the seriousness of the problems at the PHA, the OIG decided to do additional audit work.
- Meanwhile, HUD was establishing Troubled Agency Recovery Centers (TARCs) to deal with troubled public housing. The HUD 2020 Reform concept is that the Real Estate Assessment Center will identify troubled public housing and the TARCs will then be responsible for turning it around. But official Real Estate Assessment Center scores won't be available until the year 2000, so the TARCs' current workload is comprised of troubled public housing as defined under the PHMAP system.
- In September 1998, based on our audit work at the PHA, OIG officials told Public and Indian Housing (PIH) officials that there were virtually no controls over the PHA's procurement system, resulting in high potential for fraudulent activity. We urged PIH to intervene immediately to correct PHA business practices. As of this writing, we are aware of no resultant HUD intervention, nor are we aware of any changes in the PHA business practices.
- On October 29, 1998, based on an investigation by the FBI, OIG, and Office of the Comptroller of Puerto Rico, three individuals were indicted on charges of conspiracy to defraud HUD and embezzle-



ment of over \$1 million from the PHA. One of the individuals was a PHA contract employee; the other two were friends of the PHA contract employee. (See Chapter 2.)

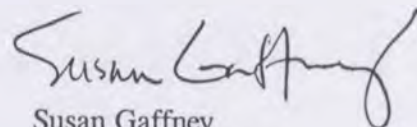
- On March 25, 1999, based on an FBI and OIG investigation, five individuals were indicted on charges of bribery, conspiracy, money laundering, and theft of over \$1.4 million in PHA funds. Three of the individuals were PHA employees; the fourth was the wife of one of the three PHA employees; and the fifth was the owner of a firm under contract with PHA. (See Chapter 2.)
- FBI and OIG investigation of PHA matters continues.

The fact is that, during this prolonged period while HUD continues to adjust to organizational changes and implement process improvements, there is increased possibility that substantive problems in the here and now go unaddressed.

Further, there remains uncertainty about the results that will be actually achieved. The National Academy of Public Administration (NAPA), for instance, recently endorsed HUD's efforts at procurement reform. We agree with NAPA that HUD has put in place a good organizational structure for procurement; the OIG is just now starting a follow-up to our previous procurement audit to see whether the good organizational structure is actually resulting in sound contracting.

As another example, I note HUD's pride in receiving an unqualified opinion from the OIG on its 1998 consolidated financial statements. However, this opinion was only obtained after extensive audit and contractor work, because HUD's internal systems were still not sufficient to produce complete and reliable financial statements.

In summary, HUD 2020 remains a roadmap, not an accomplishment. The OIG will continue to track HUD 2020 and keep the Congress fully and currently informed of our findings.



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>Pages</i>
Section 4(a)(2)-review of existing and proposed legislation and regulations.	75-84
Section 5(a)(1)-description of significant problems, abuses and deficiencies relating to the administration of programs and operations of the Department.	1-73, 85-97
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses and deficiencies.	37-73
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.	9-73
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.	37-73
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 C
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	96-97
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	95-96



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# Chapter 1

## HUD Management Issues





## HUD Management Issues

### The HUD 2020 Management Reform

This Chapter reviews the status of: (1) the HUD 2020 Management Reform; and (2) the management deficiencies that HUD 2020 was intended to correct.

It is almost 2 years since Secretary Cuomo's announcement of the HUD 2020 Management Reform. The Office of Inspector General (OIG) initially urged delaying implementation of the 2020 Reform, on the grounds that it lacked any meaningful cost benefit analysis, it involved staff downsizing even though the level of staff needed had never been defined, and it focused on organizational and management changes to the exclusion of programmatic changes.

Implementation of HUD 2020 proceeded nonetheless, and the OIG then cautioned that the HUD 2020 downsizing and organizational changes had caused such upheaval that it was essential to complete the HUD 2020 management improvements at the earliest possible date. On various occasions, the Inspector General urged the Congress to work with HUD to establish timelines for completion of the most critical management improvement elements of HUD 2020, then hold HUD accountable for meeting those timelines. To our knowledge, this did not occur.

Indeed, it is not easy to find timelines against which to measure the progress of HUD 2020. The OIG knows of only one formally issued document that contains such timelines: the March 23, 1998 report by Booz-Allen Hamilton titled "HUD 2020 Implementation Plan Review." This report was commissioned by HUD and is often cited by Secretary Cuomo as an authoritative endorsement of HUD 2020. As discussed below, however, implementation of HUD 2020 management improvements is clearly lagging behind the milestones set out in the Booz-Allen Hamilton report.

#### *Enforcement Center*

**Booz-Allen Hamilton Timeline: the Enforcement Center Will Reach Its Final Operating Capacity by the End of 1998.** According to Booz-Allen Hamilton, the Enforcement Center (EC) would provide, by the end of 1998, a focused approach to resolving significant non-compliance cases, if key assumptions and organizational dependencies were addressed. Key assumptions included metering case activity to a manageable level and developing inter-organizational protocols. The organizational dependencies were identified as the Real Estate Assessment Center (REAC), Troubled Agency Recovery Centers (TARCS), and Financial Systems Integration project. Booz-Allen Hamilton anticipated that there would be 1,000 referrals to the EC by the end of calendar year 1998. Booz-Allen Hamilton validated the EC's staffing needs at 204.

**Status as of April 1999: the Enforcement Center May Be a Year or More Away from Becoming Fully Operational.** The REAC and the Financial Systems Integration project, which are organizational dependencies, are still under development. Some of the protocols with affected entities are not finalized. The EC's current staffing level is at 162. As of April 1999, the EC's workload was comprised of 236 projects. The majority of these cases were referred to the EC by the REAC based on recent advisory inspection scores.





## *Real Estate Assessment Center*

**Booz-Allen Hamilton Timeline: the Real Estate Assessment Center Will Reach Full National Implementation between April and June 1998.** "Full national implementation" would require having the following major components of the REAC in place: an inspection and scoring process; electronically transmitted financial statements; and all inter-organizational protocols for assessment related activities. Further, Booz-Allen Hamilton pointed out that, prior to implementation, these processes would need to be vetted with the housing industry and tested. According to Booz-Allen Hamilton's report, this vetting and testing would be completed by March 1998, and "full national implementation" would then be dependent on industry acceptance of the assessment process, training on information systems, protocols with the EC and HUD program offices, and modification of public housing authority audit requirements. Booz-Allen Hamilton anticipated that the REAC would require a staff of 211.

**Status as of April 1999: the Real Estate Assessment Center May Be a Year Away from Becoming Fully Operational.** The REAC has developed physical inspection protocols and financial protocols. Physical inspection protocols were tested in early 1998. However, because of industry concerns over the scoring process, the Department decided that a project's initial physical inspection would be advisory. That is, unless health or safety violations were identified, no action would be taken on failing inspection scores. In addition, the Department has agreed to publish additional details and receive public comment regarding assessment scoring. If these matters are not resolved this fiscal year, they could set back the full implementation of the REAC. At HUD's April 22, 1999 Senate Appropriations Subcommittee hearing, the Secretary noted that HUD is on track for completing all inspections by the end of the year 2000. The inventory of projects requiring inspections is approximately 45,000. Inspection contractors are already in place and providing advisory scores for about half of these projects. Inspection contracts for the remaining projects have not been let as of April 1999. Financial protocols are in the testing phase. Agreements with all affected HUD organizations have not been finalized. The REAC has a current staff of 110 employees.

## *Section 8 Financial Management Center*

**Booz-Allen Hamilton Timeline: the Section 8 Financial Management Center Will Be Fully Operational by September 30, 1998.** According to Booz-Allen Hamilton, by September 30, 1998, the Financial Management Center would be overseeing Section 8 contract administration for both public housing and multifamily housing. The centerpiece of this management reform was to be the contracting for Administrators to deal directly with multifamily housing owners, a function that public housing authorities already perform with respect to the tenant-based Section 8 Program. With respect to project-based Section 8, however, this labor intensive function has been carried out by Office of Housing staff in field offices.

**Status as of April 1999: the Section 8 Financial Management Center Will Not Be Fully Operational Until the Year 2000.** The Section 8 Financial Management Center is operational with respect to tenant-based Section 8 contracts. However, Multifamily Housing staff in the field are still responsible for the day-to-day management of more than 20,000 project-based Section 8 contracts. The plan is to move this workload to Contract Administrators and the Center will





have contract oversight responsibility. A Request for Proposal has been developed and released May 3, 1999. The Department has requested \$209 million in its Fiscal Year 2000 budget for this purpose.

### ***Homeownership Centers***

**Booz-Allen Hamilton Timeline: the "Workload Strategy Plan" for the Four Single Family Homeownership Centers Will Be Completed by September 30, 1998.** According to Booz-Allen Hamilton, full implementation of the Homeownership Center management reform, intended to increase the efficiency and accuracy of single family insurance operations, would require HUD's meeting two key assumptions: the conversion of property disposition activities from retail to wholesale, and the sale of the single family note portfolio.

**Status as of April 1999: the "Workload Strategy Plan" for the Four Single Family Homeownership Centers Has Not Been Completed.** The Department's strategy for managing its Real Estate Owned inventory (REO) changed after issuance of the Booz-Allen Hamilton report. Instead of the plan to sell properties as they entered the pipeline, the Department decided to hire contractors to manage and market the REO inventory. It took until January 1999 to select these contractors. On March 29, 1999, these contractors took over responsibility for managing and marketing the REO inventory. Because of legal questions involving earlier note sales, the forecasted sale of assigned notes has not taken place.

### ***Troubled Agency Recovery Centers***

**Booz-Allen Hamilton Timeline: the Troubled Agency Recovery Centers Will Be in "Fully Operational Condition" by October 1998.** The two TARCs are centralized staffs dedicated to addressing troubled public housing. Booz-Allen Hamilton estimated that the TARCs could reach a "fully operational condition" and a staffing level of 153 by October 1998 if the following key assumptions were met: development of protocols for interactions with field offices and Centers, as well as development of internal operating procedures by May 1998; and ability to use the REAC's standardized rating and assessment system, which Booz-Allen Hamilton projected would reach full national implementation between May and June of 1998. Booz-Allen Hamilton noted that the Department would seek legislation to allow for automatic receivership if public housing authorities did not show significant improvement from failing assessment scores.

**Status as of April 1999: the TARCs May Not Be in "Fully Operational Condition" Until the Year 2000.** The TARCs did not reach "fully operational condition" by October 1998 because not all of Booz-Allen Hamilton's key assumptions had been met. Written protocols for operations between the TARCs and other affected entities were not signed until January and February 1999. At the present time, the TARCs are working with 47 troubled housing projects previously identified using old business methods, notably the flawed Public Housing Management Assessment Program methodology. The current staffing level is 124. The TARCs' ability to become fully operational is dependent on the successful implementation of the Public Housing Assessment System (PHAS) developed by the REAC.

On March 15, 1999, four housing interest groups filed suit against HUD. They cited HUD for violating their due process and the Federal Administrative Procedures Act in issuing the PHAS Regulation. On April 19, 1999, the suit was dropped when the Secretary agreed to: issue a series of Federal Register Notices





setting forth the standards that apply to PHAS components and describing in detail the scoring process; republish the PHAS rule for a 60-day comment period; and issue a notice expanding the existing appeals process under PHAS. We expect it will be several months before these issues are resolved.

## *Community Builders*

**Booz-Allen Hamilton Recommendation: *the Department Needs to Focus on Strengthening and Clarifying the New Role of the Community Builders in Field Operations.*** In March 1998, when the Booz-Allen Hamilton report was issued, the Community Builder concept was in its infancy, and Booz-Allen Hamilton therefore noted that the Community Builder role needed better definition.

**Status as of April 1999: *Questions About the Role of the Community Builders Continue.*** In March 1999, the Department held a management conference with key Community Builder and Public Trust Officer staff. A major focus of this meeting was to define the specific roles and responsibilities of both parties. While many of the Community Builder staff have been on board for close to a year, there are still many uncertainties as to their role.

## **HUD Management Deficiencies**

Our annual audits of HUD's consolidated financial statements, Federal Housing Administration (FHA) financial statements, and Government National Mortgage Association (GNMA) financial statements assess HUD's controls over federal expenditures and financial reporting. Management deficiencies may, of course, impact the accuracy of HUD financial reporting. In our financial audits, we categorize these deficiencies as material weaknesses or reportable conditions. Both material weaknesses and reportable conditions represent significant internal control deficiencies, but material weaknesses carry a relatively higher risk of resulting in material errors in financial reporting.

The audits of the 1991 financial statements were the first conducted in compliance with the Chief Financial Officers Act. At that time, the auditors reported a total of nine material weaknesses and seven reportable conditions. In our latest audits, of the 1998 financial statements, we reported a total of 8 material weaknesses and 12 reportable conditions. Changes in the composition of this listing over the years have been as follows:

- Two material weakness (deficiencies with GNMA subservicer monitoring and issuer activities) have been corrected or are no longer material in relation to the financial statements, and are no longer on the list. Since 1995, audits of GNMA's financial statements have not reported any material weaknesses or reportable conditions.
- Three material weaknesses (housing authority monitoring, processing subsidy payments, and resolving Secretary held mortgage notes) have been partially corrected and currently appear on the list as reportable conditions.
- Three material weaknesses (verification of subsidy payments, FHA resource issues, and FHA federal basis accounting) have been added to the list.
- One reportable condition (management of HUD resources) was reclassified as a material weakness.





- Two reportable conditions (refinancing Section 235 mortgages, and not maintaining loan-to-value information on certain FHA refinancings) have been corrected or are no longer material in relation to the financial statements, and no longer appear on the list.
- Five reportable conditions (HUD's management control program, payment system access controls, personnel security, reviewing obligation balances, and FHA computer system security and processing controls) have been added to the list.

The following material weaknesses were reported in the audits of the 1998 financial statements.

- HUD's financial systems continue to be seriously deficient after years of delays and cost overruns associated with various efforts to comply with federal systems requirements.
- HUD has not been able to effectively manage its resources and has experienced delays in completing organizational changes aimed at dealing with declining resources brought on by arbitrary staffing cuts.
- HUD has not implemented an effective income matching program to ensure that housing subsidies are based on correct tenant income.
- HUD has not been able to effectively monitor multifamily projects in that field offices have not been receiving or reviewing audited financial statements for many troubled projects, performing physical inspections and other reviews, and following up on identified deficiencies.
- FHA staff and administrative resource issues have not been addressed to ensure that proper staffing levels, personnel skills versus skill needs, and training resources are available to adequately conduct its mortgage insurance programs.
- FHA lacks an effective early warning and loss prevention program to reduce the frequency and loss severity of defaults on insured mortgages by identifying and curing troubled multifamily mortgages before they become seriously delinquent and by using loss mitigation tools for the single family insured portfolio before properties are foreclosed.
- FHA's federal basis and budgetary accounting systems do not provide for adequate reconciliation and proper determination of obligated amounts; do not fully support the preparation of federal basis financial statements, budgetary standard forms, and cost allocation; and do not fully support the calculation of the liability for loan guarantees.
- FHA's information technology systems do not effectively support business processes in that systems are not linked and integrated, or configured to meet all financial reporting requirements.





The following reportable conditions were reported in the audits of the 1998 financial statements.

- HUD's management control program has not provided for effective risk assessments of ongoing programs nor has it ensured that audits are resolved in a timely manner.
- HUD has not refined performance measures to effectively implement results management.
- HUD has not implemented sufficient controls over project-based subsidy payments.
- HUD's efforts to monitor housing authorities are not effective in addressing areas of greatest risk and have not adequately assessed the overall quality of the public housing stock.
- HUD's monitoring of Community Planning and Development program grantees continues to be deficient in that HUD has been slow in fully implementing its grant management process.
- HUD's general controls over automated systems do not provide adequate security over critical resources on mainframe systems and HUD's network, do not adequately control programming changes, and do not provide adequate disaster recovery capabilities.
- HUD does not ensure that personnel with access to sensitive automated systems receive the proper background investigations.
- HUD does not adequately control access to its major payment systems.
- HUD lacks effective processes for reviewing obligation balances to ensure that funds that are no longer needed are deobligated in a timely manner.
- FHA does not take sufficient action to resolve Secretary held multifamily mortgage notes and minimize additional mortgage note assignments.
- FHA does not sufficiently monitor and account for its single family property inventory.
- FHA's information systems' general and application controls continue to be deficient in their design and operation.

More details on many of these weaknesses can be found in Chapter 3 under Financial Statement Audits.





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# Chapter 2

## Operation Safe Home

Operation Safe Home will soon enter its sixth year. Since February 1994, Safe Home has focused OIG efforts on violent crime in public and assisted housing, fraud in public housing administration, and equity skimming in multifamily insured housing.

Operation Safe Home is a long-term commitment on the part of the OIG to improving the quality of life for residents of HUD assisted housing. Our goals are reductions in crime rates; safer environments; and better physical conditions as HUD money is used for its intended purposes, rather than being illegally siphoned off.

The following reflects the activity, by state, for each of the three areas under Operation Safe Home.





# Violent Crime in Public and Assisted Housing

As part of Operation Safe Home, the OIG has been combatting violent crime in public and assisted housing for nearly 6 years. We have reported many successes in the war against violent crime, including an overall improved quality of life for many residents. We also continue to provide witness relocation services, enabling witnesses to crime in public and assisted housing to testify against criminals and still remain safe from harm.

Our efforts to combat violent crime in public and assisted housing are undertaken in coordination with various federal, state, and local law enforcement task forces. In addition to law enforcement personnel from states, counties, cities, and housing authorities, the following federal agencies are primary partners in Operation Safe Home: the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), the Bureau of Alcohol, Tobacco, and Firearms (ATF), the U.S. Secret Service (USSS), the U.S. Marshals Service (USMS), the U.S. Postal Inspection Service (USPS), the U.S. Customs Service (USCS), the Immigration and Naturalization Service (INS), the Internal Revenue Service (IRS), and the Department of Justice (DOJ).

Examples of task force operations during this reporting period are presented below by state.

## Summary of Results

Activity	Current Reporting Period	Cumulative to Date
Arrested	1,303	18,684
Seized: Weapons <sup>1</sup>	265	2,693
Cash	\$1,868,125	\$7,089,444
Drugs <sup>2</sup>	\$2,672,180	\$39,298,753
Search Warrants	228	2,320

1 Includes 21 shotguns and assault weapons seized during this reporting period, for a total of 267 to date.

2 Estimate based on measurable quantities.

## Law Enforcement Task Forces

### California

In Los Angeles, 60 individuals were arrested and 50 weapons, including assault rifles and a grenade, were seized following operations by the Los Angeles Metropolitan Task Force on Violent Crime. Charges against these individuals, who were arrested in several public housing developments, include murder, attempted murder, robbery, outstanding felony arrest warrants, the sale of cocaine, assault with a deadly weapon, parole violations, possession of concealed firearms, burglary, being a felon in possession of a firearm, and grand theft auto. The arrested individuals are known to be members of the *Big Hazard*, *Varrio Nuevo Estrada Courts*, *Cuatro Flats*, *East Los Angeles Thirteen*, *Primera Flats*, *White Fence*, *8th Street*, *Project Boyz*, *Trece*, *Criminals*, *Mexican Mafia*,



*Southside*, and *San Fers* gangs. These gangs are believed to be responsible for the illegal drug activity and associated violence within these developments.

In one operation, the Task Force arrested an individual near the San Fernando Gardens public housing development. The individual was arrested pursuant to a federal Racketeering Influenced and Corrupt Organizations Act (RICO) indictment. The indictment was one of three federal indictments which charged 30 people, all alleged members of the *Mexican Mafia*, with responsibility for 4 murders, 3 attempted murders, 13 conspiracies to commit murder, 2 conspiracies to distribute controlled substances, a robbery, a robbery conspiracy, and an extortion conspiracy. The RICO indictments allege that the *Mexican Mafia* has attempted to organize Hispanic street gangs throughout Southern California in an effort to control narcotics trafficking in this area. The indictments also allege that the *Mexican Mafia* requires the street gangs to pay a "tax," which is money in return for being allowed to sell narcotics within a specific neighborhood. If this "tax" is not paid, *Mexican Mafia* members will assault or murder members of the gangs. In addition, the indictments allege that *Mexican Mafia* members conspired to murder members of the *Project Boyz* gang for failure to pay the "tax," and attempted to arrange a murder in the Estrada Courts public housing development.

This Task Force is made up of the FBI, OIG, Los Angeles Police Department, Los Angeles Sheriff's Department, and the California Department of Corrections.

Sixty-six individuals were arrested following Safe Home efforts by the DEA, ATF, OIG, and **San Francisco** Police Department's Narcotics Bureau Special Investigations Division. These efforts were focused on the FHA insured/HUD subsidized Marcus Garvey/Martin Luther King complex and the Freedom West and Sunnydale HUD subsidized developments. Two of the individuals arrested at the Marcus Garvey/Martin Luther King complex will face federal charges for possession of weapons and illegal narcotics. The law enforcement effort at this complex began in early 1998 following numerous complaints from residents and neighbors about the illegal narcotics sales and random gunfire perpetrated by members of a gang called the *Knock Out Posse*. The operation resulted in the identification of 107 individuals who were associated with the *Knock Out Posse*. In total, this effort netted over 605 grams of cocaine, 504 grams of marijuana, 2 ounces and 1 loaded syringe of heroin, 3 ounces of methamphetamine, 7 weapons, including a MAC-11 assault weapon, \$18,000 in cash, 4 cellular telephones, and drug paraphernalia.

### **Colorado**

After receiving information regarding the robbery of a fast food restaurant in **Pueblo**, OIG Agents executed a search warrant at a public housing unit in the Sangre De Cristo complex. A resident was arrested, pled guilty to robbery, and was sentenced to 4 years incarceration. After the suspect robbed the restaurant and threatened an employee with a homemade firearm, he stole over \$2,000 in cash and checks and then fled to the public housing unit that he shared with his girlfriend. Another individual living in the Sangre De Cristo complex was also arrested in connection with the robbery and was subsequently sentenced to 2 years incarceration; all three have been evicted.





A Section 8 resident in **Denver** provided information to the OIG Safe Home Task Force that a known drug trafficker in the area had inquired about purchasing 5 kilos of cocaine. OIG and local law enforcement set up a reverse sting operation and arrested the individual. During the arrest, Agents and Officers confiscated \$75,000 that the individual was going to use to complete the transaction. The individual then consented to a search of his residence; an additional \$3,000 in cash and 1 pound of methamphetamine were recovered.

### *Connecticut*

The Federal Gang Task Force continued to be active in the **Hartford** area. During this reporting period, the Task Force arrested 25 people and confiscated 125 bags of heroin, 55 bags of marijuana, 10 grams of cocaine, and over \$24,000 in cash. Recent efforts include "Operation Sand Storm," an investigation that involved a heroin operation run out of the Sands, a privately owned Section 8 development, and an effort undertaken as part of a "Weed Out Weapons" Program that focused on firearms violations in and around the Stowe Village public housing development. Those arrested by Task Force members during the past 6 months have been charged with, among other things, homicide, possession of narcotics, possession with intent to sell, possession of narcotics within 1,000 feet of a school, conspiracy to possess with intent to distribute heroin, criminal trespass, aiding and abetting, and outstanding warrants. This Task Force includes the FBI, ATF, OIG, Connecticut State Police, Hartford, East Hartford, and Meriden Police Departments, and the Connecticut Department of Corrections.

In **New London**, 36 individuals were arrested on charges including sale of narcotics to an undercover officer, criminal attempt to purchase narcotics, possession of narcotics, possession of a controlled substance, and larceny. The arrests followed the execution of several search and arrest warrants in densely populated Section 8 neighborhoods by the OIG, ATF, Connecticut State Police, New London and Norwich Police Departments, and Inspectors from the Chief State's Attorney's Office. During the execution of 14 search warrants, 10 bags of heroin, 1 ounce of marijuana, a 12-gauge sawed-off shotgun, a pistol, over \$9,000 in cash, and gang related records were confiscated.

### *District of Columbia*

**Washington, DC**, continued to reap the benefits of Operation Safe Home during this reporting period. OIG, DEA, and the Metropolitan Police Department's (MPD's) Special Investigation Division, Gun Recovery Unit, Vice/Narcotics Unit, and Major Narcotics Branch combined forces making a total of 38 arrests and the seizing of 370 grams of cocaine, 88 grams of heroin, over 1,000 grams of marijuana, 7 grams of PCP, 11 weapons, a bullet proof vest, ammunition, over \$11,000 in cash, and drug paraphernalia and documents. The drugs seized were worth in excess of \$20,000. One operation included street level enforcement activities and focused on a known open air drug market located in/around public housing. Another targeted the main drug distributor for nearby public housing developments. Other operations included undercover drug buys made from public housing units, surveillance, and jump-outs.

Efforts by another Task Force, including the FBI Safe Streets Unit, OIG, and MPD, also continued this period. In total, the Task Force arrested 5 individuals in



public housing developments and confiscated about 40 grams of heroin, 20 grams of marijuana, 109 grams of cocaine, \$300 in cash, 7 weapons, including a loaded Tec-9 assault weapon, ammunition, a bullet proof vest, and a silencer.

**Florida** As a result of operations by OIG and the **Bunnell** Police Department, 19 individuals were indicted for selling drugs at Flager County public housing developments. Twelve of the individuals were public housing residents and will be evicted under the "One Strike and You're Out" policy. The indictments followed a 2-month investigation and drug purchases made by undercover Agents from individuals selling crack cocaine in the developments. Twelve of the 19 individuals have been arrested.

In **Jacksonville**, Officers from the Florida State Attorney's Office and OIG Agents arrested an individual who had been indicted in Burlington, NC, for possession with intent to distribute and conspiracy to distribute 86 grams of crack cocaine to undercover Police Officers. The defendant was one of ten individuals who were previously indicted for selling drugs and weapons in Burlington public housing developments. At the time of arrest, the defendant possessed 4 grams of marijuana. In addition to being arrested for the outstanding warrant, she was also charged with possession of the marijuana; she was remanded to the Jacksonville Detention Facility and held without bail pending an extradition hearing.

**Georgia** The Organized Crime Drug Enforcement Task Force (OCDETF) was active in **Gainesville** during this reporting period. A total of seven people were sentenced, three were indicted, and one pled guilty. Charges included selling methamphetamine, cocaine, and weapons in and near public housing developments. Sentences totaled over 35 years in prison and 28 years supervised release, and fines and restitution amounted to \$14,000 and \$5,700, respectively. The three individuals indicted were associated with the *Brown Society Vatos Hispanic* gang. This Task Force is made up of the FBI, ATF, INS, OIG, Hall County Sheriff's Office, and the Gainesville Police Department.

In **Atlanta**, OIG and the USMS arrested an individual who was wanted as a federal fugitive in Mississippi. The individual was one of the 35 who were indicted in December 1998 as the result of a Safe Home operation conducted by OIG, the Mississippi Bureau of Narcotics, and the Jackson Police Department. The 35 were charged with selling drugs in the Jackson Apartments, a HUD subsidized complex.

**Hawaii** Six individuals were sentenced in **Honolulu** following their July 1998 arrests for selling narcotics in and around the Mayor Wright public housing complex. Their cumulative sentences totaled 9 years and 5 months in prison and 36 years supervised release. All were charged and convicted under federal statute for selling narcotics within 1,000 feet of public housing. The convictions resulted from a Weed and Seed/Safe Home operation conducted by the Honolulu Police Department with assistance from the OIG, FBI, and DEA.

**Illinois** The "Stormy Monday" Task Force, including the Chicago Housing Authority Police Department and OIG, operates in and around **Chicago**. During this





period, the Task Force conducted a number of successful operations. In one effort, Task Force members executed a search warrant at the LeClaire Courts public housing complex. Six individuals were arrested for possession of a controlled substance, unlawful use of a weapon, obstruction of justice, and criminal trespass. One loaded handgun, 8 grams of crack cocaine, and \$200 in cash were confiscated. In another effort, nine individuals were arrested after the Task Force conducted a buy/bust drug operation in the Rockwell Gardens public housing development. Twenty-three baggies of crack cocaine, weighing 3 grams, were also confiscated.

In **Rockford**, the SLANT (State Line Area Narcotics Team) Task Force arrested a total of 17 individuals and seized over 600 grams of crack cocaine, 6 grams of marijuana, 1 weapon, and \$6,477 in cash at various public housing developments. In one buy/bust operation, the Task Force arrested a mid-level narcotics dealer. In another operation, the Task Force executed a search warrant at a heroin supply house. The house is controlled by the *Vice Lords* gang and is used to bag heroin to be sold at the Concord Commons public housing development. The Task Force also executed two search warrants at crack cocaine houses known to supply the Fairgrounds Valley public housing development. This Task Force is made up of OIG, the Illinois State Police SLANT Unit, and Rockford Police Department Housing Officers.

The Ford Heights Task Force continued its efforts during this period. As part of "Operation Clean Sweep," the Task Force conducted a reverse narcotics sting operation in a high drug trafficking area located near the John Mackler Homes, Sunrise Apartments, and Daniel P. Bergan Homes public housing developments in **Chicago Heights** and the Wentworth Gardens Section 8 development in **Ford Heights**. The operation resulted in the arrest of 90 individuals on a variety of outstanding warrants and drug charges and the impoundment of 51 vehicles. Among those arrested, as they were attempting to purchase drugs, were a Northwest Indiana Police Officer, a firefighter, a nurse, and a mother with children in her vehicle. This Task Force is composed of Officers and Agents of the Cook County Sheriff's Police, OIG, DEA, the South Suburban Gang Initiative, and the Chicago Heights Police Department.

### **Indiana**

Eric Frazier was sentenced to a term of life imprisonment for his role as second in command of a drug distribution organization that operated primarily in the Delaney public housing complex in **Gary**. The sentence resulted from Frazier's role in the distribution of crack cocaine, collection of drug proceeds, and commission of perjury during trial testimony. He and other members of the organization were previously indicted following efforts by the Northwest Indiana Violent Crime Task Force, including the DEA, ATF, OIG, IRS Criminal Investigation Division, the Gary, Hammond, and Portage Police Departments, and the Lake County Sheriff's Department.

### **Kansas**

In **Topeka**, the Safe Home Task Force, consisting of OIG, the Kansas Bureau of Investigation, and the Topeka Police Department's Public Housing Unit, continued to address violence and drugs in public and assisted housing. Efforts by the Task Force this period resulted in 5 arrests, 2 guilty pleas, sentencings



totaling nearly 30 years in prison and 6 years supervised release, and the seizure of \$180,000 in cash. In one effort, the Task Force arrested three individuals on murder and weapons charges at the Western Plaza public housing complex. The murder was drug related.

As a result of another effort, Walter Austin pled guilty to two counts of simple possession. The plea followed a Task Force operation in June 1998 during which 21 individuals were arrested for narcotics distribution, aggravated burglaries, and counterfeiting in public housing. In addition, four individuals received "ban and bar" notices, barring them from public housing premises in Topeka due to their past criminal activity.

In honor of Dr. Martin Luther King, the City of **Topeka** conducted a "Stop the Violence" workshop at the Abbott Community Center. The OIG Kansas City Office of Investigation received the Dr. Martin Luther King Community Service Award during the day's events. The award, presented by the East Topeka South Neighborhood Improvement Association, recognized OIG's outstanding service to the communities and citizens of Topeka, along with the numerous community activities OIG developed, participated in, and sponsored.

### *Kentucky*

A Task Force made up of the OIG, **Springfield, Lebanon,** and **Campbellsville** Police Departments, Taylor and Marion County Sheriff's Department, Marshals Service, and the Kentucky State Patrol was very active during this period. In one of the more significant cases, 54 individuals were indicted for selling drugs in public housing developments following the execution of arrest warrants. This investigation was initiated at the request of the HUD Kentucky State Office Public Housing Director when the executive director of the Lebanon Housing Authority resigned after being threatened by drug dealers for implementing the "One Strike and You're Out Policy." OIG met with the U.S. Attorney's Office, who agreed to prosecute the most violent offenders. Those residents who were arrested will be evicted.

In one case with extremely positive results, Arthur "Popeye" Groves pled guilty to three counts of selling crack cocaine to Campbellsville Housing Authority residents. He sold the drugs from his residence across the street from the development in exchange for stolen goods. As a result of his arrest, the incidence of shoplifting, larceny, and burglaries in the area has decreased dramatically. In total, during this period 60 people were indicted, 6 pled guilty, 6 were sentenced to a total of over 20 years in prison and 24 years supervised release, and nearly 50 pounds of marijuana, 25 grams of cocaine, \$48,400 in cash, over 30 weapons, including assault rifles, 21 pipe bombs, 7 vehicles, 2 50-inch televisions, 1 motorcycle, and 3 sets of scales were confiscated.

### *Louisiana*

In **New Orleans**, the Safe Home Task Force, made up of the ATF, DEA, OIG, USMS, and New Orleans Police Department, made inroads into the drug and violence problem in Housing Authority of New Orleans public and assisted housing properties. The Task Force arrested 163 people and seized 123 grams of cocaine, 621 grams of marijuana, 60 grams of heroin, \$2,866 in cash, 8 weapons, 3 vehicles, ammunition, and drug paraphernalia. In addition to Section 8 areas of the City, these operations took place in the Desire, Melpomene, Florida, St. Thomas, Magnolia, Calliope, Lafitte, and St. Bernard public housing developments.





## *Maryland*

Following a year-long joint investigation in **Baltimore** by OIG and the DEA in and around public and assisted housing, six individuals, who called themselves the *Dome Boyz*, were indicted for conspiracy to distribute heroin. The *Dome Boyz* were an organization that distributed mass quantities of heroin from a site under a gazebo, "the Dome," behind the Upton Court Apartments assisted housing complex. The organization operated 7 days a week and attracted crowds of 50-100 drug users at a time. The *Dome Boyz* had "look-outs" posted on surrounding street corners to warn of police approaching the area. Through surveillance and information developed via undercover operations, OIG and DEA estimated that the *Dome Boyz* sold approximately 3 bags of heroin, valued at \$300 each, every 10 minutes. Based on these figures, it was estimated that approximately 90 grams of heroin, valued at \$5,400, were sold per hour.

As part of OIG post enforcement efforts in this case, and in coordination with a local community group, the OIG organized a community walk that included community resident leaders, church and government officials, and HUD staff. The walk was the first step in an effort to bring members of the community and government officials together to stabilize public and assisted housing developments through youth programs, substance abuse treatment, community policing, and a resident crime watch program. The Baltimore City Police Department and Housing Authority Police have expressed a willingness to provide additional Officers to monitor the Upton Court area and enforce no trespassing laws.

OIG Agents and Officers from the Annapolis Police Department's Special Operations Division conducted a number of initiatives aimed at drug trafficking activities in **Annapolis** public housing complexes. To date, OIG participation with the Annapolis Police at 5 public housing communities has resulted in over 90 arrests, the seizure of 32 vehicles and 72 grams of cocaine, and the banning of at least 150 persons from public housing premises. Officials from both the Annapolis Police Department and the Annapolis Housing Authority advise that crime associated with drug trafficking has been reduced substantially as a result of these operations. Police and Authority personnel are in the process of establishing a community oriented policing program aimed at maintaining the demonstrated crime reductions.

Forty-eight people were arrested and 39 arrest warrants were served by OIG Agents and Officers from the **Prince George's County** Police Department/Narcotics Enforcement Division (NED) as they concluded "Operation Clean IX." The joint operation also culminated with the execution of 4 search warrants and the seizure of 23 grams of marijuana, 106 grams of crack cocaine, 9 grams of heroin, \$1,236 in cash, 11 vehicles, and 1 rifle. There are still 34 unserved arrest warrants. The objective of this operation was to aggressively combat street level narcotics trafficking and related criminal activity in public and assisted housing areas in Prince George's County.

## *Massachusetts*

**Worcester** has been the scene of numerous Safe Home efforts over the past few years. Most recently, six individuals were arrested after OIG and the Worcester Police Department Vice Squad/Gang Unit executed search warrants at or near public housing complexes. In total, 26 pieces of crack cocaine, 116 bags of marijuana, \$8,200 in cash, and drug paraphernalia were seized. Individuals were



charged with possession with intent to distribute within 1,000 feet of a school, disorderly conduct, assault with a dangerous weapon, and resisting arrest. Where appropriate, the Worcester Housing Authority has been advised of the enforcement actions so they can initiate eviction proceedings.

In **Boston**, Roy Gaul, Kareem Richardson, and Marc Taylor were sentenced as a result of Safe Home efforts by the FBI, OIG, Boston Police Department, and Boston Housing Authority Police. Gaul received life in federal prison without parole for his role in a crack cocaine distribution ring centered in and around the Lenox Street public housing development. Richardson and Taylor, both co-conspirators, received 13 and 10 years in prison, respectively, and 5 years supervised release.

### *Minnesota*

The Thai Lottery Task Force, made up of the FBI, OIG, IRS Criminal Investigation Division, Minneapolis and St. Paul Police Departments, and the Minnesota Department of Public Safety, targeted drugs and crime in public housing developments in **St. Paul**. The Task Force executed 17 simultaneous search warrants at 4 public housing units at the Roosevelt Homes and Mt. Airy Homes in St. Paul and at one scattered site in Minneapolis. The remaining warrants were executed at commercial businesses and private residences. Based on the evidence recovered from these warrants, six additional search warrants were executed on safe deposit boxes at local banking institutions. The warrants were in response to an Asian organized gambling ring operating in and around public housing and local Asian stores. The warrants resulted in the seizure of 12 firearms, a small quantity of opium, more than \$120,000 in cash, and gold, silver, and jewelry valued at approximately \$100,000.

### *Mississippi*

The Gulf Coast High Intensity Drug Trafficking Area Task Force (HIDTA) in **Jackson**, which includes DEA, OIG, USCS, Jackson Police Officers, the Mississippi Bureau of Narcotics, and the Mississippi Highway Patrol, continued to be active during this reporting period. In one especially significant case, 35 individuals were indicted for selling drugs in the Jackson Apartments, a HUD subsidized development. Three of the 35 have since pled guilty and 1 has been found guilty. In addition to the investigation and resulting indictments, the HIDTA Task Force awarded a \$90,500 community empowerment grant to the Jackson Urban League to work with Jackson Apartments residents to revitalize the historically troubled development with parenting classes, homeownership transition opportunities, General Education Diploma classes, and drug counseling. The enforcement phase of this operation was coordinated with the U.S. Attorney's Office, Civil Division, which filed a False Claims Act lawsuit against the former owner of the development for allegedly making false certifications to HUD that Jackson Apartments were in safe, sanitary, and decent condition. The FBI, ATF, Marshals Service, Hines County Sheriff's Office, and the Mississippi National Guard Air Support also participated in this operation.

Following a 6-month investigation by OIG Agents, the Mississippi Bureau of Narcotics, the Yazoo City Police Department, and the Yazoo County Sheriff's Office, 19 individuals were arrested for selling drugs in **Yazoo City** public housing developments. These individuals were the leaders of an organization responsible for distributing the majority of crack cocaine in Yazoo City public





housing. During the arrests, 4 pounds of cocaine, \$51,420 in cash, and 16 weapons were seized, including semi-automatic pistols, revolvers, rifles, shotguns, an illegal saw-off shotgun, and 4 stolen weapons. One of the individuals arrested is a convicted felon and will also be charged on federal firearms violations.

**Missouri** In **St. Joseph**, the Northwest Missouri Safe Home Task Force arrested 15 individuals for narcotics distribution. The individuals were identified during Safe Home operations focusing on illegal drug activity in and around the Pleasant Heights public housing community and Oak Ridge Apartments, an assisted housing complex. During the operation, cocaine, methamphetamine, and marijuana were purchased by undercover Agents. This Task Force is made up of the OIG, the Buchanan County Drug Strike Force, Missouri State Highway Patrol, and the St. Joseph Police Department.

Two significant operations took place in **St. Louis** during this reporting period. One resulted in the conviction of David Harvey for the sale of narcotics and possession of stolen and illegally altered firearms. He was sentenced to 7 years and 3 months in prison. At the time of his October 1997 arrest by members of the St. Louis Task Force, Harvey was a convicted felon. At that time, he was found to be in possession of 2 sawed-off shotguns, 2 handguns, over 100 rounds of ammunition, over \$13,000 in cash, and 1 ounce of crack cocaine. Two of the firearms were stolen. Harvey was found to be dealing narcotics from his house to customers across the street in the Blumeyer public housing development. He has an extensive record of assault and firearms violations.

The Task Force also arrested three people during the execution of a search warrant at a hotel/boarding house used by several well-known narcotics traffickers from the Clinton-Peabody public housing development. Approximately 2 ounces of crack cocaine with a street value of over \$2,000 were recovered during the operation. An additional \$1,400 in cash was recovered from one of the suspects, along with a 12-gauge shotgun and a revolver. This Task Force consists of the ATF, OIG, and the St. Louis Police Department Mobile Reserve and Narcotics Units.

**Nevada** Two search warrants were executed at Centennial Park Apartments, a Section 8 project-based housing development in **North Las Vegas**. Two individuals were arrested for possession with intent to distribute narcotics. Over 3 grams of rock cocaine, a small amount of powder cocaine, and cash were confiscated. This Operation Safe Home initiative was conducted by OIG and the North Las Vegas Police Department.

**New Hampshire** "Operation Streetsweeper" began in January 1995 to target crack cocaine trafficking and violent crime within the City of **Manchester**. During 1998, "Operation Streetsweeper" resulted in the indictment of 71 defendants for federal narcotics violations. During this period, as part of "Operation Streetsweeper 1998," OIG, DEA, ATF, INS, USMS, the Hillsborough County Sheriff's Department, Manchester Police Department, and the New Hampshire State Police executed two federal arrest warrants, charging the defendants with drug violations. Both individuals were unauthorized residents, one at a public housing



development and the other in a Section 8 apartment. One subsidized resident has already been issued a termination letter by the Manchester Housing Authority.

"Operation Streetsweeper 1998" also resulted in the arrest of 1 individual on a felony warrant for escape, the arrest of 2 individuals for dealing drugs from a Section 8 apartment, the execution of 15 federal arrest warrants and 10 state arrest warrants, and the seizure of 3 weapons, over 25 ounces of cocaine, and \$10,000 in cash. Six of the individuals arrested lived in Section 8 apartments; several others lived in and around high density Section 8 neighborhoods or public housing.

### *New Jersey*

Operations by a Safe Home Task Force made up of DEA, OIG, the Monmouth County Prosecutor's Office, New Jersey State Police, and the **Asbury Park** and **Neptune** Police Departments netted three convictions this period. A federal jury convicted Thomas Weston and Larry Boone for conspiring to distribute cocaine. Both had prior state felony convictions for dealing in cocaine. Curtis Ferris, the third defendant, previously pled guilty to conspiracy and testified for the prosecution. These arrests and subsequent convictions resulted from an extensive Safe Home effort in Asbury Park public housing complexes that culminated in 17 arrests. A fourth individual, Johnnie Davenport, was found guilty of being a "leader of a narcotics trafficking network." Davenport was a main target in a Task Force operation that concentrated its efforts in Asbury Park/Neptune public/assisted housing areas. Information obtained during the course of the investigation disclosed that Davenport controlled an illegal narcotics operation that was responsible for the introduction of about \$30,000 to \$50,000 worth of narcotics per week into the area.

In another operation, the Task Force arrested 24 people at locations within public and assisted housing identified during undercover operations as "selling sites." Over \$29,800 in cash and quantities of cocaine, crack cocaine, and heroin valued at \$2,000, \$27,000, and \$12,000, respectively, were confiscated.

OIG Agents and members of the New Jersey HIDTA Group 3 arrested an individual at his public housing residence pursuant to a state arrest warrant. The arrest was based on four undercover narcotics purchases made by Task Force members. These purchases, which amounted to 660 decks (approximately 32 grams) of heroin with a street value of about \$6,500, were all made on public housing property. The investigation also disclosed that the heroin was coming from New York. On the same day, the Task Force intercepted a delivery of 30 bricks of heroin (approximately 75 grams) with a street value of about \$15,000. The heroin was destined for delivery to the individual arrested earlier in the day. When the Task Force intercepted the drugs, two additional individuals, both citizens of the Dominican Republic, were arrested. These two individuals had transported the drugs in the hidden compartment of a mini van.

### *New Mexico*

The **Albuquerque** Task Force, made up of the FBI, DEA, ATF, INS, OIG, New Mexico State Police, and the Albuquerque Police Department, focused its efforts this period on an area known as the "War Zone," which consists predominantly of public and assisted housing developments. In the first effort, the Task Force executed a search warrant at a well-known crack house. A small amount of crack and two weapons were found. No one was arrested, but an indictment is pend-



ing. There were several bullet holes in front of the residence and in various mailboxes at adjacent homes. After execution of the search warrant, several residents expressed appreciation of the efforts to combat drugs and violence in their neighborhood. In the second effort, 10 individuals were arrested for possession and trafficking of narcotics.

Members of the **Las Cruces** Operation Safe Home Task Force executed a state narcotics search warrant at a residence adjacent to the Dona Ana Apartments public housing development. Surveillance had established that an individual was engaged in cocaine trafficking with persons residing in or coming from the Dona Ana Apartments. Over 1 gram of cocaine along with narcotics paraphernalia were seized; the resident was arrested and subsequently charged with possession of cocaine with intent to distribute. This Task Force is made up of the ATF, OIG, Border Patrol, Las Cruces Police Department, and the Dona Ana County Sheriff's Office.

### *New York*

The OIG/Village of **Hempstead** Police Department Task Force has become extremely active in the Village and surrounding areas. Thirty-eight people were arrested during this reporting period and 65 bags of marijuana, 1 ounce of crack cocaine, and 1 weapon were confiscated. The arrests took place at or near local public and assisted housing developments.

Twenty-one individuals were arrested on federal and state drug distribution charges after the **Buffalo** Violent Crime Career Criminal Task Force culminated a 6-month undercover operation targeting drug dealers living in public and assisted housing. Five search warrants were executed, resulting in the seizure of drugs, cash, and a loaded shotgun. Two additional subjects remain at large. In cooperation with the Buffalo Municipal Housing Authority, eviction proceedings will be carried out against several individuals living in public housing. In total, this investigation has resulted in the federal indictment of 27 individuals, 2 for conducting a career criminal enterprise. Twenty-five of the 27 individuals have been apprehended. In addition, 1 kilogram of cocaine, \$16,000 in cash, and a handgun have been seized. The Task Force includes representatives from the FBI, OIG and the U.S. Attorney's Office.

Members of the Freeport Police Department, Nassau County Police Department, DEA, and OIG arrested 12 individuals for selling drugs in **Freeport** public housing developments. A 4-month investigation targeting drug sales in and around the development documented 24 individuals engaged in illegal drug sales of crack cocaine and heroin within the Moxey Rigby apartment complex. Seventeen of the 24 are residents of the complex. All 17 public housing residents will be evicted under the "One Strike and You're Out" policy.

### *North Carolina*

An undercover investigation called "Boiling Point" led to the execution of arrest warrants for 28 individuals for selling drugs in **High Point** Housing Authority developments. The investigation, conducted by the High Point Safe Home Task Force, identified violent individuals, some with previous felony convictions, selling drugs on Authority properties. Previous arrests were for such crimes as assault, rape, robbery, and various weapons violations. The Task Force arrested 15 of the individuals on federal warrants and 12 on state warrants. All



were charged with multiple counts of selling crack cocaine and marijuana either in or within 1,000 feet of Authority properties. Five of the 28 individuals were subsequently sentenced in federal district court on charges of selling drugs in public housing; they received 1,002 months in prison, 540 months supervised release, \$500 in fines, and 2,250 hours of community service. This Task Force consists of the FBI, ATF, DEA, OIG, High Point Police Department, Marshals Service, and the North Carolina State Bureau of Investigation.

In **Burlington** and **Greensboro**, efforts by the Operation Safe Home Task Force, made up of the DEA, OIG, Burlington and Greensboro Police Departments, and the Alamance County Sheriff's Department, resulted in the indictment of 10 individuals for selling drugs in the Tucker Street and Lakeside Apartments public housing developments. Two of the individuals were indicted on federal narcotics trafficking; the remaining were indicted on state narcotics and firearms charges. This Safe Home initiative began in January 1998, when a connection was established between some Greensboro and Burlington low-income housing areas. During the investigation, over 20 firearms and approximately 1/2 kilo of cocaine were purchased during undercover operations. One of the indicted individuals has subsequently pled guilty.

**Ohio** A drug trafficking operation in **Akron**, called "Operation Avalanche," led to the arrest of 25 people out of 36 charged with drug violations. Twenty-seven individuals were charged with state racketeering felonies and nine others face charges of trafficking in cocaine. The investigation revealed that this drug organization supplied cocaine to the Wilbet Homes public housing development. During the investigation, 1 kilogram of cocaine, 1 ounce of crack cocaine, 20 guns, 200 dosages of LSD, 4 pounds of hallucinogenic mushrooms, 10 vehicles, and \$5,000 in cash were confiscated. Officers and Agents from the Summit County Sheriff's Office, the Springfield Township Police Department, Akron Police Department, Customs Service, DEA, and OIG conducted the investigation.

In **Columbus** and **Zanesville**, the DEA Task Force, comprised of the DEA, OIG, Columbus Police Department, and the Ohio Highway Patrol Drug Interdiction Unit, produced several notable results during this period. In one initiative, the Task Force arrested three individuals for possession and distribution of crack cocaine, which was being transported by commercial airline from Houston, TX. Task Force members confiscated 10 kilograms of cocaine powder with an estimated street value of \$500,000 and \$3,800 in cash that was to be paid to the courier. The cocaine was destined to be distributed in public and assisted housing complexes on the east side of Columbus.

Another operation resulted in the arrest of an individual on federal charges of possession and distribution of marijuana. The arrest was made after information was received from a resident that drugs were en route by vehicle from Los Angeles and were to be distributed in the Short North assisted housing area of Columbus. The Task Force confiscated 100 kilograms of marijuana with an estimated street value of \$250,000. In total, the DEA Task Force operation resulted in 21 arrests and the seizure of over \$80,000 in cash, 2 ounces of methamphetamine, 100 kilograms of marijuana, over 830 ounces of cocaine, over 200 grams of heroin, and 6 vehicles.





As a result of the DEA Task Force investigations, an OIG Agent was awarded a Certificate of Appreciation by the DEA. The Agent was recommended for the award by the Resident Agent-in-Charge of the DEA Columbus Office, and was cited for his contribution to "...the continuing increase of cases and arrests" for drug activity in the Columbus area.

### **Oklahoma**

Operations by the **Oklahoma City** Safe Home Task Force led to one guilty plea of distributing a controlled substance, one six-count indictment on charges of distributing crack cocaine, and one arrest for supplying crack cocaine. The Task Force, made up of OIG and the Oklahoma City Police Department, made several drug purchases in a Section 8 complex from the person who ultimately pled guilty. The person who was indicted allegedly made hand-to-hand narcotics transactions with undercover Task Force Officers. He was charged with distributing over 150 grams of crack cocaine at a Section 8 complex, and was believed to be a major narcotics supplier to the complex. The arrestee regularly supplied crack cocaine to undercover Officers. The arrest is believed to have hit the major supplier of crack cocaine to one of the largest Section 8 complexes in the Oklahoma City area. When arrested, the individual was in possession of \$882 in cash and nearly 3 grams of crack cocaine.

### **Oregon**

The ATF, OIG, **Hillsboro** Police Department Street Crimes Unit, and Westside Interagency Narcotics Team Officers arrested 9 people in public housing developments and seized over 1,800 grams of cocaine, 29 grams of methamphetamine, 2 grams of tar heroin, 30 grams of marijuana, over \$26,700 in cash, 15 weapons, 2 rifle scopes, 18 rifle clips (mostly for assault rifles), holsters, ammunition, 1 smoke grenade, 1 vehicle, a pager, fictitious social security cards, resident alien cards, 9 scales, a surveillance camera, and drug packaging materials.

In **Portland**, the ATF, OIG, and Portland Police Department conducted undercover operations within a Safe Neighborhood Grant (SNG) area that netted three arrests for the sale of suspected crack cocaine. Two of the individuals were juveniles with prior records, one for robbery. This juvenile and his mother have also been suspected of selling drugs out of their Section 8 unit. The second juvenile was previously arrested for selling narcotics during the "Operation Lightning" sweep in March 1998. The third suspect is currently on probation for selling narcotics in Seattle, WA. SNG is a HUD funded grant that focuses law enforcement actions within specific parameters of the local community. Eight multifamily rental properties are SNG partners; they are also implementing the community policing program.

### **Pennsylvania**

The **Pittsburgh** Operation Safe Home Task Force used a state-of-the-art surveillance camera provided by OIG, enabling them to observe and arrest several drug traffickers within the Allequippa Terrace public housing community. Eight persons were arrested for offenses including possession of controlled substances with intent to deliver, carrying a concealed weapon without a license, criminal trespass, aggravated assault, simple assault, resisting arrest, and possession of drug paraphernalia. Task Force members seized 3 semi-automatic weapons, body armor, 2-way radios, cellular phones, pagers, ounce quantities of crack cocaine and marijuana, and \$982 in cash. The Task Force also conducted drug suppres-





sion details and arrested five persons, three of whom were carrying concealed weapons at the time of arrest.

In support of the many law enforcement efforts OIG Agents have conducted in Pennsylvania since the inception of Operation Safe Home, during this period OIG participated in various post enforcement efforts. In **Pittsburgh**, in conjunction with HUD's Office of Multifamily Housing in Pittsburgh, OIG sponsored an Operation Safe Home "Drugs and Violent Crime" seminar for Western Pennsylvania assisted housing property managers. The purpose of the seminar was to provide advice, guidance and assistance to property managers on proactive efforts that can be taken, through both administrative and law enforcement mechanisms, to stem the proliferation of crime on their properties, including what steps can be taken to regain control of properties that have already been compromised by criminal activity. OIG and Multifamily Housing representatives will be working with these property managers on an ongoing basis to ensure that residents can enjoy safe and secure environments and that HUD's interests are protected.

OIG and the Pittsburgh Office of Multifamily Housing also sponsored a roundtable discussion among assisted housing property managers, local law enforcement, and district magistrates. Topics included reducing violent crime and drug related offenses at assisted housing communities, procedures for eviction of problem residents, enhanced resident screening procedures, and recommended security improvements.

OIG participated in a public forum and panel in **Fayette County** on the "One Strike and You're Out" policy. Guest speakers included the new Fayette County Housing Authority (FCHA) Executive Director, the Fayette County President Judge, OIG Agents, a Pennsylvania State Trooper, and the FCHA Solicitor. Approximately 70 people were in attendance, including District Magistrates, state and local Police Officers, FCHA management and staff, the general public, and the media. The purpose of the forum and panel was to educate the public on the "One Strike" policy and to forge partnerships between local law enforcement, the FCHA, and the community in an effort to rid public housing of drug related and violent criminal activity.

### *South Carolina*

Six individuals were sentenced in **Spartanburg** as a result of their guilty pleas for distributing crack cocaine in the Spartan Villa, Prince Hall, Phyllis Goins, Woodland Apartments, and Cammie Claggett public housing developments. They received a total of nearly 9 years in prison, 10 years supervised release, and 4 years probation. The sentences resulted from a Safe Home operation in which 80 individuals were indicted on federal drug trafficking charges for selling drugs in Spartanburg public housing developments. In addition to the 80 indictments, the operation resulted in the seizure of \$11,929 in cash, 13 weapons, 265 grams of marijuana, 315 grams of crack cocaine, and over 1 gram of heroin. The OIG coordinated with the local Housing Authority to begin eviction proceedings against all residents involved, as well as termination of Section 8 benefits. To date, 65 of the 80 defendants have pled guilty. The Task Force is made up of the FBI, DEA, ATF, OIG, and the Spartanburg Public Safety Department.





In recognition for exemplary work on this case, an OIG Special Agent in the Southeast/Caribbean District received an award at the Southeast Organized Crime Drug Enforcement Task Force (OCDETF) Conference. The award recognized the Special Agent as the Case Agent for the most significant OCDETF case in South Carolina for 1998, and for the Agent's tremendous efforts at initiating, organizing, and conducting this joint investigation.

### *Tennessee*

Joint investigations by the FBI, OIG, IRS Criminal Investigation Division, Postal Inspection Service, **Memphis** Police Department, Shelby County Sheriff's Office, and the Organized Crime Drug Enforcement and 27th Judicial District Drug Task Forces recently resulted in several prosecutive actions. In a particularly significant case, a federal indictment was unsealed in which 11 individuals were charged under the Racketeering Influenced Corrupt Organization statute for engaging in a continuing criminal conspiracy, possession with intent to distribute marijuana, cocaine, and crack cocaine, and money laundering. The unsealing of the indictment brings to a close a nearly 2-year investigation into the *Jab Blue* organization, which controlled nearly all drug sales in the Fowler Homes, LaMar Terrace, Cleaborn Homes, and Foote Homes public housing developments and adjacent neighborhoods.

In December 1996, *Jab Blue* was infiltrated and over the next 17 months, 42 purchases of marijuana, cocaine, and crack cocaine were made from members of the organization. During the period, over 350 audio and video tapes were made of illegal drug and weapons sales and money laundering. The tapes were made following a court authorized non-consensual monitoring of the business establishment that was being used to conduct the illegal activity. *Jab Blue* had established a legitimate business front across the street from the Fowler Homes development, and maintained various "stash" houses in Fowler Homes, LaMar Terrace, and Cleaborn Homes, and another business front approximately 1,000 feet from Fowler Homes. Over 25 search warrants were executed during the investigation, resulting in the seizure of marijuana, cocaine, and assault weapons. The investigation also led to a major supplier of marijuana in the San Antonio, TX area; four individuals from Texas were named in the indictment.

In November 1998, a plea agreement was unsealed involving a civilian employee of the Memphis Police Department Organized Crime Unit, who pled guilty to five counts of perjury. The employee admitted that over a period of years, she provided sensitive information to the leader of the *Jab Blue* organization. This information included pending search warrants, names of confidential informants, and other sensitive law enforcement information that allowed *Jab Blue* to maintain their control of drug sales in four public housing developments. In early 1998, one of the members of *Jab Blue* was shot to death when drug purchasers attempted to steal drugs from the sellers in a botched "rip-off." The employee provided sensitive information regarding this investigation.

In addition to these actions, 11 individuals pled guilty to drug charges and 2 were sentenced to nearly 25 years in prison and 12 years supervised release. Over \$70,000 in cash was confiscated during Safe Home efforts.

### *Texas*

Forty-two people were arrested and 937 grams of heroin, 737 grams of cocaine, 5,140 grams of marijuana, over \$33,600 in cash, 18 weapons, 5 vehicles, 2 scales, jewelry, drug paraphernalia, and ammunition were seized following initiatives by the **San Antonio** Safe Home Task Force, consisting of OIG and



the San Antonio Police Department. As an example, the Task Force arrested a resident, who is purportedly associated with the *Mexican Mafia Prison* gang, after executing a state narcotics search warrant near the San Juan Homes and Alazan/Apache Courts public housing developments. Surveillance had established that the arrested individual was selling drugs in and near these developments. In addition, another search warrant was executed on a different residence located near these developments; two people were arrested, one of whom is a documented high-ranking member of the *Mexican Mafia Prison* gang and is currently facing federal charges stemming from this investigation. Those individuals arrested were suspected of selling narcotics in or near the San Juan Homes and Alazan/Apache Courts public housing developments.

The EGGHOUSE Task Force (Eliminate Gangs and Guns from Public Housing) has been very active in and around public and assisted housing in the **Dallas** area since Operation Safe Home was initiated. Most recently, the Task Force was responsible for 9 arrests, 1 guilty plea, 2 indictments, 2 sentencing, and the seizure of 1 pound of cocaine, 425 grams of marijuana, 6 pounds of amphetamines, \$3,500 in cash, 13 weapons, ammunition, and various stolen property. One individual was sentenced to 45 years in prison for the shooting death of one of two victims who died in a bloody drug related robbery/homicide at the Greentree Village Section 8 complex in March 1998.

### *Utah*

Safe Home Task Force members, including OIG and local law enforcement, executed two search warrants in the **Kearns** public housing complex. The Task Force had learned that one of the units was being used for gang and drug related activities. As a result of the search, drug paraphernalia were confiscated and charges were filed with the District Attorney's Office against two individuals. The Task Force also conducted a buy/bust operation on an individual selling narcotics in and around a Section 8 neighborhood in **Salt Lake City**. The operation resulted in the confiscation of 1-1/2 pounds of marijuana and \$875 in cash. Based on the results of the buy/bust, a search warrant was executed on the individual's residence, resulting in the confiscation of another 1/2 pound of marijuana. While the search warrant was being executed, it was learned that the individual's source of supply was en route to the residence with 2 additional pounds of marijuana. A search of the supplier's vehicle netted nearly 2 pounds of marijuana and \$900 in cash. Two individuals were arrested for distribution of a controlled substance.

### *Virginia*

In **Manassas**, Michael Watkins pled guilty to distributing crack cocaine to an undercover OIG Agent. The plea followed enforcement activities conducted by the "Operation Southwind" Task Force, consisting of OIG and Vice/Narcotics Detectives from the City of Manassas and the Prince William County Police Departments. The Task Force focused on major street level drug traffickers who were operating in and around Section 8 units. A jury has suggested an 8-year sentence and an \$8,000 fine. The OIG Agent involved in this case testified in open court under both direct and cross examination.

During the past year, OIG has worked with HUD staff in Richmond, local law enforcement and elected officials, and the management and resident council of the HUD assisted Greenfield Apartments in **Lynchburg** in order to reduce





criminal activity in and around the complex. This collaboration has resulted in a number of changes.

Residents have been issued identification cards along with resident and guest vehicle parking passes. A towing company was hired to remove abandoned vehicles, and the city established no parking zones in and around the complex. These steps have increased management's ability to reduce extended visits or unlawful occupancy by non-residents. Local police now share resident arrest and drug seizure information with management, thereby allowing management to initiate timely eviction proceedings under the "One Strike and You're Out" policy. Management's adoption of this proactive policy has resulted in the eviction of 12 residents since September 1998; 6 additional residents are in the process of being evicted for drug related offenses. Management is also working with local police to obtain criminal record checks of prospective residents and exclude applicants who have prior criminal records. Further, vacant apartments are being provided to local police on an as-needed basis for various investigative purposes.

### *Washington*

Continuing joint efforts in **Seattle** public and assisted housing communities resulted in the arrest of 33 individuals and the seizure of 17 grams of cocaine and drug paraphernalia. In one incident, OIG Agents and Seattle Police Department (SPD) Officers arrested four individuals during Safe Home "knock and talks," emphasis patrols, and a narcotics search warrant execution. One of those arrested was a public housing resident, and one was a HUD assisted resident. SPD Officers recovered narcotics paraphernalia, a firearm, and an undetermined type and quantity of narcotics.

An OIG Agent was honored as the Law Enforcement Officer of the Quarter (summer) by the **West Seattle** Chamber of Commerce. The Seattle Police Department South Precinct nominated the Agent for providing Operation Safe Home assistance at their public and assisted housing sites.

## **Witness Relocation**

OIG continues to work with the Department, local police and prosecutors, and federal, state and local law enforcement agencies in facilitating the relocation of witnesses fearing reprisal for the assistance they provide prosecutors in addressing violent crime occurring in publicly funded housing. During the semiannual reporting period, OIG assisted in the relocation of 61 witnesses/families, bringing the total number of families relocated since the inception of Operation Safe Home to 607. A relocation is undertaken at the request of a law enforcement agency, and is supported by the written concurrence of a prosecutor's office.

The witness relocation effort benefited from additional Congressional support when it was granted statutory recognition in the "Quality Housing and Work Responsibility Act of 1998." The Act amended section 8 of the Housing Act of 1937 to provide funding specifically for "...relocation of witnesses in connection with efforts to combat crime in public and assisted housing pursuant to a request from a law enforcement or prosecution agency..." (Public Law 105-276, section 558(E)). Heretofore, witness relocation was funded on a year-to-year basis via various appropriations acts.



# Fraud in Public Housing Administration

Since the inception of Operation Safe Home in 1994, OIG has focused significant resources and priorities on detecting and prosecuting fraud in the administration of HUD's Public Housing Programs.

The following reflects the work that was accomplished relating to fraud in Public Housing Program administration during this reporting period and since the inception of Operation Safe Home:

## Summary of Results

Activity	Current Reporting Period	Cumulative to Date
Indictments	16	143
Plea Agreements/Convictions	12	124
Sentences Imposed:		
Jail	97 months	1,213 months
Probation	235 months	2,908 months
Fines/Restitution	\$211,511	\$2,576,486

### Florida

The former executive director of the **Palatka** Housing Authority was indicted on 10 counts of mail fraud and three counts of embezzlement. The charges relate to personal expenses made on an Authority credit card totaling over \$50,000. Personal expenses charged include visits to nude dancing establishments, jewelry, vacation trips, air fare, restaurants, and hotels. This was an FBI, OIG, and Florida Department of Law Enforcement investigation.

The OIG and the **Jacksonville** Sheriff's Department arrested nine individuals, including seven Jacksonville Housing Authority residents, for stealing equipment from the Authority. The two non-residents were the individuals who purchased the stolen equipment. All the defendants were indicted on state charges for stealing and selling the stolen equipment valued at over \$20,000. The equipment included computers, water heaters, stoves, refrigerators, air conditioners, and other building supplies. OIG Agents and Sheriff's Department Officers observed the defendants buying and selling the stolen equipment and recorded the transactions.

### Georgia

Angie Nagel, the former executive director of the **Metter** Housing Authority, was sentenced to 18 months in prison, 36 months supervised release, and 200 hours community service, and ordered to pay over \$149,000 in restitution. Nagel embezzled funds that were to be used to renovate Authority units. She embezzled the funds by stealing vendor payments, insurance claim checks, and tenant rental receipts. In addition, she obtained three unauthorized credit cards in the name of the Authority and purchased personal items such as vacations and baseball





tickets. As a result of the embezzlement, for a short time there were no funds available to operate the Authority; this led to the addition of the Authority to HUD's "troubled" housing agency list. This investigation was conducted by the OIG and the FBI.

### *Kentucky*

The former executive director of **Hazard** Housing Authority and his wife, who replaced her husband as executive director, were indicted by a federal grand jury on two counts of making false statements to HUD when certifying that the Authority units met HUD housing quality standards. This is the first time that individuals have been criminally charged for falsely certifying that HUD subsidized apartments met these standards. The defendants were previously convicted of conspiracy to obtain controlled substances and 17 counts of possession of a controlled substance, and were sentenced to 4 months home confinement and 3 years probation. This investigation was conducted by the FBI, Kentucky State Police and Agents and Auditors of the OIG.

### *Louisiana*

The executive director of the **Natchitoches** Housing Authority resigned under an agreement reached with the U.S. Attorney. In addition to the resignation, the executive director agreed to have no future dealings with the Department or any other government entity. The resignation agreement was reached based on an OIG investigation which determined that the former executive director may have been manipulating Authority funds for his personal use and used Authority property to conduct his personal law practice. With the signing of the agreement, pending prosecution has been terminated.

### *Oklahoma*

Richard Foresee, former chairman of the board of the **Shawnee** Housing Authority, was sentenced to 5 years probation, 180 days home confinement, and 204 hours of community service, and ordered to pay over \$3,600 in restitution. Foresee pled guilty in May to one count of false statements. An investigation by the OIG Offices of Audit and Investigation and the FBI disclosed that Foresee and the Authority's former executive director, Jim Drake, falsified documents and schemed to convert Authority money for their personal use. Drake pled guilty and has already been sentenced.

Robin Hatfield, the former executive director of the Caddo Indian Housing Authority in **Anadarko**, pled guilty to one count of theft of federal funds. The plea resulted from a joint investigation by the HUD and Department of Interior OIGs which found that Hatfield, in concert with others, perpetrated a scheme to divert more than \$60,000 in Authority funds for personal use by using false invoices for services never rendered but paid for by the Authority. As part of the scheme, Hatfield's friends and relatives cashed Authority checks, kept a portion of the money, and gave the remainder to Hatfield and/or a friend of Hatfield. Hatfield also allowed an Authority secretary to conduct a similar scheme, which netted \$30,000 in diverted funds. A search warrant was executed by the HUD and Interior OIGs in Fort Drum, NY, resulting in the seizure of a computer that was purchased with the diverted funds. Darrel Burrell pled guilty to participation in the conspiracy. The loss is estimated at \$94,000.

In **Tahlequah**, Joel Thompson, former executive director of the Housing Authority of the Cherokee Nation, was convicted of 19 counts of mail fraud and



2 counts of misapplication of funds. A joint review by the FBI and the OIG Offices of Audit and Investigation led to the conviction based on excessive reimbursement of travel or other claims of over \$81,000.

### *Pennsylvania*

In **Pittsburgh**, the former executive director of the Fayette County Housing Authority was indicted by a federal grand jury on one count of conspiracy to solicit bribes, three counts of defrauding a federal program and one count of destruction of evidence during the execution of a federal search warrant. The indictment followed a 3-year investigation of public corruption in the Authority. If convicted, the individual could receive up to 40 years in prison and fines totaling \$1.2 million, or both. This was a joint investigation by the FBI and the OIG Offices of Audit and Investigation.

### *Puerto Rico*

In **San Juan**, Jose Rios Ramirez and Edwin Rodriguez Tirado, two of three individuals who were indicted on charges of conspiracy to defraud HUD and embezzle from the Puerto Rico Housing Authority, pled guilty. The indictment alleged that an Authority employee approved invoices and made payments to a private management company that manages some of the Authority's developments, made a copy of each check, and then gave a copy to Ramirez and Tirado, who deposited them in bank accounts they had set up in the name of the management company. The amount of funds embezzled exceeded \$1 million. This investigation was conducted by the FBI, OIG, and the Office of the Comptroller of Puerto Rico.

Also in **San Juan**, 5 individuals, including 3 employees of the Puerto Rico Housing Authority and the wife of one of the employees, were charged by a federal grand jury with bribery, conspiracy, money laundering, and theft of over \$1.4 million in Authority funds. The scheme involved a contractor who was to train public housing residents in the establishment of small businesses. In the scheme, the contracting firm, which was owned by two of the defendants, claimed and received over \$1.4 million in payments from the Authority for services not rendered. The scheme involved false claims, forgery of documents, and the disbursement of funds using duplicate supporting documents.

The owner of the firm allegedly conspired with at least three Authority employees and the wife of one of the employees, all of whom received kickbacks from the firm in the form of cash, real estate, and/or vehicles in exchange for approving the false invoices submitted by the firm. The indictment included a forfeiture count for the property and funds traceable to the proceeds from the crime. The investigation was conducted by the FBI and Agents and Auditors of the OIG.

### *Tennessee*

William Coleman III, the former maintenance supervisor for the **Bristol** Housing Authority, and William Blackwell, a contractor, who had previously been indicted on two counts of bribery, pled guilty in federal court. The charges relate to kickbacks paid to Coleman by Blackwell to receive rehabilitation contracts from the Authority. Blackwell cooperated during the investigation and made three controlled payments to Coleman. Blackwell admitted supplying falsified rival bids and paying close to \$30,000 in kickbacks to Coleman, and included his kickbacks in inflated bids over the last 3 years to receive over \$130,000 in contracts with the Authority. This investigation was conducted by Agents and Auditors of the OIG and Officers of the Bristol Police Department.





## *Texas*

Francisco Villegas, a contractor formerly associated with the **Lubbock** Housing Authority, was sentenced after pleading guilty to having knowledge of and failing to report a scheme wherein invoices were falsified and submitted for payment to the Authority. The guilty plea was the result of an OIG investigation that disclosed Villegas' involvement in a scheme with the former Authority Coordinator to defraud the Authority. Villegas was sentenced to 120 days incarceration and 3 years supervised release.

The former Authority Coordinator, Jefferson Grant, was sentenced to 30 months incarceration and 36 months supervised release, and was ordered to pay \$60,000 in restitution. Grant previously pled guilty to one count of theft/bribery from a government program. This included converting Authority materials, labor, and money for personal use.

Additionally, Joe Killgore, one of the co-conspiring contractors, was sentenced after pleading guilty to one count of having knowledge of and failing to report the scheme. Killgore received 120 days incarceration and 36 months supervised release, and was ordered to pay \$15,000 in restitution. This investigation was conducted by the OIG Offices of Investigation and Audit.

The former executive director of the **Pineland** Housing Authority was indicted by a federal grand jury on one count of theft of funds from a federally funded program. An OIG investigation disclosed that the former executive director embezzled rental income from the Authority and used the proceeds to build a personal residence. In addition, she allegedly used Authority checks and credit accounts to purchase home furnishings. OIG Agents executed a search warrant and seized appliances and furniture from the home.

## *Virginia*

Bernard Odems, a former employee of the **Alexandria** Housing Authority, pled guilty to one count of making a false statement for the purpose of influencing HUD. He was sentenced to 30 days in jail to be followed by 4 months house arrest and 1 year probation, and ordered to pay \$33,000 in restitution to HUD. His wife Maggie also pled guilty to one count of conspiring with him to submit a false statement. She was sentenced to 60 days in jail to be followed by 3 months house arrest and 3 years probation. The sentencings followed an OIG investigation into allegations that Maggie Odems, a federal government employee, and her husband defrauded the Alexandria Housing Authority by concealing their true incomes and submitting false statements in order to receive Section 8 rental subsidies for over 5 years to which they were not entitled.

In **Alexandria**, Charlene Walker, a former employee of the Fairfax County Department of Housing and Community Development (FCDHCD), was sentenced to 6 years in prison (5-½ years suspended) and 9 years probation, and was directed to pay over \$29,000 in restitution. In December 1998, Walker was convicted of embezzling funds from the FCDHCD. This was a joint investigation conducted by the Fairfax County Police Department, FCDHCD Fraud Unit, and the OIG.



## Equity Skimming in FHA Insured Multifamily Housing

Equity skimming is the illegal use of any part of the rents, assets, proceeds, income or other funds derived from an FHA insured multifamily property for purposes other than to meet actual or necessary expenses. When owners do not pay their mortgages, in addition to the financial losses incurred, the living conditions in the developments generally deteriorate because the funds intended to maintain the individual units and common areas are diverted for unauthorized uses.

Under Operation Safe Home, we have expanded both civil and criminal enforcement opportunities and have streamlined referrals of civil cases to the U.S. Attorneys for prosecution. This has helped speed up the resolution of those cases where we have found equity skimming.

The following reflects the work that was accomplished during this reporting period and since the inception of Operation Safe Home:

Current Reporting Period			
Type of Enforcement Activity	Cases	Potential Amount	Repayments Required
New Cases Identified	7	\$1,081,239	
Cases Settled	1	\$175,000	
Cumulative Activity			
Type of Enforcement Activity	Cases	Repayments Required	
Settlements	95	\$57,677,217	
Court Judgments	14	\$13,259,781	
Criminal Convictions	23	\$3,806,342	

### *California*

John R. Christian, general partner of Westwood Associates/Lakeshore Financial in **Coalinga**, was sentenced to 5 years probation, 120 days home confinement, and restitution of \$36,921. Christian owned and managed Westwood I Apartments, a 102-unit HUD insured multifamily apartment complex. He skimmed approximately \$100,000 from the project to pay second and third mortgages on personal property and other personal expenses. This was a joint effort by the OIG Offices Audit and Investigation.

### *Connecticut*

Between January and November 1998, the Assistant U.S. Attorney (AUSA) and HUD's Office of General Counsel (OGC) negotiated out of court settlements with 16 limited partners of MillPond Village Apartments, a 360-unit insured project in **Broad Brook**, and collected almost \$226,000 in repayments. The AUSA and OGC have also negotiated an out of court settlement with a general partner for \$170,000. These actions followed an OIG review of the project's financial and operational records to determine if equity skimming existed.

The settlements followed the filing of a complaint against the project owners, managers, and affiliates. The complaint alleged the diversion of project assets





and the payment of legal fees which were not related to project operations. The AUSA and OGC are continuing to negotiate settlements with other limited and general partners.

At the request of the Office of Counsel, HUD Massachusetts State Office, the OIG examined three bank accounts of the West Street Apartments project in **New Haven** to determine the disposition of funds. Our review identified over \$1.87 million disbursed to 103 payees. Payees who received a total disbursement of less than \$750 were not reviewed. Because of inadequate accounting records, we could substantiate only \$195,000 as eligible project related expenses. As a result, we believe \$1.66 million should be considered as a possible diversion from the project.

In our review of this project, we identified over \$347,000 as unauthorized distributions to the owner/management agent, Michael Kantrow. Subsequently, Kantrow and his affiliated company, Premier Management Company, were indefinitely debarred from participating with HUD and throughout the federal government. In July 1998, HUD took possession of West Street Apartments.

Given our prior findings related to this project and its owner, we recommended that HUD seek damages for equity skimming in the amount of \$2,011,365. (Report No. 99-BO-183-1801)

### *Florida*

Lawrence Burt, the former owner, and Marcia Baker, the former on-site manager, of Palm Place Apartments in **Winter Haven**, were each sentenced to 3 years probation, with the first 6 months to be spent in home confinement with electronic monitoring, \$20,000 in restitution to HUD, and a \$50 special assessment. They previously pled guilty to conspiracy to defraud HUD, making false statements to HUD, filing false claims with HUD, using the mail to defraud HUD, and trying to obstruct and impede OIG Auditors by causing project employees to make false statements to them. The defendants admitted that they made false statements to HUD by filing housing assistance payment vouchers claiming subsidies for units that were vacant and that did not meet housing quality standards. They did this by inserting on the vouchers the names of persons who did not reside in Palm Place Apartments and by falsifying inspection reports. This investigation was conducted by the USPS and Agents and Auditors of the OIG.

### *Georgia*

The general partner of Barclay Arms Apartments, a 128-unit HUD coinsured multifamily project in **Marietta**, signed an agreement to settle an equity skimming case for \$175,000, and wire transferred that amount to the AUSA. This action stems from a 1994 OIG review of Barclay Arms. In July 1994, we referred the project owner to the U.S. Attorney's Office for consideration of civil prosecution. We found that the owner inappropriately transferred control of the project to an entity (potential buyer) without HUD's approval. That entity misapplied almost \$123,000 in project funds, and did not provide adequate support for another \$77,000. The misapplied amount included \$30,000 paid to the owner. The entity also concealed some inappropriate payments by incorrectly listing them on monthly accounting reports sent to HUD. In addition, the owner and/or its identity-of-interest agent misapplied over \$20,000 of project funds. After referring these matters, we traced the location of the only individual general partner in the owner entity. The other corporate general partner was insolvent.



We also developed supplemental information about the general partner's assets. In the interim, we obtained debarments against five individuals and/or firms, and the AUSA issued default judgments against four of the same five individuals or firms. This case was reviewed by the OIG Office of Audit with assistance from HUD's Office of General Counsel.

### ***Kansas***

James W. Blankenship, a former project owner and management agent in **Kansas City**, pled guilty to one count of embezzling more than \$67,000 from two apartment complexes he managed. An investigation by the FBI and OIG Agents and Auditors found that Blankenship had taken funds for his personal use and to fund other real estate investments. Both developments experienced deterioration during Blankenship's tenure as management agent.

### ***Kentucky***

The Reverend George S. White, Jr., the former management agent for Henry M. Greene Apartments, a HUD insured property in **Louisville**, was sentenced to 3 years probation and ordered to pay \$2,000 in restitution after pleading guilty to 2 counts of embezzlement of HUD funds. White was previously indicted for embezzling over \$70,000 from the development. He diverted funds that should have been used to make needed repairs. This investigation was conducted by the OIG.

### ***Maryland***

Monte Greenbaum, the former owner of Maryland Property Associates, Inc., a company which managed approximately 1,700 HUD assisted and/or subsidized apartments in Maryland, pled guilty to conspiring to skim \$840,000 of project funds. Between 1993 and 1998, Greenbaum skimmed the accounts of units he managed in **Baltimore, Baltimore County, Cumberland, and Hagerstown**. He used security deposits and HUD funds earmarked for building repairs to make alimony payments to his ex-wife and to deposit in his personal investment account. This investigation was conducted jointly by the FBI and the OIG Offices of Audit and Investigation.

### ***Massachusetts***

As a result of a January 1993 OIG audit report, Lorenzo Pitts, Inc. repaid HUD over \$295,000 and repaid 4 HUD insured/subsidized projects it owns and manages over \$137,500. The money repaid to the **Boston** projects was for janitorial services provided but not paid for. The audit disclosed that although an outside contractor performed these services, the management company did not pay the contractor, but instead used funds received from the projects for other purposes.

Alfredo Ribot, the former on-site manager of Marcus Garvey Apartments in **Boston**, was sentenced to 3 years probation, the first 6 months of which is to be spent in home confinement with a monitoring device, and ordered to pay over \$193,000 in restitution and a \$200 special assessment. Ribot was previously indicted and pled guilty to one count of theft of federal funds and three counts of income tax evasion. An investigation conducted by the FBI, OIG, and the IRS Criminal Investigation Division disclosed that Ribot embezzled over \$193,000 in project funds and property and converted them to his personal use.

### ***Mississippi***

An OIG audit disclosed that Intervest Corporation, management agent for Eastover Apartments in **Indianola**, inappropriately disbursed over \$116,000 of





Eastover funds. This included ineligible and unnecessary expenses, duplicate payments, and questioned and unsupported costs. Both Eastover Apartments and Intervest Corporation needed to improve management over the project's maintenance operations. The project was allowed to deteriorate to a dilapidated condition and inaccurate Section 8 certificates were provided regarding the condition of the units. Due to the mismanagement of project operations, the project has deferred maintenance and needed improvements exceeding \$900,000.

The audit recommended that HUD enforce administrative sanctions against Eastover and Intervest for violating program requirements, and that HUD require Eastover Apartments, Ltd. to repay the project for all ineligible costs, resolve unsupported costs, recalculate rent subsidies, and reimburse excess subsidy payments made by HUD. (Report No. 99-AT-211-1003)

### *Missouri*

Theodore Derks signed a pretrial diversion agreement, agreeing to repay approximately \$100,000 in funds that he diverted in violation of his management agreement with HUD. The diversions occurred while Derks was acting as a general partner for Briarwood Apartments in **St. Joseph**. Derks also agreed to a voluntary debarment from participation in HUD programs for 5 years. These actions resulted from a joint effort by the OIG Offices of Audit and Investigation.

The former owner of the Rolla Nursing Home in **St. Louis** was indicted on three counts of fraud and submitting false statements to the IRS. This equity skimming/income tax fraud case, conducted jointly by the FBI, IRS, and OIG Offices of Audit and Investigation, involved the former owner's skimming of over \$1 million from the nursing home and subsequent failure to report these earnings. Specifically, the former owner allegedly obtained the money via a lease agreement and used the funds for personal expenses, including a 14,000 square foot house, his divorce settlement, his children's tuition, and the repair of antique vehicles. The indictment also alleges that between 1991 and 1993, the individual's total income was approximately \$350,000; he reported just over \$100,000 to the IRS.

### *New York*

A federal grand jury in **Brooklyn** indicted 3 individuals involved in a \$2 million fraud scheme at the Noble Drew Ali Plaza Apartments (Noble Drew). Two of the three individuals were principals of the former owner of Noble Drew, Linden Realty Associates. The third individual was the son-in-law of one of the principals. They were charged with conspiracy to commit program fraud, program fraud, conspiracy to commit money laundering, and money laundering. All three individuals were arrested without incident, and were arraigned in the Eastern District of New York. One of the defendants was released on a \$500,000 bond; the other two were released on \$250,000 bonds. The OIG Offices of Audit and Investigation conducted this review.

### *Texas*

Lewis R. Wallace, a former general partner and management agent of The Village of **Kaufman** Apartments, Ltd., was sentenced to 27 months in prison and 3 years supervised release, and ordered to pay over \$698,000 in restitution. A joint effort between the OIG Offices of Audit and Investigation disclosed that Wallace converted project funds for his personal use.



A Federal Judge in **Houston** sentenced HJZ, Inc. and Zieben Interests, Inc., management agent corporations owned by Herbert J. Zieben, to 4 years probation, payment of \$82,000 in restitution, payment of \$1.4 million per the agreed upon civil judgment, and a special assessment of \$200 each. As a condition of probation, the corporations must make their financial records available to the U.S. Probation Office. The corporations were management agents for four multifamily projects and one mobile home project owned by Herbert J. Zieben. The corporations pled guilty to one count each of equity skimming from the projects. Zieben, as a individual, is also subject to the \$1.4 million agreed upon civil judgment. These actions resulted from a joint OIG Audit and Investigation effort.





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# Chapter 3

## Audits

In addition to evaluating HUD's management reform issues, conducting activities in support of Operation Safe Home, and reviewing regulations and legislative proposals, the OIG's Office of Audit continued to monitor HUD programs and operations through audits. During this reporting period, the Office of Audit issued 9 reports and 4 audit-related memoranda on internal HUD operations, and 26 reports and 13 audit-related memoranda on grantees and program participants. (See Appendix 1 for a listing of the audit reports issued.) Cash recoveries amounted to \$5.2 million with another \$24 million in commitments to recover funds.

This Chapter highlights several major internal audits completed during this period, including HOPE VI, Drug Elimination Grants, and Empowerment Zones. A common theme in each of these reviews is that HUD needs to dedicate more staff resources to oversee these programs.





## Public and Indian Housing Programs

Public and Indian Housing Programs are designed to assist low- and very low-income families in obtaining decent, safe and sanitary housing. With these program funds, local public housing agencies and Indian housing authorities develop, own and operate public housing developments. In addition to financial assistance, HUD furnishes technical assistance in managing these developments and through the Section 8 Rental Assistance Programs, provides aid through the use of rental vouchers, certificates, or by making up the difference between what a recipient can afford and the approved rent for an adequate housing unit. During this reporting period, we conducted a nationwide audit of the HOPE VI Urban Revitalization Program and a multi-district audit of the Drug Elimination Program. We also reviewed the general administration of various public and Indian housing authorities, including a progress report on the Chicago Housing Authority.

### Public Housing

#### HOPE VI

The OIG performed a nationwide audit of the HOPE VI Urban Revitalization Program to determine whether the program effectively addressed the needs of severely distressed public housing. The audit included comprehensive reviews at ten housing authorities and HUD Headquarters. Although some of the authorities had made only minimal progress, for sites where the physical revitalization was completed, the transformation was impressive. The audit did find problems with HUD's monitoring and administration of the program. However, given the serious understaffing of the HOPE VI Office in previous years, we believe HUD staff administered the program reasonably well. While HUD has already begun to take corrective action in some areas, HUD needs to complete planned actions and initiate other actions in problem areas not yet addressed. To improve the effectiveness of the HOPE VI Program, HUD needs to address these issues:

- *Identifying severely distressed units.* HUD needs a workable definition of severely distressed housing and a grant award process that addresses the most severely distressed public housing.
- *Addressing resident needs.* HUD needs to reevaluate the feasibility of its policy regarding providing community and supportive services to the original residents. Most former residents do not return to renovated sites.
- *Sustaining community and supportive services.* HUD must place more emphasis on the sustainability of community and supportive services and seek ways to help housing authorities attain sustainability.
- *Obtaining cities' financial commitment.* To increase the positive impact of HOPE VI revitalization, HUD should reinstate a city match requirement or encourage city commitments through the Notice of Funding Availability process.
- *Developing realistic cost guidelines.* HUD needs to refine its guidelines pertaining to "soft" costs of development, including placing restrictions on income housing authorities receive through developer fees.
- *Helping residents move up and out of public housing.* Desirable HOPE VI units may have the unintended effect of creating a disincentive for residents to become self-sufficient.





- *Monitoring the HOPE VI Program.* Although HUD should allow housing authorities flexibility in implementing their HOPE VI Programs, it still needs to exercise adequate oversight responsibility. Although HUD has taken significant steps to improve its oversight of HOPE VI grants, they are still faced with problems relating to field offices' capacity to perform monitoring, unreliable data in their program management system, and the uncertainty of future funding for expeditors (management consultants).
- *Providing clear guidelines for resident involvement.* HUD needs to establish a clear policy and guidelines so that residents' input and concerns are seriously considered, and housing authorities and residents know the extent to which residents may participate in decisionmaking.
- *Contracting competitively for community and supportive services.* HUD should eliminate the provision for non-competitive subgrantee agreements as authorities may not necessarily be getting the best price for services from subgrantees. (Report No. 99-FW-101-0001)

As part of a nationwide review, the OIG audited the Housing Authority of the City of **San Antonio**'s HOPE VI grants and found that, for the most part, the Authority was satisfactorily carrying out its grant activities. However, the Authority did not have an adequate contract administration system or procurement policy in place. This led to ineligible and unsupported contract payments totaling over \$454,000. In addition, we have concerns about the Authority's overall lack of progress on its grants.

The audit recommendations included requiring the Authority to: (1) develop a comprehensive procurement policy and contract administration system, and provide steps (management controls) it intends to take to ensure the Authority will follow policies and procedures; (2) perform price analyses of applicable contracts and reimburse the HOPE VI Program for ineligible payments; and (3) develop detailed timelines for the development process. (Report No. 99-FW-201-1003)

### ***Drug Elimination Program***

The OIG performed a multi-district audit of HUD's Public Housing Drug Elimination Program (PHDEP). External audits of 21 PHDEP recipients indicated that grantees need to ensure better administration and accountability of PHDEP funds. Specifically, our audits disclosed \$1.6 million of ineligible and \$4.6 million of unsupported costs; grantees' lack of proper administration and accountability over PHDEP expenditures; and grantees' failure to establish an effective system for evaluating, monitoring, and reporting outcomes and benefits received from program activities. Also, we identified approximately \$18 million of unexpended PHDEP funds that remain outstanding, and found that grantees were expending these funds after the grant termination date.

In addition, the Department does not have an effective reporting and evaluation system to measure program results. The Department's old system was designed to analyze information submitted by the grantees through periodic reporting requirements, and properly evaluate program accomplishments. However, the system provided inadequate information in measuring the program results, and the Department did not monitor the system timely to assure it was producing the results needed. At this time, the Department is unable to accurately measure program effectiveness to assure that drug-related crimes and the problems associated with drugs in and around public housing are eliminated.





The Department, however, has begun a proactive role to correct these problems by developing a new system that is expected to better measure program accomplishments.

The Department agreed with the report's draft recommendations to recapture all outstanding program grant awards and develop and provide adequate training to grant recipients. The Department made appropriate management decisions and we believe the proposed actions will strengthen its control over the program. In addition, the Department needs to recognize its limited staff resources and consider them in the development and operation of a stronger grantee monitoring structure; and consider an alternative plan in measuring current and previous program performance until the new reporting system is in operation. (Report No. 99-BO-101-0001)

An OIG audit disclosed that the Housing Authority of St. James Parish, **Lutcher, LA**, did not maintain data or have a system to measure the outcomes and benefits of its programs. The Authority also failed to properly administer the PHDEP. The Authority generally relied on the Sheriff's Department to prepare grant applications and periodic reports to HUD, and did not maintain appropriate accounting records and source documents to support its drawdown and use of grant funds.

The audit recommended that, if HUD awards any future drug elimination grants, the Authority establish an appropriate performance monitoring system; develop strategies for continuation of activities when PHDEP funding is no longer available; and develop the necessary management and financial capacity to carry out its programs before drawing down funds. We also recommended the Authority repay HUD for any unsupported or ineligible expenditures of grant funds. (Report No. 99-FW-202-1002)

The **Buffalo, NY** Municipal Housing Authority (BMHA) has not established adequate accountability controls over its PHDEP expenditures. An OIG audit disclosed that the BMHA charged its FYs 1995 and 1996 PHDEP grants with questionable salary costs and with drug prevention costs that were not reasonable or necessary. The BMHA did not have adequate controls over executed contracts, and as a result, was unable to assure HUD that all charges to the program were eligible. We attribute these weaknesses to a lack of effective budgetary and accounting controls.

The audit also found that the BMHA has not developed an adequate process to properly monitor and evaluate PHDEP activities. Specifically, the BMHA did not submit completed outcome monitoring and semiannual performance reports, or establish a system to obtain drug related crime statistics. We believe these deficiencies occurred because the BMHA did not establish procedures and clear lines of responsibility to ensure that grant requirements were met.

The audit made specific recommendations for actions which we believe will correct these problems and strengthen the BMHA's administration of its PHDEP. (Report No. 99-NY-209-1001)

### *General Administration*

The OIG completed a follow-up to the September 30, 1996 review of the **Chicago, IL** Housing Authority. The Authority has made progress in addressing the problems we identified in our 1996 report. The recommendations in the previous report were not controlled in HUD's Audits Management System be-





cause this follow-up review was scheduled. On September 14, 1998, the Authority was removed from HUD's troubled housing list. However, the Authority still needs to complete actions to correct problems identified during our previous review. We believe problems in the following four areas are particularly significant, since they directly affect the living conditions of the residents:

- *Security.* The Authority did not have a formal method for measuring the effectiveness of its security initiatives. The Authority Police Department's senior staff, who were in place during our previous review, were no longer employed by the Authority. The current Authority Police Department's senior staff were unfamiliar with the recommendation in our September 1996 report to establish security procedures and controls and evaluate performance measures. As a result, no actions were taken to formally address the recommendations.
- *Preventive Maintenance.* The Authority did not develop and implement a preventive maintenance schedule for all systems using the needs assessment that was completed in May 1998. The Assistant Director, Operational Services Division, stated that he did not use the physical needs assessment to develop a comprehensive preventive maintenance program because the Authority's maintenance needs were assessed annually. The Authority's annual assessments, however, did not sufficiently address preventive maintenance needs. The inspections were not proactive and only items in need of immediate repair were addressed.
- *Annual Inspections.* The Authority did not develop thorough and comprehensive procedures for housing quality standards inspections. Between August and October 1997, the Authority issued three memoranda to its staff outlining procedures for annual building inspections; however, the memoranda were not comprehensive. The Authority did not develop or implement policies and procedures to conduct quality control reviews of housing quality standards inspections to ensure inspection accuracy, and did not ensure work orders were initiated for needed repairs identified during unit inspections.
- *Risk Management.* The Authority's Risk Management Department performed annual inspections of all buildings to identify hazardous conditions that could result in a liability to the Authority. However, no work orders were prepared because many of the work items duplicated work orders previously requested by Authority management, and the Risk Management Department had not developed a method to eliminate duplicate work orders.

Since our previous review, the Authority's Inspector General determined that the Authority expended HOPE VI funds for two Self-Sufficiency Programs that did not achieve program objectives. Therefore, as part of this review, we also assessed the adequacy of the Authority's internal controls over the HOPE VI Self-Sufficiency Programs and construction activities to assure the program goals and objectives were met. We found that the Authority did not have an adequate system of controls to ensure that projects funded by HOPE VI achieved their program goals.

The audit recommended that the Director of Public Housing in the HUD Illinois State Office ensure that the Authority takes necessary actions to correct the problems cited in this report. The recommendations in this report will be controlled in the Audits Management System. (Report No. 99-CH-201-1801)





Following a request by the Congress and HUD's Ohio State Office, the OIG audited the **Springfield, OH** Metropolitan Housing Authority. The audit disclosed that the Authority's operations were not administered effectively. The Authority did not have controls to assure HUD requirements were followed. The Authority also disbursed almost \$38,400 for ineligible and unsupported expenses, \$25,700 to an apparently nonexistent company for materials never received, \$1,000 to the former maintenance director for an improper rental, \$6,800 to an elevator company for parts never received, \$2,600 to the former maintenance director for unsupported costs, and \$2,300 for expenses not related to the Authority's operations.

The Authority had an excessive number of vacant units. Ninety-three of 889 available units, or 10.5 percent, were vacant despite 312 applicants on the waiting list. The excessive vacancy problem started in 1997 when the Authority did not give priority to preparing vacant units for re-rental. As a result, excessive vacancies caused the Authority to lose about \$121,000 in rental income in 1997. In addition, the Authority did not assure that its inspectors conducted adequate inspections of Section 8 units. Seven of the eight units inspected by the OIG and the Authority's fee inspector did not meet HUD's housing quality standards and contained 61 violations.

The audit recommended that HUD's Director of the Public Housing Hub in the Cleveland Office assess the performance of the Authority's executive director and board of commissioners, and take appropriate administrative actions. In addition, the audit recommended that the Director require the Authority to develop an overall plan for the Authority's direction, and that HUD use the plan to monitor the progress of the Authority to improve its operations and ensure its direction remains consistent. The audit also recommended the Director of the Public Housing Hub assure that the Authority implements corrective actions to correct the weaknesses in its disbursement procedures, modernization activities, Section 8 inspections, vacancy reduction operation, procurement activities, internal controls, travel policy and procedures, and allocation of indirect costs. (Report No. 99-CH-202-1001)

An OIG audit of the Housing Authority of the City of **Sarasota, FL**, disclosed that the Authority did not maintain its conventional low-income housing in good repair and condition. Every unit inspected failed to meet HUD's housing quality standards. We attribute the deficiencies to the Authority's failure to perform routine and preventive maintenance, spend Comprehensive Grant Program funds as planned, and adequately monitor or respond to the condition of the units. Section 8 Program housing was also not in good repair and condition. Seven of 15 units inspected failed housing quality standards. We attribute these deficiencies to a lack of management oversight.

The audit also found that the Authority violated its Annual Contributions Contract with HUD by inappropriately allowing a nonprofit organization to build a structure on Authority premises and signing a long-term lease with the nonprofit organization without prior HUD approval. As a result, the agency lost the use of the premises and incurred a large future liability without any plans for funding it.

The audit recommended the Authority develop a plan to improve its maintenance operations and bring all units in compliance with housing quality stan-





dards, and develop a plan to assign responsibility and timeframes for performing quality control inspections. HUD staff should assist the Authority in developing a disposition plan which meets both Authority and community needs and any funding requirements. The plan should address any public comment periods, any legal reviews, and agreement modifications. (Report No. 99-AT-206-1004)

An OIG audit of the **Cohoes, NY** Housing Authority's Low-Rent Housing Program disclosed that the Authority was generally providing decent, safe and sanitary housing to its residents. However, the Authority did not always comply with program requirements. Specifically, the Authority did not have adequate control over its travel activities and as a result, incurred ineligible and unsupported costs; did not maintain adequate control over disbursements from the general fund; violated its own policies and/or sound business practices in the personnel management area; lacked adequate controls over legal services; and had not conducted tenant recertifications on a timely basis, charged incorrect rents, had not assessed late charges, and had not addressed all of the items on the annual inspection checklist.

The report recommended, in addition to providing reimbursement and documentation for ineligible and unsupported costs, the Authority amend its travel policy to stipulate whether travel costs will be reimbursed on a per diem or actual cost basis; reimburse the general fund from non-federal funds; execute an employment contract with the executive director documenting the responsibilities and benefits that apply to the position; establish procedures that will ensure billings or invoices are obtained and that payments are made only after the period covered by the payment has expired; establish procedures to ensure all tenants are recertified at least once every 12 months; and adopt controls to ensure tenants are assessed charges for late notices and for late rent payments. (Report No. 99-NY-206-1005)

In **Charlestown, RI**, an OIG audit of the Narragansett Indian Wetuomuck Housing Authority's administration of its housing development grant disclosed that the Authority lacked the administrative capability to run a development program. The Authority spent \$3.2 million without developing any low-rent housing units ready for occupancy. Ten years after HUD agreed to provide development funding, the Authority still does not have the necessary control over the site needed to proceed with the development. The Authority does not have the property in trust with the federal government or a cooperation agreement with the Town of Charlestown. Without at least one of these basic agreements, the Authority cannot complete the development grant. In addition, due to inadequate management controls and the Authority's lack of administrative capability to run the program, there is no assurance that the project funds were properly accounted for. For example, the procurement process could not be fully documented for any contract, there was inadequate documentation to support almost \$900,000 of development costs, and significant budget overruns occurred without HUD approval.

The audit recommended that HUD decide whether to provide assistance to develop a viable plan to complete the project or terminate the grant and recapture non-obligated funds. HUD should also evaluate all parties responsible for the failure of the project and take administrative sanctions against those responsible. (Report No. 99-BO-207-1001)





## Community Planning and Development Programs

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, homeless shelters, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. During this reporting period, the OIG reviewed several CPD programs.

The purpose of the Empowerment Zone and Empowerment Community Initiative is to create jobs and business opportunities in the most economically distressed areas of inner cities and the rural heartland. Section 108 Loan Guarantees finance the acquisition or rehabilitation of real property owned by an eligible public entity, finance housing rehabilitation, and provide for economic development. The Community Development Block Grant (CDBG) Program provides annual grants to entitled communities to carry out a wide range of activities directed toward neighborhood revitalization, economic development, and improved facilities and services. The Urban Development Action Grant (UDAG) Program was created to assist cities and urban counties experiencing severe economic stress; grants made to local governments were used to make loans to private developers for commercial, residential, or industrial projects. The Youthbuild Program provides grants for programs designed to offer youth sports, recreational, cultural, and educational activities. Participants in the HOME Program may use funds for tenant-based assistance, housing rehabilitation, assistance to first-time homebuyers, new construction, and relocation. To prevent homelessness, Housing Opportunities for Persons with AIDS funds are used to assist low-income persons with AIDS and their families with short-term rental assistance, mortgage assistance, and utility payments. Funds can also be used for construction and rehabilitation.

### Empowerment Zones

An OIG audit conducted at HUD Headquarters, four Empowerment Zones (Atlanta, Chicago, Detroit, and Philadelphia), and HUD's State Offices of CPD having jurisdiction for the four Zones found that HUD did not have an adequate system of oversight and control for the Empowerment Zone Program. Specifically, the HUD Headquarters Empowerment Zone/Empowerment Community Initiative (EZ/EC) Team did not effectively assess the status and progress of Empowerment Zones. The Team did not confirm the appropriateness of the use of Empowerment Zone funds nor did they confirm that Zone activities complied with the respective Strategic Plans regarding the use of Zone funds. All four Empowerment Zones we reviewed inappropriately used some of their Zone funds, and two of the Zones did not materially comply with their Strategic Plans regarding the use of Zone funds. The Headquarters EZ/EC Team did not have adequate procedures to confirm that Zone funds were used according to Empowerment Zone Program guidelines; adequate controls and procedures to ensure corrective actions were initiated for problems identified during the Performance Review process; and adequate controls to ensure Zones were promptly assessed upon completion of the Performance Reviews. A Performance Review is the method by which HUD periodically determines whether Empowerment Zones are





## **CDBG, Section 108 Loan Guarantee Assistance, and UDAG Programs**

making progress in achieving the benchmarks set forth in their strategic plans. These reviews are required by HUD regulations.

The audit also found that HUD did not verify the accuracy of the Performance Reviews submitted by the Cities for the Empowerment Zone Program. The four Cities we reviewed provided inaccurate information to HUD for 61 of the 64 activities we evaluated from the June 30, 1997 Performance Reviews. The Cities inaccurately reported the actual status and progress for 35 of the activities and incorrectly reported 26 projects as Empowerment Zone activities when they were not. In addition, two Cities overstated the amount of estimated leveraged funding by over \$143 million (a 535 percent error rate) and \$460 million (an 18 percent error rate), respectively. The problems occurred because HUD did not have procedures and controls to ensure Performance Reviews were verified for accuracy. Instead, HUD relied on the Cities to accurately report the accomplishments of their Empowerment Zone Programs. However, the Cities did not have adequate controls over their Performance Reviews to accurately report to HUD.

The audit recommended that the Assistant Secretary for CPD assure that the Office of CPD implements controls to correct the weaknesses cited in the report. (Report No. 99-CH-156-0001)

At the request of HUD, the OIG audited the Municipality of **Arecibo, PR's** administration of the CDBG and Section 108 Loan Guarantee Assistance (LGA) Programs. Our review disclosed that the grantee did not efficiently manage the programs and did not comply with all program requirements. We identified about \$6.2 million of ineligible costs, \$300,000 of unsupported costs, and an additional \$300,000 in cost efficiencies. Specifically, the grantee failed to meet program objectives by not completing two major construction projects and by allowing properties purchased with LGA funds to significantly deteriorate. Since 1988, the grantee has spent about \$5.3 million in program funds on these projects. In May 1997, the grantee approved the sale of part of one of the properties for \$250,000. In July, it advertised the remaining part for sale, although no value determination had been made. In addition, HUD had not approved either sale. Also, between Fiscal Years 1993 and 1997, the grantee improperly used about \$768,000 in CDBG funds to pay employees who performed general government duties. About \$237,000 was budgeted for similar employee services for the 1997-1998 fiscal year.

The audit found that the grantee did not comply with procurement requirements. Contract files were not documented to show how contracts were awarded; whether contract expenditures addressed program objectives; the justification for sole-source contracts and contract amendments; that price or cost analyses were performed; and contract specifications or detailed contract requirements. The grantee also paid about \$200,000 in LGA funds for poor and incomplete work on 6 construction projects. Contractors were paid for the work although the grantee's inspector had reported significant construction deficiencies. Some deficiencies were serious safety hazards.

Finally, the grantee's financial management system and related controls needed improvement. Accounting records and reports were inaccurate; bank statements were not reconciled timely; grant expenditures reported to HUD disagreed with accounting records; and required single audit reports were not submitted on time. Similar deficiencies were previously reported by independent public accountants and by HUD, but the grantee did not provide resources to





correct the problems. The last independent public accountant who reviewed the grantee's financial statements expressed no opinion on them because of the poor condition of the financial management system and related reports.

The audit recommended that HUD sanction the grantee for continuing to disregard program requirements and for failing to take corrective actions on known deficiencies, and require the grantee to reimburse the ineligible costs, determine eligibility of the unsupported costs, and strengthen various management control systems. (Report No. 99-AT-241-1001)

As a result of this audit, the Municipality of Arecibo agreed to repay \$6.5 million and to reprogram \$300,000 of funds. In addition, the HUD CPD director in the Puerto Rico Office has required the Municipality to strengthen its management controls. Sanctions may also be imposed by HUD for the Municipality's disregard of program requirements and failure to take corrective action on single audit recommendations.

The OIG reviewed complaints on two Section 108 projects in **Seattle and Spokane, WA**, and identified opportunities for improvement in the Section 108 Program. Addressing these opportunities may help to further the Department's missions under the HUD 2020 Management Reform Plan pertaining to empowering people and communities and restoring the public trust.

The opportunities we identified relate to the following categories of HUD requirements or topics:

- Citizen participation.
- Displacement of businesses and jobs.
- Presumption alternative for meeting a national objective.
- Timeliness of HUD approval of Section 108 loan guarantee.
- Assistance to grantees on environmental requirements.
- Excess profits to for-profit businesses.
- Disclosure of information by applicants.
- Citizen concerns and misconceptions about the Section 108 Program.
- Guidance on how an activity can qualify under the spot blight national objective.

The audit recommended that the Office of CPD provide this report to the Office of Policy Development and Research and to the contractor selected to perform the CPD Economic Development Loan Study, along with suggestions for incorporating the issues in this report in the Study; consider informing grantees of the need to encourage citizens to have a larger role in the decisionmaking process for Section 108 assistance; and obtain and evaluate the information from the contractor on the CPD Economic Development Loan Study on the public benefit actually realized for Section 108 activities in the study sample.

In addition, the contractor for the CPD Economic Development Loan Study should be required to: (1) obtain, for the grantees in the study sample, information on the methodology they used and the results they obtained to comply with the anti-displacement requirement, evaluate the results, and make changes to the program rules as necessary; (2) determine for the study sample whether or not the grantees' Section 108 activities used the presumption alternative, and whether or not this resulted in an adverse effect; (3) determine





for the study sample if grantees that obtained Section 108 assistance perceive that the loan guarantee approval process took too long, and once this information is available, make changes as necessary; and (4) determine for the study sample if grantees had problems getting assistance or expertise for carrying out their environmental review responsibilities, and once this information is available, make changes as necessary. (Report No. 99-SE-148-0801)

In response to a Congressional request, the OIG audited HUD funded programs administered by the City of **Augusta, GA**. We identified problems with the City's management of CDBG and UDAG funds. The review found about \$1.6 million of ineligible and \$600,000 of unsupported costs. Specifically, the City's grant program to improve facades of commercial buildings in the downtown area did not meet national objectives of the CDBG Program. Our review of 27 of 46 construction projects funded by the City during calendar years 1992 through 1997 found 11 projects totaling about \$443,000 that did not address slum and blight and did not comply with City program policy. The City did not maintain adequate documentation on the other 16 projects totaling about \$588,000. In addition, we identified inconsistency in the awards and requirements placed on some property owners by the City that had the appearance of favoritism.

From 1992 through 1996, the City made 10 special economic development loans to 9 for-profit entities totaling \$559,250. Three of the loans, totaling about \$208,000, were forgiven by the City. At the time of our review in May 1998, 7 of the entities had gone out of business, owing the City about \$193,000. Recovery is not likely. Only one entity was current with its payments. The City did not maintain documentation to determine if the loans met program requirements and/or national objectives, and we found little evidence that the City monitored and enforced loan requirements. We also identified inconsistency in how some loans were handled, which resulted in the appearance of favoritism.

The City improperly charged the CDBG Program \$548,100 spent for street lighting and sidewalk improvements in 1995 and 1996. Although the City reported to HUD that these expenditures benefited low- and moderate-income persons, we determined that the projects did not meet this program objective because they were in commercial areas of downtown Augusta, not in residential areas.

The City may have lost millions in potential revenue and significantly reduced program benefits when it approved the refinancing of a developer's first mortgage without assessing the impact the refinancing had on the City. The mortgage was part of an agreement that the City had with the developer in order for the developer to obtain a 30-year, \$7.5 million no-interest UDAG loan. The funds were needed to build a \$45.6 million hotel/office/conference center complex on the downtown river front. In return for the loan, the developer agreed to pay the City a percentage of the project's excess net cash flow based on certified financial reports, and employ up to 600 persons, including 75 percent low- and moderate-income persons. The refinancing reduced the project's net cash flow and the City's return. We also found that the City was unaware of the number of low- and moderate-income persons employed by the complex.

The audit recommended that HUD require the City to reimburse the CDBG Program for the ineligible costs, provide supporting documentation to determine





eligibility of the unsupported costs, and strengthen various management controls. (Report No. 99-AT-241/242/255-1002)

An OIG audit of the City of **Norfolk, VA's** (grantee's) administration of its CDBG Program found that, although the grantee generally administered an effective program, it did not effectively manage programs administered by its subgrantee. Specifically, grant funds totaling over \$675,800 were spent to acquire and improve 11 parcels of land that were ultimately provided to persons whose annual income exceeded low- and moderate income limits. Similar costs amounting to over \$90,000 were expended in 3 cases where recipient income was not substantiated. In addition, the subgrantee appeared to have charged over \$856,000 in unreasonably high staff and overhead costs to deliver rehabilitation, demolition, and relocation activities; and did not maintain adequate records for its property acquisition, rehabilitation, and relocation activities, and therefore could not assure that over \$82,000 in excess relocation payments were reasonable.

The audit recommended that the grantee reimburse the CDBG Program for all ineligible costs and resolve unsupported costs; require the subgrantee to establish procedures to become more active in the property disposition eligibility determination process and obtain more documentation to support household income; perform a detailed study of the subgrantee's delivery cost procedures and time-keeping practices; require the subgrantee to maintain full and detailed records to support its acquisition, rehabilitation, and relocation activity; and update and implement its subrecipient monitoring plan. (Report No. 99-PH-241-1002)

In response to citizens' complaints, the OIG reviewed the Pine Knolls Neighborhood Revitalization Program, funded in part by the Town of **Chapel Hill, NC's** CDBG Program. The program was administered by the Pines Community Center, Inc. The review found that Chapel Hill needs to improve the Revitalization Program's effectiveness. The Center did not timely repair and sell houses purchased with CDBG loans. As a result, the objective of homeownership was not met. We also found that the Center had not repaid \$181,500 of CDBG loans to Chapel Hill to be reused for other purposes.

The Town of Chapel Hill did not properly monitor the Center's performance. The Town executed three agreements with the Center. Two of the three agreements did not include requirements for the amount and quality of housing repairs. The Town did not enforce requirements for the Center to submit financial and work progress reports, and until recently, did not properly address the Center's slow performance.

The audit recommended that the Town reimburse its CDBG Program \$181,500, and ensure that the program administrator implements effective management controls. (Report No. 99-AT-241-1802)

HUD needs to improve its overall administration of the Youthbuild Program. An OIG audit of seven Youthbuild recipients, including the six largest recipients in the nation, found that there were deficiencies in virtually all areas of the program, including selection of applicants, accounting for costs, and fulfillment of program objectives.

Because of HUD's lack of monitoring or assessment, the Department has gathered very little accurate or verified data of results for over \$130 million of

## Youthbuild, HOME, and HOPWA Programs





grant funds awarded. In addition, grant recipients are not adequately maintaining follow-up participant tracking information and are not able to support much of the participant information reported to HUD. Considering that the fundamental program objective of Youthbuild is to provide young adults with educational and employment opportunities, accurate follow-up participant tracking is a critical measure of the program's success.

During the 1993 grant year, **Philadelphia** Youthbuild had 47 students earn their high school diplomas at an average cost of \$21,109, while **Durham, NC**, and **Baltimore, MD**, had only 14 students and 6 students earn their graduate equivalency degrees at average costs of \$71,280 and \$165,921, respectively. Also, HUD did not adequately review and rank Youthbuild applications or perform necessary monitoring of Youthbuild recipients. Rating elements were not scored consistently for 4 of 12 applications; an applicant's demonstrated past performance was not adequately considered in the rating process; and grantee recipients did not maintain adequate documentation to support financial accountability, compliance with program regulations, and program performance.

The audit recommended that HUD incorporate prior performance evaluation reports and progress reports into the application review process; perform an independent quality review of applications to ensure applicant rating sheets are mathematically correct and objective rating elements have been scored consistently among applicants; create an automated database to monitor a recipient's accomplishments relative to program objectives; and implement a proactive on-site monitoring program that focuses on a recipient's financial accountability and program performance. HUD took steps to incorporate these recommendations in its 1998 grant awards. Also, we believe HUD's plan to transfer some monitoring responsibility to local HUD offices is a positive step toward strengthening recipient financial and performance accountability. (Report No. 99-PH-156-0001)

The City of **Houston, TX**, did not properly administer its Homebuyers Assistance Program (funded by the HOME Program). An OIG audit found that the City did not always follow established procedures for determining income, used a method of determining income that was susceptible to manipulation, did not always have sufficient information regarding homebuyers' eligibility, and provided assistance for properties located outside the City. As a result, the City has paid over \$128,000 in ineligible assistance and lacks support for an additional \$254,310. In addition, the City did not have sufficient controls over its Homebuyer Program loan filing system, did not maintain an accurate database tracking system, and had errors in its payment voucher system.

Because of a conflict of interest, the City awarded subrecipient contracts to a corporation for services already being provided by another nonprofit corporation. These conflicts led to improper subcontracting, duplicate payment of administrative costs, and unapproved contract modifications. As a result, the City incurred questionable administrative fees totaling over \$422,000, of which \$218,960 is ineligible. The audit also found that the City is providing unnecessary assistance to some homebuyers, including some homebuyers with large cash savings who are participating in the program.

The audit recommended that the City repay all ineligible amounts; provide documentation for unsupported amounts or repay the program; and improve its controls and procedures over income eligibility, the loan filing system, the tracking database, and the payment voucher system. In addition, the City should





take appropriate safeguards against conflicts of interest and limit its use of HOME funds to those individuals in need of government assistance. (Report No. 99-FW-255-1004)

In **Utica, NY**, an OIG audit of financial and management controls at Utica Community Action, Inc. (UCAI), a not-for-profit corporation that receives funds from HUD to administer programs such as HOME, Youthbuild, and Housing Opportunities for Persons with AIDS (HOPWA), disclosed significant weaknesses in both controls and in the environment in which the system of controls functioned. We were unable to rely on UCAI's financial and program records because they were not current, complete, or accurate. We also found inappropriate transactions indicating the inability of management to effectively safeguard assets. We attribute the lack of controls to inadequate oversight by the UCAI board of directors. In addition, the audit found that UCAI has been improperly subsidizing the operations of ANKH Construction, Inc., a for-profit subsidiary of UCAI. We found questionable transactions involving conflicts of interest and improper use of UCAI's state tax exemption status.

The audit recommended establishment of clear lines of authority to provide for effective board oversight, UCAI's adoption of the necessary controls to ensure that all funding received from HUD and others be used appropriately to administer approved activities, and ANKH's immediate reimbursement to UCAI for all funds and services provided for non-programmatic work. (Report No. 99-NY-241-1002)

## Multifamily Housing Programs

In addition to multifamily housing developments with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. In addition to Operation Safe Home equity skimming work, during this period, the OIG reviewed Section 8 contract administration and owner and manager operations.

In FY 2000, HUD plans to contract for the administration of Project-Based Section 8 Housing Assistance Payments (HAP) contracts. In order to proactively identify issues that could affect the Department's plans, the OIG reviewed six Contract Administrators in New England. These included three housing finance agencies (HFAS), two public housing agencies (PHAs), and one state agency. These Contract Administrators administer HAP contracts for 362 projects in New England. We did not find any significant problems at the three HFAS. The two PHAs were not performing all of the functions required, but were receiving full fees. The PHAs did not believe that they were responsible for all of the required functions, since initially, HUD staff were performing some of these functions for the insured projects. The state agency was not monitoring timely or following up on identified concerns. The state agency attributed its difficulties to recent staff cutbacks and reorganizations.

### Section 8 Contract Administration





## Owner and Manager Operations

In addition to the concerns raised in the Inspector General's comments on the draft Request for Proposals, this audit identified several issues that need to be addressed in order to successfully transfer the Section 8 contract administration function. For example, HUD needs a viable cost-benefit analysis; successful transfer of the Section 8 contract administration function is dependent on strong working relationships between the Real Estate Assessment Center, the Financial Management Center, the Enforcement Center, the Government Technical Monitors/Representatives, and the Field Offices; HUD needs to effectively monitor both project performance and contractor performance; HUD will need to identify responsibilities to be transferred between HUD and the Contract Administrators, including tasks to be performed and data to be maintained in HUD computer systems; HUD needs to be aware of any financial interest in the properties held by any Contract Administrator; the Contract Administrators' staffing plans need to be provided to HUD for use in evaluating performance; the workload associated with expiring contracts should be factored into the evaluation of potential Contract Administrators; Contract Administrators need sufficient training to detect and report suspected fraud; and HUD needs to develop procedures to address any legal actions brought against the Contract Administrators acting on behalf of the Department. (Report No. 99-BO-119-0801)

An OIG audit of Charlestowne at Cavalier Mutual Homes, Inc., **Portsmouth, VA**, disclosed that the project has not remitted monthly excess income to HUD. As such, mortgage interest subsidies provided by HUD were not offset by excess income collections. As a result, \$586,929 was improperly retained by the project. The board and management agent have also failed to provide adequate management oversight and direction to ensure efficient project operations. This lack of oversight caused the project to incur ineligible and unsupported costs totaling \$5,023 and \$177,583, respectively. In addition, the project does not have an adequate accounting system to record daily operations and transactions. Because the board was apparently unaware of and/or disregarded HUD requirements, daily transactions were improperly recorded and funds were expended unnecessarily and without proper documentation. The audit also found that project staff and the management agent have not conducted tenant income certifications, which may have resulted in income loss to the project and overpayment of housing assistance payments by HUD.

The audit recommended that the owner reimburse the project for ineligible costs, justify unsupported costs or repay those costs not supported, and implement specific controls and procedures to correct deficiencies involving project administration. (Report No. 99-PH-212-1001)

In response to a Congressional request, the OIG audited Seaview Arms Apartments, a Section 236 project in **Staten Island, NY**, and found that the owner generally complied with HUD requirements regarding the use of project funds for reasonable operating expenses. However, in July 1998, the OIG, in conjunction with a HUD appraiser, inspected 57 of the 84 units at the project and concluded that all 57 failed to meet housing quality standards. The OIG estimates that it will cost about \$533,000 to correct all of the deficiencies. We believe that most of the units failed because the owner/management agent was deferring routine maintenance.





Seaview Arms has a history of not being properly maintained. Over the past 10 years, HUD generally rated the physical condition of the project as either below average or unsatisfactory. In June 1997, a contractor hired by HUD rated the project as satisfactory. However, the following year when the OIG and HUD inspected the project, it was again rated as unsatisfactory.

The audit recommended that HUD direct the owner to make the necessary repairs, and provide HUD with a maintenance plan for routine maintenance. In addition, if the owner does not make the repairs, HUD should enforce the Regulatory Agreement and terminate the housing assistance contract. (Report No. 99-NY-212-1003)

At the request of the HUD Seattle Office of Multifamily Housing, the OIG audited certain expenses that SIDRA, Inc., an identity-of-interest management agent in **Portland, OR**, charged two HUD insured projects, Park Terrace Apartments and Cascadian Terrace Apartments. We found that the agent charged the two projects ineligible salary expenses, legal expenses, and unauthorized fees for collecting and depositing laundry revenue. From 1993 to 1998, the ineligible expenses and unauthorized fees totaled \$121,414. The two projects were charged ineligible expenses and unauthorized laundry revenue collection fees because the management agent's chairman considered all the management agent's executive director's direct salary costs as project expenses and allocated those costs to the projects, believed the legal expenses were all necessary and reasonable project expenses, and believed that the executive director's collecting and depositing of the laundry revenue generated at the two projects was an additional service where a fee could be charged and believed the fee was approved by HUD in a rent increase.

The audit recommended that HUD require the management agent to discontinue charging the two projects any part of the executive director's salary, discontinue charging the projects any fees not approved by HUD, specifically, the fee to collect and deposit laundry revenue, repay Park Terrace Apartments' and Cascadian Terrace Apartments' operating accounts the amounts determined to be ineligible/unauthorized, and maintain sufficient documentation to support all project expenses. (Report No. 99-SE-214-1003)

## Single Family Housing Programs

Single Family Housing Programs provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, we conducted audits of the Section 203(k) Rehabilitation Home Loan Program, which provides mortgage insurance to finance the rehabilitation of one- to four-family properties.

### Section 203(k) Program

An OIG audit of Homestead Financial Services, Inc., a non-supervised mortgagee in **Syracuse, NY**, found that Homestead was not always in compliance with HUD/FHA requirements in originating loans. During the review of our initial sample of 25 cases, particularly Section 203(k) rehabilitation loans, we noted that Homestead did not comply with all of the provisions of the Real





Estate Settlement Procedures Act, which prohibits individuals from splitting fees unless work was actually done. Also, HUD/FHA mortgagee instructions prohibit mortgagees such as Homestead from charging borrowers for settlement services. Contrary to these requirements, Homestead split the attorney fees with the various attorneys that participated in the HUD/FHA loan closings. To determine the magnitude of the fee splitting, we expanded our initial sample universe and determined that between January 1, 1997, and June 30, 1998, Homestead processed over 1,000 HUD/FHA loans and charged unallowable loan settlement costs to borrowers amounting to over \$242,000.

The audit also found that Homestead did not determine whether rehabilitation work was to be completed by either a contractor or a borrower; have adequate management controls to ensure that rehabilitation repairs were completed; or assure that costs were eligible and supported before releasing rehabilitation funds to the borrower. We attribute these deficiencies to, among other things, Homestead's lack of adequate management controls. In addition, Homestead's Quality Control Plan was not complete, and in some instances, Homestead did not adhere to all the requirements in the Plan. As a result, mortgages may have been approved for unqualified borrowers.

The audit recommended that HUD refer the matter on fee splitting to HUD's Mortgagee Review Board for action. HUD should also require Homestead to ensure that its staff are properly trained and familiar with Section 203(k) Program requirements, ensure that its staff determine whether the borrower or contractor will perform rehabilitation work, implement controls over the disbursement of rehabilitation funds, develop a Quality Control Plan that meets all HUD/FHA requirements, and periodically certify to HUD that Homestead is following this Plan. (Report No. 99-NY-221-1004)

Detroit Revitalization, Inc., a private nonprofit organization in **Detroit, MI**, obtained excessive funds for rehabilitation work done with Section 203(k) loans. An OIG audit found that Detroit Revitalization paid its identity-of-interest building construction company, RIMCO Building Company, for rehabilitation work which was either not done or was done improperly. Detroit Revitalization also inappropriately received the funds remaining in the rehabilitation escrow account after the completion of rehabilitation rather than applying these funds to pay down mortgages, as required.

Detroit Revitalization violated HUD's requirements for 8 of the 9 properties it purchased from HUD at a 30 percent discount under the Partners for Affordable Homeownership Program. The nonprofit organization violated HUD's resale restrictions when it improperly resold and transferred ownership of the properties to its identity-of-interest mortgage company, MCA Mortgage Corporation; ultimately sold the properties to homebuyers by land contracts for excessive amounts totaling \$105,007 when it did not own the properties at the time of the sales; charged excessive interest rates; and violated HUD's conflict-of-interest requirements. Detroit Revitalization also generated excessive profits for its identity-of-interest companies.

The audit recommended that Detroit Revitalization pay off the Section 203(k) mortgages or pay down the mortgages by the amount of excessive funds obtained for rehabilitation in order to reduce HUD's risks, and provide documentation to support the total costs for each property or reimburse the homebuyers \$105,007 for the excess profit taken for properties purchased from HUD. In





addition, the Director, Philadelphia Homeownership Center, should suspend Detroit Revitalization from participation in HUD programs if the organization does not resolve the recommendations; consider imposing administrative sanctions against its former officers, who were in charge during the audit period; and take administrative sanctions against the Section 203(k) consultant/inspectors who falsely certified on the draw requests that work was done when in fact it was not. (Report No. 99-CH-229-1004)

The OIG reviewed MCA Mortgage Corporation, a direct endorsement mortgagee in **Southfield, MI**, specifically its loan origination practices for Section 203(k) loans for its identity-of-interest nonprofit organization, Detroit Revitalization, Inc. The review disclosed that MCA violated HUD regulations when it underwrote Section 203(k) loans for Detroit Revitalization. Between January 1996 and February 1997, MCA underwrote 82 Section 203(k) loans for Detroit Revitalization. The OIG review of 12 of these loans found that MCA improperly computed the maximum mortgage amounts for all 12 loans. MCA did not properly determine the property value and used a loan-to-value ratio of 97 percent instead of 85 percent to compute the mortgage amount. In addition, MCA did not have a quality control plan for the completed rehabilitation work. Because MCA violated HUD regulations, HUD assumed an increased risk for all 82 loans that MCA originated for Detroit Revitalization. We calculated the total risk for the 12 loans reviewed to be \$158,528.

The audit recommended that this matter be referred to HUD's Mortgagee Review Board for appropriate action against MCA Mortgage Corporation. (Report No. 99-CH-221-1005)

## Financial Statement Audits

Fiscal Year 1998 is the first year that the Department received an unqualified opinion on their Consolidated Financial Report. While an unqualified opinion is an important milestone, more critical is the Department's ability to effectively manage its programs. The Opinion Section primarily relates to whether information on Departmental expenditures and other financial information are reliable. A more critical concern relates to whether HUD funds are being spent efficiently and effectively and in compliance with laws and regulations. The report's accompanying Material Control Weaknesses and Other Reportable Conditions focus on these issues. Four of the reported material weaknesses relate to the Department overall, and four material weaknesses relate specifically to FHA programs. They are an integral part of this report and illustrate how the Department is fulfilling its core mission.

Efforts to integrate the Department's Information and Financial Management Systems are moving slowly and becoming increasingly complex. HUD's initial plan under HUD 2020 was to complete this Financial Management Information strategy by September 1998. That timetable has now moved to October 1999. The total cost to complete the integration project is now \$255 million, nearly twice the initial estimate. In the meantime, HUD continues to manage its pro-

## Financial Management Systems





grams using legacy systems which are becoming increasingly difficult and costly to maintain. Major deficiencies with HUD's financial management systems reported in prior years that continued through Fiscal Year 1998 to some degree include:

- Insufficient information regarding individual multifamily loans. This makes assessing and quantifying credit risk difficult and adversely impacts efficient, ongoing reporting of credit risk to senior management and effective monitoring of multifamily projects.
- Deficient FHA general ledger and subsidiary systems that impede case level reporting, budgetary accounting and compliance with the Credit Reform Act.
- Inadequate assurance about the propriety of Section 8 rental assistance payments.
- Incomplete information concerning FHA operations by program, geographical area, or other relevant components.
- Inability to blend financial and program data to develop meaningful performance measures.
- Lack of integration between program and accounting systems necessitating duplicate data entry.
- Security weaknesses in general and specific application controls.

## Organizational Changes

Changes to better enable field staff to focus on their core responsibilities are still not operational. A key element of HUD 2020 was to move the routine field functions to Centers so that Public Trust Officers could focus efforts on monitoring program participants. HUD's monitoring efforts are presently exacerbated by HUD's resource management shortcomings. Critical structural changes need to be fully implemented before HUD's new organization can effectively address these weaknesses. In particular, HUD must:

- Complete the transfer of the workload associated with approximately 21,000 housing assistance contracts to Contract Administrators.
- Complete implementation of the Real Estate Assessment Center (REAC) and provide for assessing the overall physical and financial condition of HUD's housing portfolio.
- Successfully streamline or out-source activities associated with the management and disposition of HUD owned single family properties.
- Finalize and implement plans to permanently organize and staff a Departmental income verification program.

It is too soon to determine whether HUD will ultimately be successful in carrying out the reforms called for in the HUD 2020 Plan. However, we are encouraged that HUD has recognized the need to address its resource shortcomings and has put forth such an extensive effort to restructure its operations. To improve on HUD's ability to more effectively manage its resources, the Department, in conjunction with the National Academy of Public Administration, has developed a proposed resource management methodology. The methodology is being piloted, and following successful completion of the pilot studies, the methodology will be considered for implementation throughout the Department for resource requirement determination and allocation.





## Subsidy Payments

The Department has insufficient assurances that subsidy payments for assisted tenants are accurately computed. HUD spent about \$19 billion in Fiscal Year 1998 to provide rent and operating subsidies to housing authorities and multifamily project owners. This assistance benefited more than 4 million households. HUD did not have controls in place during Fiscal Year 1998 to assure funds were expended in compliance with laws and regulations. HUD estimated about \$857 million in erroneous subsidy payments, an amount we consider substantial. The amount of rental assistance provided is based on each household's self-reported income. Generally, subsidy payments make up the difference between 30 percent of a household's adjusted income and the housing unit's actual rent. Excessive subsidy payments result from unreported income. Various initiatives are underway to validate tenant income data. HUD is still in the process of developing a standardized quality assurance program to reduce the likelihood of subsidy overpayments.

## Monitoring Program Recipients

HUD needs to provide greater focus on its monitoring of program recipients. HUD provides grant and subsidy funds to a variety of recipients, who act as HUD's intermediaries in assisting low- and moderate-income households. HUD has little assurance that its funds are expended in accordance with applicable laws and regulations.

Legislation authorizing HUD's grant and subsidy programs includes specific criteria concerning tenant eligibility and allowable activities. HUD's structure for oversight of recipients does not provide assurance that these funds are expended only on eligible tenants and allowed activities. Moreover, legislation authorizing HUD's funds also establishes minimum performance levels to be achieved. For example, subsidized housing must comply with HUD's housing quality standards. Here, too, HUD's oversight structure does not provide it with assurance that these minimum performance levels are achieved.

Overall, we found that monitoring of troubled and potentially troubled assisted projects was inadequate. We noted audited financial statements that were not submitted and reviewed, and physical inspections and management or occupancy reviews that were not performed by the field offices. In addition, field offices were not adequately following up to resolve identified deficiencies. Field staff remain responsible for many functions that will later be moved to other organizations in HUD. Many of the HUD 2020 initiatives that will better enable staff to perform monitoring are months, if not years, from full implementation. (Report No. 99-FO-177-0003)

## FHA Operations

On March 12, 1999, we issued an unqualified opinion on the FHA financial statements for the period ending Fiscal Year 1998. This audit was performed by the independent certified public accounting firm KPMG LLP. This is the first year that FHA has been able to prepare audited financial statements based on accounting standards applicable to federal agencies. This required extensive ad hoc efforts by Office of Housing and contractor support personnel as FHA's general ledger was not compliant with the U.S. Standard General Ledger. As a result, additional analysis was required to prepare both the financial statements and reports to the U.S. Treasury on budget execution. Also, keep in mind that the opinion on the financial statements represents only one part of a three part review of the financial condition of FHA. The Report on Internal Controls and the





Department's Compliance with Laws and Regulations identified four material weaknesses and three reportable conditions.

- *FHA must address staff and administrative resource issues.* FHA must review the staffing levels, personnel skills versus skill needs, and training resources available to conduct its mortgage insurance programs. As implementation of the reorganization proceeds, these issues remain critical to the management of FHA's programs.

Planned reductions in single family staffing levels were predicated on significant assumptions and programmatic changes, including streamlining or outsourcing Real Estate Owned (REO) property, selling single family Secretary held notes, and consolidating single family functions into four Home Ownership Centers. While staffing reforms occurred under HUD 2020, programmatic reforms related to single family REO and note operations did not keep pace, creating obstacles to the effective monitoring and servicing of FHA's portfolios during Fiscal Year 1998.

FHA's business related to its single family programs has changed significantly over the years. Improvements in automated technology and electronic data interchange have created efficiencies. Additionally, the single family Secretary held notes inventory has decreased dramatically. However, the effort to service post-insurance portfolios, including single family property and notes, has drawn necessary resources away from focusing on the primary responsibility of program oversight and portfolio management, during a period when business volume has grown dramatically.

- *FHA must continue to place more emphasis on early warning and loss prevention for insured mortgages.* FHA must focus more attention on reducing the frequency and loss severity of defaults on insured mortgages by improving its efforts to identify and cure troubled multifamily mortgages before they become seriously delinquent and by utilizing loss mitigation tools for the single family insured portfolio before properties are foreclosed.

Only 30 percent of troubled and potentially troubled projects tested during the audit had management reviews completed by FHA during the fiscal year. For financial statement reviews, unaudited data provided by the Office of Housing stated that less than 85 percent of financial statements submitted were reviewed; the standard is 100 percent. Only 26 percent of troubled and potentially troubled projects reviewed had physical inspections. Failure to monitor and manage the portfolio on a proactive basis increases the risk of projects becoming troubled, thereby escalating the risk of future claims and placing additional stress on limited resources.

The number of seriously delinquent single family loans that are cured through borrower self-help and avoid foreclosure through relief measures provided by loss mitigation tools is increasing. The total number of loss mitigation interventions more than doubled between Fiscal Years 1997 and 1998, from 5,019 to 10,900. Based on the first quarter's activity, the Fiscal Year 1999 projection is 20,000 loss mitigation interventions. While FHA has made significant progress monitoring the insured single family portfolio, these initiatives are relatively new, several are still developing, and the benefits have not yet been fully recognized.





- *FHA must improve federal basis and budgetary accounting.* FHA must perform analysis and reconciliation of obligations to ensure that obligated amounts are properly stated. In addition, formal documentation must be developed to support the preparation of federal basis financial statements, budgetary standard forms, and FHA's cost allocation process. Furthermore, FHA's methodology for calculation of the liability for loan guarantees requires refinement.

At KPMG LLP's request, FHA identified 194 contracts and approximately 1,300 purchase orders, which appeared to have been fulfilled but not deobligated. FHA deobligated those contracts and purchase orders for a total adjustment to the financial statements of approximately \$29,700,000. Also at KPMG LLP's request, FHA reconciled the commitments and endorsements in the accounting system to those in the budget system, and identified nine items, which had not been recorded in the budget system. In addition, FHA identified errors in mortgage amounts and subsidy rates between the accounting and budget systems. As a result, FHA recorded \$7,500,000 in additional obligations in the budget system. Finally, FHA identified approximately \$6,900,000 of unrecorded unliquidated obligations related to contractor processed disbursements and adjusted the financial statements accordingly.

- *Information technology systems must be improved in order to support business processes more effectively.* Improvements to FHA information systems are hindered because of the existence of other critical system priorities at HUD. Systems are not linked and integrated, or configured to meet all financial reporting requirements. Additionally, many of FHA's financial management systems do not share a common data architecture, and not all systems provide the appropriate case level detail required for credit reform compliance. FHA's inability to quickly develop or acquire more modern information technology will continue to deter its efforts to be a more efficient and effective housing credit provider. Until new information technology is implemented and available throughout the agency, FHA must collect data and develop information in less efficient ways. FHA must aggressively pursue system development, modernization, and improvement.

KPMG LLP also notes three other conditions regarding the need for FHA and HUD to:

- *Continue actions to quickly resolve Secretary held mortgage notes and minimize additional mortgage note assignments and note servicing responsibilities.* At September 30, 1998, FHA had approximately 12,000 single family notes with an outstanding balance of \$731 million. Although FHA has considerably reduced the single family notes portfolio in recent years and is currently under contract with a special servicer who will assume the portfolio, we noted the following weaknesses in Fiscal Year 1998: (1) an inability to consolidate servicing into one location; (2) restricted servicing efforts; and (3) shifts in the portfolio to substantially non-performing notes.
- *Sufficiently monitor and account for its single family property inventory.* An aging of single family REO reveals that properties remained in inventory for longer periods of time. The average disposition lag time increased from 5.4 months during Fiscal Year 1997 to 6.6 months during Fiscal Year 1998, and continues to rise. The number of on-hand REO properties increased over 25





percent between Fiscal Year end 1997 and 1998. At some field offices, inventory more than doubled between Fiscal Years 1997 and 1998. Over 35 percent of the single family REO inventory exceeded standard processing times at Fiscal Year end 1998. Additionally, property loss rates based on FHA's acquisition cost increased significantly during Fiscal Year 1998. Finally, FHA is incurring additional costs as a result of increases in property disposition lag time, on-hand inventory, and property holding costs.

- *Enhance the design and operation of information systems' general and application controls.* FHA management must rely heavily on computerized information systems to process the large volume of data required for such a diverse insurance operation. These systems not only process accounting data for functions including insurance processing, servicing, and asset disposition, but for sensitive cash receipt and disbursement transactions. Therefore, it is essential that FHA ensure a proper control environment to prevent errors and unauthorized access. (Report No. 99-FO-131-0002)

## Administrative Activities

### Year 2000

The Year 2000 challenge is being faced by all businesses and government agencies that depend on information technology for critical business processing. HUD has committed itself to performing Year 2000 certifications for all applications. Since 1996, the Department has invested considerable effort in fixing the Year 2000 date problem. Recently, at the urging of the Chief Information Officer (CIO), the Department placed a moratorium on system enhancements to ensure maximum efforts will be devoted to the Year 2000 date problem.

The OIG has issued two audit reports detailing the results of our continuous oversight of HUD's Y2k initiative. In our first report, issued in June 1998, we emphasized the need for involvement of a senior level official in the management and coordination of Y2k activities. We also stressed the need to adopt an automated configuration management (CM) program to control Y2k software changes made to program code. The audit results detailed in our second report, issued in March 1999, showed an even greater need to address these two areas.

The Department has agreed that an automated software CM process is a high priority. However, the Department does not intend to implement an automated CM process, which includes the automated CM tool, until resources become available, possibly after the Y2k renovation work is completed. We believe this delay imposes a significant risk to the Department in their Y2k efforts. Automated CM tools are designed to ensure the integrity of systems developed, control and track modifications, and maintain associated documentation throughout the development and operational life of the system. Although the Department compensated for the lack of automated CM by using a manual set of procedures for documenting Y2k software changes, an Independent Verification and Validation review found that these procedures were not consistently followed during the renovation process. Without using automated CM tools, HUD cannot readily track and test all of the fixes made to the millions of lines of codes containing date fields needing correction for the Year 2000.





## Commercial Credit Card Program

HUD is committed to performing Y2k renovation, certification, and testing for all applications. Our review found weaknesses in all three areas, as detailed in our second audit report. In particular, we are concerned with weak controls over testing. Experience has shown that Y2k testing consumes between 50 and 70 percent of the Y2k project's time and resources.

Weaknesses exist because the Y2k Project Office is not functioning at a high enough level with sufficient authority to ensure best practices and standards are followed. Although the recent involvement of the CIO in coordinating the Y2k effort is a positive step, more needs to be done to provide accountability for the Y2k project and operations. For example, the CIO has no direct authority over HUD's Office of Information Technology (IT) and contractor personnel performing Y2k work, since IT reports to the Assistant Secretary for Administration. In our June 1998 report, we recommended that the Department place the Office of IT within the Office of the CIO. However, the Department decided not to implement this recommendation.

Our current audit listed a number of weaknesses that must be addressed and made several recommendations to reduce the risk of Y2k failures. (Report No. 99-DP-166-0002)

HUD's Commercial Credit Card Program is effective in reducing administrative time and costs associated with more formal procurement methods. An OIG audit found, however, that program efficiency needs to be improved and the agency's internal controls over credit card transactions are weak. As a result, the program is subject to fraud, waste, and abuse because it does not provide assurance that credit card purchases are properly authorized and made for official purposes.

The primary control over credit card transactions resides with Approving Officials, designated throughout the agency offices and components. These Officials are to authorize credit card purchases and actively review and co-sign all monthly transaction statements mailed to the Officials' assigned credit cardholders by the program's servicing bank. These signed statements are then to be promptly forwarded to the Office of Finance and Accounting (Accounting) for final oversight review and processing for expense recording.

Our audit found that these controls were often not followed. Approximately 43 percent of the sampled statements lacked evidence of adequate review. Control deficiencies included missing statement signatures of the cardholder, the Approving Official, or both; submission of photocopies of the statements (including the signature pages); and non-submissions or late submissions of the statements to Accounting for review and processing. In addition, Accounting's oversight process was not effective. Unsigned statements were not always sent back for signature, and Accounting was unaware of the magnitude of the problem of non-submitted statements. As of July 1998, \$1.04 million of the card purchases had not been processed for expense recording. At least one case of credit card abuse, totaling \$6,850, was found.

The audit also concluded that Accounting was not efficient in paying the monthly credit card invoice submitted by the servicing bank. Payment was late for 11 of the 12 months reviewed and, as a result, over \$10,000 has been paid in interest penalties under the Prompt Payment Act. The payment process was delayed because invoices were received late and were being used by Accounting





for making various manual computations for totaling expenses by component organization and by fiscal year. The controls and supporting documentation over cardholder account set-up, cancellation, and purchase limit changes also need improvement.

The audit made several recommendations to the Acting Assistant Secretary for Administration and the Chief Financial Officer to improve internal controls and efficiency in the Credit Card Program. In most cases, both offices have either taken or plan to take appropriate corrective action. (Report No. 99-DP-166-0001)





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# Chapter 4

## Investigations

In addition to its Operation Safe Home responsibilities, the Office of Investigation pursues other allegations of irregularities or abuses in HUD's programs and activities, as well as other violations of law or misconduct on the part of HUD participants and beneficiaries. During this reporting period, investigative efforts, apart from Operation Safe Home, resulted in cash recoveries of \$515,311 and court ordered restitution of over \$1,636,854, while fines levied exceeded \$16,450. In addition, 80 persons were indicted, 36 persons were convicted, and 223 years of prison sentences were imposed as a result of these investigative operations.

Some of the more significant investigation results during this reporting period include the following:

- Three members of a family and four other co-conspirators convicted of running a cocaine distribution network with ties to the HUD Section 203(k) Rehabilitation Mortgage Insurance Program received lengthy prison terms.
- A real estate agent was sentenced to prison for his part in a conspiracy involving six defendants charged with originating \$600,000 in fraudulent HUD insured mortgages.
- A former housing and community development department supervisor and a contractor were convicted of conspiracy and aiding and abetting in the embezzlement of nearly \$492,000 in Community Development Block Grant funds.
- An individual was indicted for submitting at least \$739,000 in false claims to the government pertaining to the construction of two prisons, two housing authorities, and one military base.





## Single Family Housing Programs

Single Family Housing Programs provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, OIG investigations continued to uncover instances of wrongdoing by mortgagee personnel and real estate brokers in the origination of single family loans, Title I home improvement loans, and in property disposition servicing.

In **Baltimore, MD**, three members of a family convicted of running a cocaine distribution network with ties to the HUD 203(k) Rehabilitation Mortgage Insurance Program received lengthy prison terms. John Baumgarten, Sr., received more than 33 years in prison for his role as the leader of the network. The Judge ruled that the youngest son, Anthony, played an active role along with his father and sentenced him to 30 years in prison. Eldest son John, Jr., received 26 years in prison. The Judge also signed a forfeiture order for 3 family homes, T.J.'s Barbershop, 2 Florida condominiums, and 12 other properties tied to the drug ring. The Baumgartens used drug proceeds to purchase FHA insured 203(k) properties.

Another conspirator, Shawn Mahn, was sentenced to 4 months home detention with an electronic monitor and 2 years probation for her role in submitting false employment information in order to qualify for 14 FHA insured mortgages. Mahn falsely listed employment with the Baumgarten family on her loan applications. Some of the loans received were 203(k) rehabilitation funds and were diverted for her personal use.

Additionally, a husband and wife loan origination team and a fee inspector were charged with conspiracy for their roles in the scheme. The loan officers allegedly conspired with the Baumgarten family and others to make false statements on at least 31 loans. This resulted in a \$300,000 loss to the mortgage lender and HUD. The fee inspector allegedly submitted false inspection reports in order to obtain and divert rehabilitation funds for properties when in fact work had not been completed. This was a joint investigation by the FBI, DEA, IRS and OIG.

A **Norfolk, VA** property speculator, whose former companies are implicated in numerous fraudulent HUD insured single family loans, pled guilty to money laundering and conspiracy to make false statements to HUD. James Saucedo, a former officer of MSRV Development and three other real estate investment companies, was originally indicted in August 1998 on charges related to false statements he and his associates made to obtain HUD insured Section 203(b) and 203(k) loans so the associates could purchase 18 properties.

Saucedo's guilty plea included both the pending indictment and a new criminal charge of money laundering involving the 1995 purchase of a 28-unit townhouse complex in Atlanta, GA. Saucedo admitted that he and other MSRV Development officers fraudulently inflated the company's acquisition cost of the Atlanta complex before selling individual units to limited partnerships, which MSRV organized. A bogus \$1.2 million consulting fee arising from the Atlanta transaction was laundered through an affiliated construction company before





being returned to MSR.V. Funds from the bogus consulting fee and the HUD insured loans made to the limited partnerships were used by MSR.V to actually purchase the townhouse complex. MSR.V also falsified the assets of the limited partnerships in order for them to qualify for their mortgages.

Suspensions surrounding the Atlanta transaction first arose during OIG's 1996 audit of the Section 203(k) Program (Report No. 97-AT-121-0001). MSR.V's actions were cited in the OIG audit as an example of program abuse, which ultimately led to the exclusion of investors from the 203(k) Program. In April 1999, Saucedo was sentenced to 5 years imprisonment, 6 years supervised release, ordered to pay \$80,000 in restitution to HUD jointly with a previously-convicted defendant, and signed a forfeiture agreement with the government in the amount of \$2.3 million.

Additionally, Jack Jacovides pled guilty to federal charges of conspiring to make false statements to HUD in connection with 32 properties, most of which were insured under HUD's Section 203(k) Program. Jacovides, the former owner of Manjac Construction Company, Manjac Property Management, and Century 21 Manjac Realty, admitted submitting false employment, income, and credit information on behalf of two of his employees, who purchased four investment properties in the Norfolk area. He also admitted assisting MSR.V Development in falsely inflating the Atlanta townhouse development by accepting the bogus \$1.2 million consulting fee from the development's seller. Jacovides transferred the money to MSR.V for its use in purchasing the development and paying the closing costs of limited partnerships to which MSR.V sold the individual properties. Jacovides' companies managed the properties for MSR.V's investors after performing the 203(k) loan related renovations. Twenty-six of the loans subsequently went into default.

Sandra Van Nocker, the former bookkeeper for a property speculation company and wife of one of the company's directors, pled guilty to conspiring to make false statements to HUD in connection with several loans obtained by buyers of properties being sold by her employer. Van Nocker admitted falsely reporting that she made a personal contribution to a partnership so it could obtain Section 203(k) loans for the purchases of properties being sold by her employer, MSR.V Development. The funds deposited in the partnership's account were actually provided by MSR.V and were returned to the company by Van Nocker after a verification of deposit was provided to the mortgage lender. Van Nocker also admitted falsely identifying the source of another property purchaser's closing funds as money owed to the purchaser by a company operated by her and her husband. In both instances, MSR.V paid the closing costs for the buyers of its properties. This was a joint investigation by the FBI and OIG.

Another conspirator, Richard Schaefer, Jr., an investor who made false statements to obtain \$485,000 in Section 203(k) loans, was sentenced to 6 months home detention and 5 years probation, and ordered to pay \$80,000 in restitution to HUD. Schaefer, a former employee of Hampton Roads Housing Corporation and MSR.V Development, previously pled guilty to conspiring with James Saucedo, one of his former employers, to make false statements to the government to obtain the HUD insured loans. Schaefer's sentence resulted from a government motion for a "downward departure" from the federal sentencing guidelines, based on Schaefer's testimony against Saucedo.





In **Baton Rouge, LA**, Sheila Vigie, a former loan originator with Fidelity Bank and Trust Company, was sentenced to 15 months in prison on each of 6 counts of bank fraud, to be served concurrently, ordered to pay almost \$74,000 in restitution and a \$600 special assessment, placed on probation for 5 years upon release from prison, and instructed to enter a treatment program for gambling. A joint investigation by the FBI, OIG, and Louisiana State Police disclosed that Vigie assisted loan applicants with obtaining residential home loans and converted the funds received from the applicants for personal use. In addition, after leaving the bank, Vigie fraudulently issued checks on Keyfinders Realty Inc.'s security and rental trust accounts for the purpose of stealing the funds. These actions, in turn, caused the realty company to send false monthly accounting statements to clients.

Carla Lartedale, a real estate agent at Square One Realty in **St. Louis, MO**, was sentenced to 2 years probation and 40 hours community service for submitting false statements and obstruction of justice. In addition, Jonathan Jackson, a mortgagor, was sentenced for submitting false statements to HUD relating to his purchase of a HUD insured single family property and application for a conventional loan. In addition to lying about his employment and providing fraudulent income tax returns, Jackson failed to disclose the existence of the first loan, which was obtained only one month before the mortgage application. In Jackson's stipulation, he also accepted responsibility for his role in the theft of checks from a mortgage company. Jackson was sentenced to 5 years probation and ordered to pay over \$76,000 in restitution to First Tennessee Bank and GE Capital Mortgage. HUD and bank insurance exceeds \$1 million on these loans. This was an FBI/OIG investigation.

A **Long Island, NY** real estate agent, John Durler, was sentenced to 4 months confinement, 5 years supervised release, and \$77,000 in restitution to HUD. Durler was part of a conspiracy involving 6 defendants charged with originating \$600,000 in fraudulent HUD insured mortgages, resulting in \$500,000 in losses to HUD. The investigation was predicated on the receipt of fraud referrals from HUD's Quality Assurance Division. This was a joint investigation by OIG and USPS.

In **New York, NY**, Edward Rodriguez was sentenced to 2 months in prison, 2 months home detention with an electronic monitoring device, and 3 years probation, and was ordered to pay \$64,000 in restitution to San James Realty operating accounts for the Thessalonica Court and Grand Street developments and a \$50 court assessment. Rodriguez, a detention enforcement officer with the INS and a former San James Realty project manager, and his wife Caroline, the former bookkeeper at San James Realty, conspired with San James office manager Sandra Lopez to embezzle nearly \$120,000 from the Grand Street Houses multifamily assisted housing project operating account. They embezzled the funds by writing checks to themselves and depositing them in their personal accounts. The three altered the checks after they were received at San James to reflect payments to contractors and vendors and for project related expenditures. Caroline Rodriguez was sentenced to 2 months in prison, 4 months home incarceration with an electronic monitoring device, 3 years supervised probation,





fined a court assessment fee of \$50, and must assist her husband in making restitution of \$64,000. Lopez pled guilty to conspiracy to defraud the United States. This was a joint investigation by the FBI and OIG. As a result of this investigation, 66 individuals have been arrested and/or indicted on charges of defrauding HUD and its programs.

Charles Ireland, former managing trustee for the Urban Housing Foundation (UHF), a dummy corporation in **Philadelphia, PA**, pled guilty to a charge of delivering false statements to the IRS regarding the direct or indirect interest of a local developer in the actions and assets of UHF. Ireland sent a false document to the IRS in support of an application for federal funding tax exempt status as a nonprofit gift giver. As a builder, Ireland provided money, but only on paper, to potential homeowners who were not qualified. The homeowners then obtained HUD insured loans, and ultimately defaulted on the loans. As part of his plea agreement, Ireland agreed to cooperate with the government by providing information concerning his knowledge of crimes committed by others. He faces a maximum sentence of 1 year in prison, 1 year of supervised release, a \$100,000 fine, and a \$25 special assessment. He was released on a \$20,000 bond. This was a joint investigation by the OIG Offices of Audit and Investigation, the FBI, and the IRS.

The managing trustee of a **Philadelphia, PA** nonprofit corporation was charged with one count of false statements to the IRS. In its application for nonprofit status, the managing trustee allegedly provided false information about the corporation's financial status. The nonprofit subsequently furnished substantial gift funds to FHA insured borrowers who purchased homes from a local developer. The investigation disclosed that the developer was the source of all of the nonprofit gift funds. In addition, the corporation was not recognized as a nonprofit by HUD; the investigation found that the nonprofit was merely a sham organization created by the developer to conceal the fact that he provided the buyers' equity requirements. This was a joint investigation by the FBI, OIG, and IRS.

A **Los Angeles, CA** individual was indicted by the U.S. Attorney's Office on seven counts of making false statements and four counts of loan fraud. The individual allegedly failed to disclose current liabilities and provided a false income tax return and wage statement when completing an application for a Title I home improvement loan. The investigation was conducted jointly by the HUD and Small Business Administration OIGs.

Through an agreement facilitated by the U.S. Attorney's Office in **Los Angeles, CA**, Armando Moreno pled guilty to one count of loan fraud. Moreno obtained an FHA insured loan using a fraudulent social security number and resident alien card. The fraudulent social security card bears the social security number of a HUD employee. In addition, Moreno submitted false gift letters in support of the FHA insured loan. He faces a maximum sentence of 2 years in prison, 1 year supervised release, and a \$250,000 fine. This was an OIG investigation.





In **Dallas, TX**, a federal grand jury returned a 15-count indictment against two individuals charging them with bankruptcy fraud. A joint investigation by the FBI and OIG disclosed that the pair allegedly conspired to fraudulently obtain an initial \$500 set-up fee, along with a \$500 monthly income, from multiple homeowners who were able to avoid foreclosure on their residences through the use of Chapter 11 bankruptcy filings. The perpetrators had obtained lists of Dallas-Fort Worth area homes that were scheduled for foreclosure and mailed the homeowners advertisements stating that they could retain their properties by paying a \$500 monthly fee for 6 months regardless of the amount of the existing mortgage payment. The perpetrators then transferred a percentage interest in the properties to a shell company through an assumption deed. This company was then placed into Chapter 11 bankruptcy, which listed the homeowners as co-debtors, thereby allowing the homeowners to retain their credit without filing personal bankruptcy. The bankruptcy filings prevented the mortgage companies from completing foreclosures against the properties, resulting in additional costs incurred by the lenders and HUD. Approximately 22 properties were involved in the scheme. Subsequent to the indictments, arrest warrants were issued and executed by OIG and the FBI.

## Public and Indian Housing Programs

Activity reported in this section concerns areas outside the scope of Operation Safe Home but involving Public and Indian Housing Programs. Public and Indian Housing Programs are designed to assist low- and very low-income families in obtaining decent, safe and sanitary housing. With these program funds, local public housing agencies and Indian housing authorities develop, own and operate public housing developments. In addition to financial assistance, HUD furnishes technical assistance in managing these developments and through the Section 8 Rental Assistance Programs, provides aid through the use of rental vouchers, certificates, or by making up the difference between what a recipient can afford and the approved rent for an adequate housing unit. During this reporting period, the OIG discovered instances of false statements, conspiracy, and fraud by contractors and recipients.

An individual in **Atlanta, GA**, was indicted on 15 counts of submitting at least \$739,000 in false claims to the government. The claims were submitted in connection with construction projects at two prisons, two housing authorities, and one military base. The defendant, through his company, allegedly solicited and received subcontract work for installing flooring from various prime contractors engaged in construction projects at federal facilities between 1993 and 1995. After the materials were delivered and stored at the construction site awaiting installation, the defendant, without the knowledge of the contractors, added, or induced his suppliers to add, his projected labor costs to their invoices for the materials. The defendant submitted the inflated invoices to the contractors knowing that they were false and that they would be submitted by the contractors to the government for progress payments. After the contractors demanded full





compliance with the subcontract agreements, the defendant made himself unavailable and failed to install the flooring, as agreed. This investigation was conducted by the HUD and Department of Justice OIGs and the Defense Criminal Investigative Service.

A three-count indictment was returned in **Denver, CO**, against two HUD housing assistance recipients. The recipients were charged with conspiracy and making false statements in order to receive rental assistance from the Littleton Housing Authority. They claimed that their only source of income was from social security and disability benefits, when in fact they were both employed. This was an OIG investigation.

In **Pittsburgh, PA**, Sandra Balik, former resident manager of the Holiday Acres Apartments, was sentenced for her role in a Section 8 tenant fraud conspiracy. Balik, along with her brother, William Miller, a former maintenance worker at the property, were involved in a fraud scheme in which Balik falsified Section 8 documents, thus allowing Miller to reside at Holiday Acres for 12 years and receive more than \$48,000 in excess housing assistance payments from HUD. Balik's sister also played an unwitting role in the scheme, as her identity was used by Balik to obtain the Section 8 assistance for Miller. As a result of her indictment and subsequent guilty plea, Balik was forced to resign from her position as a commissioner on the Derry Township Youth Commission, where she counseled youths convicted of misdemeanor offenses. She was sentenced to 60 months probation and ordered to pay \$15,000 in restitution and a \$100 special assessment.

Additionally, Wanda Campbell, a former Section 8 resident at the Holiday Acres Apartments, was sentenced to 10 months home detention and 5 years probation, and was ordered to pay over \$29,000 in restitution to HUD. Campbell previously pled guilty to making false statements to HUD about her employment status and sources of income. She received Section 8 assistance to which she was not entitled. These actions are the result of a joint investigation by the FBI and the OIG into suspected wrongdoing at Holiday Acres.

In **Austin, TX**, former Section 8 resident Anthony Nwoke was sentenced to 5 years in jail, suspended, 5 years probation, 2 months in a community correction center, and 200 hours of community service. He was also ordered to pay almost \$9,500 in restitution to be divided between HUD and the Department of Education; restitution is to be paid within the first 3 years of probation. The sentencing followed Nwoke's January 1999 guilty plea to one count of false statements. Nwoke was originally indicted in October 1984 on charges of false statements and obtaining funds by fraud. He had been a fugitive since 1984. This was a joint investigation by the HUD and Department of Education OIGs and the INS which disclosed that Nwoke made false statements over a 3-year period in order to obtain \$3,500 in Section 8 rental assistance along with funding from the Department of Education.

In **Los Angeles, CA**, a 13-count felony complaint was filed by the Ventura County District Attorney's Office against 2 individuals, charging them with making false statements and unlawfully conspiring to obtain Section 8 subsidies





and welfare assistance. Two of the counts allege that the individuals conspired to commit grand theft and received almost \$33,000 in Section 8 subsidies to which they were not entitled from the Housing Authority of the City of Oxnard. One of the individuals was arrested and the second voluntarily surrendered to authorities. The complaint resulted from an investigation by the District Attorney's Office for the County of Ventura and OIG.

Also in **Los Angeles, CA**, an individual was arrested after a three-count felony complaint was filed by the Ventura County District Attorney's Office alleging false statements and grand theft of Section 8 subsidies. The subsidies amounted to \$3,500 and were allegedly stolen from the Housing Authority of the City of Oxnard. This complaint was the result of an investigation by the District Attorney's Office and the OIG.

A federal grand jury indicted a **Dallas, TX** Section 8 resident for underreporting income in order to receive benefits to which she was not entitled. A joint FBI/OIG investigation found that the resident allegedly failed to report part-time employment and received over \$10,000 in excess benefits. Charges included two counts of false statements, two counts of false statements to the Department, and one count of theft.

A Section 8 resident in **Amarillo, TX**, was indicted on one count of tampering with a government record with intent to defraud in connection with a rental assistance fraud case. A second charge was made in connection with welfare fraud. The indictment is the result of a joint effort by OIG and the Texas Department of Human Services (TDHS) during which they disclosed that the resident allegedly submitted false income information on documents to HUD and TDHS, thereby receiving housing assistance, food stamps, and Medicaid to which she was not otherwise entitled.

In **Newark and East Orange, NJ**, 20 individuals were arrested by members of the West African Task Force pursuant to federal complaints and indictments issued in the District of New Jersey in Newark. This Task Force is a multi-agency entity, tasked by the Treasury Department to investigate instances of widespread fraud, which includes the FBI, OIG, U.S. Attorney's Office, Postal Inspection Service, Secret Service, IRS Criminal Investigation Division, and INS. The arrests by the Task Force were the culmination of a 2-year investigation of a conspiracy to obtain HUD Section 8 rental subsidies through an array of fraudulent documentation provided by the main target of the investigation. Two federal search warrants were also executed by the Task Force simultaneous to the arrests. These warrants were served at the main target's business and residence.

## Community Planning and Development Programs

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,





homeless shelters, and economic and job development. Grantees are responsible for planning and funding eligible activities, often through subrecipients. OIG investigations of these programs disclosed cases of conspiracy, theft, and embezzlement.

Marilyn House-MaGahee, former supervisor of the City of **Memphis, TN** Department of Housing and Community Development (HCD) Rebuild Program, was convicted of 1 count of conspiracy and 14 counts of aiding and abetting in the theft and embezzlement of nearly \$492,000. Douglas J. McGuire, a former contractor and owner of W.G. Enterprises, Inc., was convicted on the same charges, plus eight counts of money laundering. Their scheme was uncovered in July 1995, when two HCD acquisition specialists in the Rebuild Program found a printout of payments made from the escrow account handled by Lawyers Title Insurance Corporation for the City of Memphis. The printout revealed that House-MaGahee had authorized McGuire to receive draws totaling more than \$492,000 between 1994 and 1995, although McGuire had not performed any work on 11 contracts. Although McGuire had his state contracting license revoked in 1993, he was retained in the Rebuild Program by House-MaGahee and continually assigned new contracts even though evidence existed in early 1994 that homeowners were filing complaints of lack of progress by McGuire.

In addition to this trial, J.B. Trotter pled guilty to one count of conspiracy to defraud the government. Trotter's plea stemmed from an indictment in which he and House-MaGahee embezzled Community Development Block Grant (CDBG) funds. Trotter received contracts and was paid for demolition of existing standard single family homes and construction costs to replace the houses under the Rebuild Program, but did not complete the work. This was an OIG investigation.

In **Albuquerque, NM**, Peter R. Armijo, a former fee inspector contracted by the HUD New Mexico State Office, pled guilty to one count of making a false report to HUD. The plea followed a five-count indictment filed in August 1994 charging Armijo and two contractors with false statements. A joint investigation by the FBI and OIG disclosed that Armijo signed and certified a draw request for the release of funds on a Section 203(k) historic preservation project when work on the project had not been completed. The project was subsequently destroyed by a fire of suspicious origin. HUD was reimbursed for the loss with insurance proceeds and the sale of the building site. No further judicial dates have been set at this time.

Following an investigation by the FBI and OIG, Julie Pozza, a former employee of the City of **North Little Rock, AR**, pled guilty to one count of embezzlement. The investigation disclosed that Pozza misappropriated CDBG funds and diverted them for her personal use. Under the terms negotiated during the plea, Pozza has made \$100,000 in restitution by the sale of her personal residence. No further court dates have been set.





## Multifamily Housing Programs

In addition to multifamily housing projects with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. During this reporting period, OIG investigations uncovered false statements and acceptance of a bribe. These are cases over and above those conducted as part of our Operation Safe Home multifamily equity skimming efforts.

Henry Lyons, former president of the National Baptist Convention, pled guilty in federal court to making false statements to HUD in support of a HUD insured mortgage. Lyons submitted false documents to obtain HUD mortgage insurance on an adult congregational care facility that he and his church in **St. Petersburg, FL**, wished to build on property adjacent to the church. The project had received \$300,000 in funding from the City of St. Petersburg to buy the land. However, a letter of credit was needed to finance a portion of the HUD mortgage that was obtained to build the structure. Lyons directed his secretary to type a letter stating that the National Baptist Convention would financially pledge \$750,000 to support the project. He also asked another individual to sign the National Baptist Convention Financial Secretary's signature to the letter. This letter was then submitted to HUD with the application for mortgage insurance. The investigation disclosed that the National Baptist Convention financial secretary did not sign the letter, did not authorize anyone to sign his name, and was not aware of the existence of the letter. In addition, the board of directors of the National Baptist Convention denied knowledge of the project and denied ever pledging to financially support it. This investigation was conducted by the FBI, IRS, and OIG.

In **New Orleans, LA**, Bruce Mullin, a former multifamily asset manager in the HUD Louisiana State Office, pled guilty to one count of accepting a bribe. Mullin agreed to a change of venue in order to be sentenced in conjunction with two other counts filed against him in January 1998. Mullin received 1 year in prison on each of the 3 counts, to be served concurrently, and 1 year probation on each count, to be served concurrently, and was ordered to pay a \$300 special assessment.

The plea and sentencing were the result of a joint investigation by the FBI, OIG, and the Louisiana State Police which disclosed that Mullin solicited a number of multifamily project owners for loans, cash, and other items of value in exchange for satisfactory property inspections, special rent increases, drug elimination grants, and other technical assistance for the benefit of the multifamily project owners. Mullin accepted a \$20,000 loan and \$13,000 in cash, plus an additional \$66,000 in loans; he resigned from HUD in December 1997.





## Government National Mortgage Association Programs

The Government National Mortgage Association (GNMA) guarantees the timely payment of principal and interest to holders of securities issued by private lenders and backed by pools of Federal Housing Administration, Department of Veterans Affairs, or Farmers Home Administration insured or guaranteed residential mortgages. The program's purpose is to attract nontraditional investors to the residential mortgage market. During this reporting period, the OIG assisted in the investigation of a scheme to circumvent GNMA requirements.

A major GNMA document custodian in **Calabasas, CA**, entered into a settlement agreement with HUD to resolve issues relating to its failure to comply with GNMA regulations regarding the custody of mortgage documents as security for loans in hundreds of GNMA mortgage-backed securities pools. Employees of the document custodian and of the GNMA issuer, a nationwide lender, devised a scheme to circumvent GNMA requirements for the physical custody of specific mortgage documents at the time of final pool certification. They did so by temporarily withdrawing from pools loans which lacked documents and then reinstating them after the final certifications, and by certifying the pools even though they did not have physical custody of all required documents at the time. The GNMA issuer benefited by avoiding the costs associated with a GNMA requirement to procure letters of credit to secure the deficient pools.

To settle the matter, the document custodian paid \$3 million to GNMA and agreed to retain an independent firm, at its own expense, to test all of the pools finally certified between 1992 and 1997 to ensure compliance with GNMA requirements, and to correct all deficiencies found. In June 1998, the GNMA issuer entered into a similar settlement agreement with HUD, made a \$3 million payment to the Department, and voluntarily excluded 3 of its employees from working on matters relating to GNMA, the Federal Housing Administration, the Department of Veterans Affairs, and the Farmers Home Administration for periods of 3 to 4 years. Neither GNMA nor HUD suffered any financial loss as a result of the issuer's and custodian's actions. The OIG assisted HUD's Office of General Counsel in this investigation.





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# Chapter 5

## Legislation, Regulations and Other Directives

Making recommendations on legislation, regulations and policy issues is a critical part of the OIG's responsibilities under the Inspector General Act. This responsibility has taken on added dimension at HUD because of the dynamics of its rapidly changing program and management environment. During this 6-month reporting period, the OIG reviewed 173 legislative, regulatory, funding notice, and other HUD directive proposals. This Chapter highlights some of the resultant OIG recommendations.





## Legislation

### *Quality Housing and Work Responsibility Act of 1998*

During the reporting period, we analyzed the newly enacted Quality Housing and Work Responsibility Act (QHWRA), included as Title V of the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act, 1999 (Public Law 105-276, approved October 21, 1998). The QHWRA substantially amends the U.S. Housing Act of 1937, the principal legislation authorizing HUD's public housing and rental subsidy programs. This legislation is critically important because it involves programs that receive nearly 70 percent of HUD's annual appropriation.

Our main objective in analyzing the QHWRA was to target potential areas for future audit and identify provisions supportive of our audit and investigative efforts. During the semiannual reporting period, we briefed HUD headquarters and field management staff on the provisions of the new Act and instructed them on potential high risk areas.

## Regulations

### *Section 8 Tenant-Based Vouchers Homeownership Program*

This interim rule implements Section 8(y) of the U.S. Housing Act of 1937, as amended by Section 555 of the Quality Housing and Work Responsibility Act of 1998. Section 8(y) authorizes a public housing agency (PHA) to provide Section 8 tenant-based assistance to eligible families for the purchase of a dwelling unit they will occupy.

We nonconcurrented in the draft interim rule because housing inspection requirements appeared duplicative. PHAs were required to perform inspections of each homeownership unit; yet by statute, independent inspections were required. We recommended that the rule: (1) specify the housing standards independent inspectors are required to use; (2) indicate how to determine if independent inspectors are qualified; and (3) provide more specificity regarding what conditions found by independent inspectors warrant disapproving homeownership applications.

Although HUD did not revise its rule to delete the PHA inspection requirement, it did revise the rule to show a clear distinction between the PHA and independent inspections. Other clarifying changes were also made to the draft rule. At the end of this semiannual reporting period, the interim rule had not yet been published in the Federal Register.

### *Public Housing Agency Plans*

This interim rule implements section 511 of the Quality Housing and Work Responsibility Act of 1998. Section 511, which added section 5A to the U.S. Housing Act of 1937, requires PHAs to submit 5-year plans and annual plans to HUD.

We nonconcurrented in the draft interim rule because it did not specify the additional information that PHAs designated by HUD as "troubled" or at risk of being designated "troubled" should submit as part of their PHA plans. We recom-





mended that HUD specify the minimum reporting requirements for all troubled and at risk PHAS, including requirements for them to report on the status of agreed upon corrective actions in their annual plans.

Although HUD included minimum reporting requirements in the published interim rule for all troubled and at risk PHAS, it opted to have troubled and at risk PHAS continue reporting on the status of their agreed upon corrective actions apart from the statutory PHA annual plans. HUD published its interim rule in the Federal Register on February 18, 1999.

### ***Single Family Appraiser Roster Removal Procedures***

This proposed rule would establish procedures by which an appraiser may be removed from HUD's Appraiser Roster, part of the Secretary's homebuyer protection plan. The homebuyer protection plan is a Secretarial initiative designed to ensure that homebuyers receive accurate and complete appraisals of homes they are interested in purchasing. The Appraiser Roster identifies those appraisers who are eligible to perform FHA single family appraisals. Lenders must select an appraiser from the Roster for property appraisal involving the FHA Single Family Mortgage Insurance Programs.

While the OIG agrees that appraisers should be removed from the Appraiser Roster if they are not performing as required, we nonconcur with this proposed rule because it is unnecessary, does not protect the government as a whole, and is not sufficiently detailed. The rule is not necessary because HUD regulations already contain the procedures to be followed to administratively sanction program participants. Administrative sanctions of suspension and debarment are governmentwide. The proposed rule would only remove a poorly performing appraiser from HUD's Appraiser Roster, rather than remove on a governmentwide basis. Consequently, the appraiser would be free to continue participating in other federal programs that require appraisals, such as Veterans Affairs insured mortgages. Further, the proposed rule is vague in that it does not define the causes for removal or who will be the proposing and deciding officials for the removal action.

At the close of this semiannual reporting period, HUD had not responded to our comments and concerns, and had not published its proposed rule in the Federal Register.

### ***Public Housing Drug Elimination Program (PHDEP) Formula Allocation***

This proposed rule would amend 24 CFR part 761 to replace the competitive distribution of HUD's PHDEP funds with a formula allocation funding system. HUD's proposed rule is in response to section 586 of the Quality Housing and Work Responsibility Act of 1998 (Public Law 105-276, approved October 21, 1998), which made certain amendments to the Public and Assisted Housing Drug Elimination Act of 1990, including authorizing HUD to make renewable grants to PHAS.

The OIG nonconcur in the PHDEP formula allocation proposed rule. We recommended that HUD summarize in the preamble to the proposed rule, the public comments and recommendations received on its Advance Notice of Proposed Rulemaking. We also recommended that HUD require applicants to explain in their anti-crime plans how targeted activities can be expected to reduce, eliminate, and/or prevent drug related and violent crime problems. In addition, we recommended that HUD specify the criteria that a consortium, i.e., two or more PHAS serving as one applicant, must meet to qualify for funding. We further recommended that HUD include language in the proposed rule requir-





ing applicants to demonstrate that they are taking adequate post enforcement actions as a result of their participation in other federal programs such as HUD's Operation Safe Home initiative, as a means of ensuring that program benefits continue into the future.

With respect to our recommendation that applicants be required to justify why they are proposing certain anti-crime measures, HUD did not agree with this recommendation, but believed that it would be more beneficial to evaluate the effectiveness of applicants' anti-crime activities as part of the grant monitoring process. Our other recommendations were resolved.

## HUD Notices

### *Rent Adjustments for Preservation and Mark-to-Market Projects*

OIG nonconcurred on the proposed HUD Notice on Section 8 Rent Adjustments for Low-Income Housing Preservation (LIHPRHA) projects and Mark-to-Market projects. In cases where owners believe rent adjustments using an Operating Cost Adjustment Factor (OCAF) are not adequate to operate the projects, HUD can consider budget-based rent increases. The Notice provided no upper limit for rent increases for the LIHPRHA projects and different OCAF factors for determining rent increases for essentially the same type of projects.

From an operations standpoint, the projects in these two programs are much the same. The use of two different methods for computing OCAFs will result in inequities, inconsistencies, and excesses in the rent increases provided projects in these programs. Further, applying two different OCAFs adds to the workload and confusion within HUD. One reliable and fair OCAF should be developed for use in all Section 8 Programs.

To provide a measure of rent reasonableness, provisions need to be made so LIHPRHA rents paid do not exceed comparable unassisted units, or on an exception basis at least some limited higher percentage of fair market rents. Without upper limits, Section 8 rents can reach the excessive levels which brought about the need to restructure mortgages, i.e., reduce the cost of federal housing assistance, enhance administration of such assistance, and ensure continued affordability of units in these projects.

The Office of Housing addressed our concerns in the issued version of the Notice.

### *Indian Housing Block Grant Program*

This Notice establishes the basis HUD will use to determine if a recipient of Indian Housing Block Grant funds, as authorized by the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA), has the administrative capacity to undertake block grant activities pursuant to HUD's program regulations.

Our office nonconcurred in HUD's draft Notice. The Notice should provide more guidance to enable HUD staff to better evaluate information on tribal administrative capacity and past performance. Further, the Notice appeared to conflict with HUD's regulations. Regulations state that grant recipients must have administrative capability, whereas the Notice stated that recipients need only demonstrate that acceptable financial and management systems can be developed.





The Notice should require that new prospective grant recipients have the necessary financial and administrative controls and systems in place prior to the award of HUD's block grant funds.

HUD agreed to address our major concerns. At the end of the semiannual reporting period, the Notice had not yet been issued.

### ***Capacity to Invest Indian Housing Block Grant Funds***

This Notice established the basis HUD will use to determine if Indian housing block grant recipients under NAHASDA have the administrative capacity to draw down grant funds for investment purposes.

Our office nonconcurred with the Notice. The Notice needed to define what constitutes unresolved "significant and material" audit findings and explain the process for determining if a prospective grant recipient has such unresolved audit findings. In this regard, we recommended that "significant and material" be defined in terms of the investment related internal controls and elements of administrative capacity that may be lacking.

Our comments on the Notice were resolved. HUD issued the Notice on February 3, 1999.

### ***Year 2000 Compliance***

This Notice was developed to inform PHAS and Indian Housing Authorities (IHAS) about actions needed to make automated data interfaces between the Department and such entities Year 2000 compliant. The Notice also provided instructions to enable PHAS and IHAS assess and correct their own Year 2000 problems.

Our office nonconcurred with this Notice. The Notice needed to better address how the Department will coordinate Year 2000 testing, and place HUD in a more proactive posture by making PHAS and IHAS fully aware of the Year 2000 problem and the best practices they should follow. Further, the importance of correcting systems that effect the health and safety of residents such as elevators and fire alarm, security, and electrical systems was not sufficiently stressed, and requirements to develop contingency plans to ensure operational continuity in the event of equipment and software failures in the Year 2000 needed to be developed.

HUD agreed to address our major concerns. At the end of the semiannual reporting period, the Notice had not yet been issued.

### ***TDC and Cost Control Policy***

This administrative Notice transmits an updated schedule of unit Total Development Cost (TDC) limits for public housing projects and provides guidance on TDC policies and other project funds allocation controls for HUD offices and PHAS in connection with the development of public housing.

Our office nonconcurred with the Notice. The policies and procedures contained in the Notice were significant and should have been included in revised HUD public housing development regulations. The Notice should have stated that the HUD Reform Act's subsidy layering requirements are applicable to public housing development and provided some general guidance on eligible Community and Supportive Services costs. HUD generally agreed with our major recommendations and issued the Notice on March 15, 1999.





## Notices of Funding Availability (NOFAs)

### ***Demolition and Revitalization of Severely Distressed Public Housing (HOPE VI)***

This NOFA announced the availability of \$583 million of HOPE VI Program funding. A major objective of the HOPE VI Program is to improve the living environment of public housing residents through the demolition, substantial rehabilitation, reconfiguration, or replacement of severely distressed public housing units.

Our office nonconcurred with the draft NOFA. Our major concern was the manner in which the NOFA addressed the "severe distress" threshold criterion. The NOFA called for the assignment of a minimum number of rating points for the "severe distress" criterion at the threshold stage of the HOPE VI application process, i.e., the assignment of 17 rating points out of a possible 19 points. We advised HUD that it would be more appropriate to determine if an application either meets or does not meet the "severe distress" threshold criterion rather than to require the application to receive such a high number of minimum rating points at the threshold stage. Subjecting applications to minimum rating points at the threshold stage could result in errors in judgment by HUD's application reviewers, thereby precluding some potentially eligible applications from receiving further funding consideration.

HUD agreed to revise its HOPE VI NOFA to require PHAS to certify that the housing developments included in their HOPE VI applications meet HUD's "severe distress" threshold criterion. The extent to which the developments are distressed will then be determined during the application rating and ranking stage. HUD published its HOPE VI funding notice in the Federal Register on February 26, 1999.

### ***Comprehensive Improvement Assistance Program (CIAP)***

The CIAP provides funds to PHAS that own or operate less than 250 units of public housing to enable them to improve the physical condition and upgrade the management and operations of existing public housing developments to ensure their continued availability for low-income families. This NOFA announced the availability of \$308 million of CIAP funding.

Our office nonconcurred with the NOFA. We recommended that the NOFA be revised to show a clearer distinction between certain rating subfactors and that the assignment of rating points to some subfactors be reevaluated by HUD to provide for a more equitable distribution of rating points among these subfactors. We also recommended that the NOFA either require or strongly encourage PHAS to provide, in their funding applications, photographs of the developments they propose to target for CIAP funded modernization. We believe this would facilitate and improve HUD's review of CIAP funding applications.

HUD decided to withdraw this NOFA.

### ***Public Housing Drug Elimination Program (PHDEP)***

This NOFA announced the availability of \$242.75 million of PHDEP funding. The PHDEP provides grants to eliminate drugs and drug related crime in and around public housing and Indian housing developments.

Our office nonconcurred with the NOFA. Many of our comments concerned the need to clarify certain provisions in the NOFA. We also pointed out the need to provide for a more equitable assignment of rating points among rating





subfactors and to consider a PHA's score under the Public Housing Management Assessment Program in rating and ranking its PHDEP application for funding purposes.

HUD addressed our major concerns, and published the PHDEP NOFA in the Federal Register on February 26, 1999.

### ***Public and Indian Housing Drug Elimination Technical Assistance Program***

The Public and Indian Housing Drug Elimination Technical Assistance Program provides funding for short-term technical consultant services to assist PHAs, Indian tribes, tribally designated housing entities, and eligible resident entities in responding immediately to drug and drug related crime in public and tribal housing communities. This NOFA announced the availability of approximately \$2 million of technical assistance funding.

Our office nonconcurred with the draft NOFA. We commented that the NOFA did not adequately demonstrate how the Department determines that eligible entities are in need of technical assistance (HUD initiated technical assistance). In addition, we recommended that the NOFA's eligible cost activities be described in terms of their linkage to drug elimination technical assistance. We also recommended that the NOFA more adequately describe HUD's organizational framework for processing technical assistance applications.

HUD made clarifying changes to the NOFA and published it in the Federal Register on February 26, 1999.

### ***Multifamily Housing Drug Elimination Program***

The purpose of the Multifamily Housing Drug Elimination Program is to enable owners of federally assisted low-income housing developments to address drug related criminal activity in and around their developments, through a plan of enhanced security measures and drug prevention, intervention, referral, and treatment activities. This NOFA announced the availability of approximately \$16.25 million of funding.

Our office nonconcurred with the NOFA. We questioned why costs incurred by voluntary tenant patrols were ineligible for funding in view of the NOFA's emphasis on strong resident participation in implementing the applicant's grant activities. In addition, we recommended that owners who submit one application covering more than one housing development be required to provide HUD relevant crime data for each development and demonstrate how resources will be shared among the targeted developments. We also recommended numerous clarifying changes to the NOFA's rating factors.

HUD addressed our concerns and published the NOFA in the Federal Register on February 26, 1999.

### ***New Approach Anti- Drug Program***

The New Approach Anti-Drug Program provides funding to owners or managers of certain housing developments to augment security; assist in the investigation and prosecution of drug related criminal activity in and around the housing developments; and provide for the development of capital improvements directly related to the security of the developments. This program differs from the Multifamily Housing Drug Elimination Program in that it involves a comprehensive neighborhood/community based approach to drug related crime prevention. The NOFA announced the availability of approximately \$28.3 million of funding.

Our office nonconcurred with the NOFA. We commented that the NOFA used the statutory terms "in and around" inconsistently when referring to drug related





crime in and around housing developments. We also commented that the NOFA was inconsistent in referring to the types of crime to be addressed by the program. Further, we recommended that the NOFA be revised to provide for HUD's verification of an applicant's assessment of its previous performance in administering drug elimination programs.

HUD adequately addressed or otherwise resolved our concerns, and published the NOFA in the Federal Register on February 26, 1999.

### ***Welfare-to-Work Section 8 Tenant- Based Assistance Program***

The Section 8 Welfare-to-Work Rental Voucher Program provides tenant-based rental assistance to PHAS, Indian tribes, and tribally designated housing entities to enable eligible low-income families to make the transition from welfare to work. HUD's NOFA announced the availability of approximately \$248.2 million of tenant-based rental assistance.

Our office nonconcurred with the NOFA. We recommended that the NOFA provide for compliance with the FY 1999 HUD Appropriation Act's requirement that the Department consult with the Secretaries of Health and Human Services and Labor in selecting PHAS for funding on a competitive basis. We also recommended that HUD clarify the NOFA's reference to limiting funding to "at least two Indian tribes or their tribally designated housing entities."

HUD revised the NOFA to address our concerns, including providing guidance to assist applicants to coordinate their proposed programs with the welfare-to-work efforts of the Departments of Health and Human Services, Labor, and Transportation. HUD also added clarifying language to indicate that the two highest rated and ranked eligible Indian tribes or designated housing entities would be funded. HUD published the NOFA in the Federal Register on January 28, 1999.

### ***CDBG Program for Indian Tribes and Alaska Native Villages***

This program provides funding for the development of viable Indian and Alaska Native communities, including decent housing, a suitable living environment, and economic opportunities, primarily for persons of low- and moderate-income. The NOFA announced the availability of approximately \$68.3 million of Community Development Block Grant funding.

Our office nonconcurred with the NOFA, and recommended that several areas of the NOFA be clarified. We also questioned whether it was in the best interests of HUD to award grants on the basis of "presumed" adequate performance, without the benefit of some assurance that the grantee has or will obtain the capacity to administer any awarded grant funds pursuant to the underlying grant agreement. In addition, we recommended that the NOFA explain how HUD staff will determine if applicants have corrected their deficient performance by the application submission deadline. Further, we recommended that HUD staff be required to document any decisions not to fund particular projects based on the lack of adequate funding for the projects being proposed.

HUD added clarifying language to the NOFA to address most of our concerns, and published the NOFA in the Federal Register on February 22, 1999.

### ***Sections 811 and 202***

The Section 811 Program provides funding to develop housing for very low-income persons with disabilities who are at least 18 years old. The Section 202 Program provides supportive housing for very low-income persons 62 years of age or older.





OIG was concerned with the allocation formula and the factors for evaluating and rating applications as set forth in this NOFA. In regard to awarding Sections 811 and 202 funds, sufficient weight was not placed on demonstrating the need for housing for elderly or disabled persons in the location where the project was to be built. Limited funding for this program makes it imperative to target funding where such housing is most needed.

The Office of Housing made revisions to the NOFA to accommodate our concerns.

### ***HSIAC and HBCU Programs***

We nonconcurred with these two NOFAs which were a part of the SuperNOFA. We were primarily concerned that the two NOFAs, while serving the same purpose for different educational institutions, were considerably different. The Hispanic Serving Institutions Assisting Communities Program (HSIAC) NOFA is managed through HUD's Office of Policy Development and Research, and the Historically Black Colleges and Universities Program (HBCU) NOFA is managed through the Office of Community Planning and Development. Both programs have the same authorizing legislation. Since the Office of Policy Development and Research does not have a field structure, the HSIAC applications are reviewed by HUD headquarters, while the HBCU applications are reviewed by HUD headquarters and field offices. We made several suggestions concerning applicant eligibility, eligible activities, and rating factors to bring these two similar programs in line with each other. We later suggested in a letter to the Deputy Secretary that there were management efficiencies to be gained by combining these programs into one office.

## **Other HUD Issuances**

### ***Section 8 Contract Administration***

OIG reviewed the Request for Proposal (RFP) that HUD was proposing to use to contract out for the administration of Section 8 contracts with project-based rental subsidies. OIG's basis for nonconcurrence with the RFP centered around the fee structure and requirements for contract administrators to ensure that projects are providing quality housing at a fair price. Also, absent a cost benefit analysis of HUD's delegating its oversight of project-based Section 8 contracts to new Contract Administrators (CAs), we were not able to make a meaningful evaluation of the decision to proceed with the RFP.

The fee to be paid by HUD for administering Section 8 contracts needs to be better structured to provide for economic incentives for CAs to perform in accordance with the contract, and adverse financial consequences if they do not perform in accordance with the contract. HUD should take this opportunity to provide CAs with the type of incentives and penalties that will best ensure quality housing and reasonable subsidies.

While the RFP provided for Incentive Based Performance Standards (IBPS) in determining the fee paid to CAs, the measures needed to be more outcome oriented to ensure the intended results, such as quality housing and reasonable rental subsidies. For example, the fee basis should consider the number of units occupied that meet physical standards requirements rather than just measures





such as the number of management reviews performed by CAS. For rent adjustments, the rents need to be reasonable in accordance with HUD requirements and not just be paid to eligible properties on a timely basis. Also, CAS should incur penalties for substandard performance, such as failure to act on substandard units and approving excessive rents.

The RFP required the CAS to perform post inspection activities to ensure violations are corrected by the owner. However, there were no IBPS for this task. Correcting housing quality violations should be an important task of the CAS and should play an integral part in determining the compensation due the CAS.

While the CAS were to provide ongoing rental assistance to project-based tenants when contracts are terminated, the RFP requirements did not go beyond notifying HUD of opt-outs and providing tenant and unit data to HUD. No requirements existed for the CAS to assist the displaced tenants in finding alternate housing.

The CA was to give the owner 30 days to submit a plan to correct performance and compliance indicators reported by the Assessment Center. The Assessment Center most often will just identify indicators of problems which will require further analysis to determine if and what problems exist at the project. Such an analysis should be required of the CA. The CA should also be measured on getting the issues resolved and not just attempting to get the issues resolved as provided for in the IBPS.

The IBPS required the CAS to notify HUD and the owner of both life threatening and non-life threatening issues, but did not actually measure if the issues get resolved by the CA. Performance incentives should be based on the desired outcome and not just the processes for obtaining the outcome.

At the close of this semiannual reporting period, HUD had not responded to our comments and concerns.

### *Single Family Appraisal Handbook*

OIG nonconcurred on the proposed revision to the Single Family Appraisal Handbook primarily because of a lack of specificity in several of the changes being made. For example, the handbook discussed in general terms the appraisal testing that would be implemented; however, there was little detail as to how this test would be administered or how results would be used. We also questioned the enforcement criteria. We wanted to know who would be maintaining the test results, who would take action when poor appraisals were identified and how long violation records would be kept. As a result of our discussions with Real Estate Assessment Center staff, most of our changes were made and our nonconcurrency was lifted.



# Chapter 6

## Audit Resolution

Audit resolution is the process where OIG and HUD management agree to needed changes and timelines for action in resolving audit recommendations. Through this process, we hope to see measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed upon changes are implemented rests with HUD managers. This Chapter describes some of the more significant issues where actions on audits have been delayed, where recommendations were reopened, where OIG disagreed with a management decision, or where management decisions were revised. In addition to this Chapter on audit resolution, see Appendix 2, Tables A and B.





## Delayed Actions

### ***Housing Authority of the City of Las Vegas***

*Issued January 20, 1989, October 15, 1992, & February 23, 1996.* The Las Vegas Housing Authority used federally assisted low-rent funds to support other non-assisted housing projects. We first reported on this practice in 1989 when we disclosed that the Authority had misused over \$6 million. In 1992 and again in 1996, we found that the improper practices were continuing and that the ineligible expenditures increased to over \$7 million.

In February 1997, HUD management and the Housing Authority negotiated a \$7.2 million repayment plan, including \$2.7 million to be repaid to HUD and the balance to the Authority's Low-Rent Program over 5 years. To date, the Las Vegas Housing Authority has repaid the \$2.7 million to HUD and about \$1 million of the amount owed the Low-Rent Program. In November 1997, the Authority's board of commissioners adopted a resolution authorizing the executive director to submit a revised repayment program to HUD which extended the payment program from 5 to 16 years. The Housing Authority submitted requests for approval of the new repayment plan in December 1997 and November 1998. Although HUD approved the revised plan in principle, the plan was not officially executed or approved by HUD. Moreover, although the plan would have required annual payments of about \$220,000 per year, the Authority has made no repayments since May 1998.

On January 8, 1999, the executive director wrote to HUD requesting that the remaining debt of \$3.5 million be forgiven by HUD because the repayments were adversely affecting the Housing Authority's ability to provide affordable housing to senior citizens. To date, the Office of Public Housing has not responded to the request or made any proposal to OIG which encompassed forgiveness of the remaining repayments. (Reports Nos. 89-SF-209-1004, 93-SF-209-1001 and 96-SF-204-1003)

### ***Audit of FHA's FY 1991 Financial Statements***

*Issued March 27, 1992.* The audit of FHA's FY 1991 financial statements originally reported that FHA needed to improve its accounting and financial management systems. Specifically, the recommendations urged FHA to implement a systems integration strategy that would address its accounting and reporting needs. The most recent audit of FHA's FY 1998 financial statements continued to report the same problems.

FHA, in its latest action plan, states that it has prioritized systems work to maximize the use of limited resources to target those business areas with the most critical needs. As part of the Department's financial systems integration plan, a new general ledger system that is to comply with the governmentwide standard general ledger requirements was to be implemented by September 1998. Because of the need to accumulate data at the case level detail and the inability to identify general ledger commercial off-the-shelf software that could meet the functionality required under federal credit reform accounting standards, FHA is currently accumulating business activity for posting models to its standard general ledger chart of accounts using an FHA financial data warehouse. A reliable general ledger supported by integrated "feeder" systems is basic to any reporting by FHA. Other elements of FHA's system upgrades are to be completed





in FY 1999. The audit of FHA's FY 1999 financial statements will assess FHA's progress in correcting this long-standing weakness. (Report No. 92-TS-119/129-0007)

***Audits of HUD's FY  
1991 through 1998  
Financial Statements***

*First issued June 30, 1992.* HUD has been preparing financial statements under the requirements of the Chief Financial Officers Act for 8 fiscal years, beginning with Fiscal Year 1991. Various internal control weaknesses have been reported in these audits. In large part, the most recent (FY 1998) audit results are consistent with results from prior years, except for the newly added FHA federal basis and budgetary accounting weakness. Under the HUD 2020 Management Reform Plan, HUD has been taking actions to address the weaknesses reported, and in some instances has made progress in correcting them. Although there has been some progress, material weaknesses continue with respect to the need to: (1) upgrade financial management systems, particularly those impacting Multifamily Housing Programs; (2) complete organizational changes to resolve resource issues; (3) ensure that housing subsidies are based on correct tenant income; and (4) more effectively monitor program recipients. Corrective action plans have continued to change over the last 8 years. The audit of HUD's FY 1999 financial statements will assess HUD's progress in correcting these material weaknesses.

***Audits of Bond  
Refundings of Section  
8 Projects***

*Issued October 30, 1992, and April 30, 1993.* In our Semiannual Report for the period ending March 31, 1997, we identified these as two reports for which we reopened several recommendations because corrective actions were not implemented. Over 6 years have gone by since we first reported to HUD officials that some state housing finance agencies (HFAS) were violating federal regulations by collecting duplicate fees for administering Section 8 contracts.

We reported that two of three HFAS we reviewed during our audit were collecting duplicate fees. The excessive fees for one of these HFAS amounted to over \$640,000 for the 8-year period covered by our audit. While the Office of Housing's current position is to prevent HFAS from collecting both fees on future deals, HFAS will be allowed to continue to collect duplicate fees on previous deals if they request a waiver and justify keeping both fees. We believe it would be illegal to grant HFAS retroactive waivers to keep these monies inappropriately obtained from HUD. Also, allowing some HFAS to collect and keep fees amounting to almost twice as much as those HFAS who abided by the regulations is unfair and sends the wrong message to HFAS and other entities doing business with HUD that overbilling for services will be overlooked by HUD.

Despite numerous attempts to have this issue resolved by the Assistant Secretary for Housing and the Deputy Secretary, the Department has not taken corrective action. Not one dollar of duplicate fees has been repaid to HUD. (Report Nos. 93-HQ-119-0004 and 93-HQ-119-0013)

***Community  
Development Block  
Grant (CDBG)  
Program, City of  
Huntington, WV***

*Issued on July 10, 1992.* Our audit reported that the grantee: (1) awarded 19 ineligible and unsupported loans to borrowers amounting to \$4.5 million; and (2) did not support achievement of national program objectives; conduct on-site monitoring of borrowers; ensure funding provided to borrowers was necessary and appropriate; document the eligibility of borrower loan expenditures; or follow its own program guidelines when processing loan applications. We recommended the grantee repay nearly \$2.18 million from non-federal funds and





review loans valued at nearly \$2.48 million for compliance with CDBG and grantee regulations and requirements. The issues were referred to the Headquarters Office of Community Planning and Development (CPD) by the field office.

On November 12, 1997, the Deputy Assistant Secretary (DAS) for Grant Programs requested our concurrence in a revised management decision reducing the amount in question from \$4.5 to \$2.58 million and allowing the City an opportunity to submit documentation demonstrating that the \$2.58 million spent did in fact meet program requirements.

On December 17, 1997, we notified the DAS that we disagreed with his position and recommended the matter be referred to the former Deputy Secretary for resolution. On June 30, 1998, the DAS requested a meeting with the Acting Deputy Secretary, CPD, OIG, and Office of General Counsel (OGC) to discuss the issues of disagreement.

In July 1998, CPD, OIG, and OGC met with the Acting Deputy Secretary. He ruled that 14 of the loans were satisfactorily resolved. However, for five of the loans in question, the Acting Deputy Secretary directed that CPD would instruct the City that they had one more opportunity to submit acceptable support for the loans. OIG agreed to review the support to see if it met the requirements. In September 1998, OIG reviewed additional material provided by the City in support of the loans.

At an October 27, 1998 meeting, we reached an agreement with CPD and OGC on the actions necessary to resolve the recommendations. Our position was that the City of Huntington needed to repay its line of credit \$280,549 and any interest earned on two of the loans. However, after 7 years, CPD is still reviewing additional records submitted by the City of Huntington prior to making a final determination on the outstanding recommendations. (Report No. 92-PH-241-1009)

**Maricopa County  
Housing Department,  
Phoenix, AZ**

*Issued September 24, 1993.* Our audit reported that the Maricopa County Housing Department's: (1) procurement procedures did not ensure goods and services were necessary and the best prices available were obtained through free and open competition; (2) Section 8 procedures did not ensure rents were reasonable; and (3) tenants may have overpaid \$235,000 annually because the Housing Department failed to update and implement utility allowances for its conventional and Section 8 Programs. We recommended that the Housing Department establish improved procurement and Section 8 procedures that meet HUD requirements, as well as analyze and update utility allowances and adjust tenant rents accordingly.

HUD has twice closed the report recommendations, and we have reopened them after finding out that the recommendations had not been implemented in the agreed upon manner. Most recently, the recommendations were reopened on March 31, 1998. HUD again submitted information to close the recommendations in September 1998, but our review showed that the recommendations still had not been satisfactorily implemented 5 years after the report was issued. We subsequently resolved the last major areas of disagreement with HUD program staff in March 1999. The Office of Public Housing agreed to: (1) require the Housing Department to revise its procurement policy and conform to HUD requirements, including the need to obtain HUD approval for specified procurements over \$25,000; (2) perform an on-site review to verify that the Housing





Department is making proper determinations of Section 8 rent reasonableness; and (3) re-review documentation submitted by the Housing Department to support its utility allowances. All corrective actions are to be completed by September 30, 1999. (Report No. 93-SF-202-1016)

### ***Memphis Housing Authority***

*Issued January 13, 1997.* The Memphis Housing Authority (MHA) has been and still is unable to provide decent, safe, and sanitary housing to its residents. Buildings, grounds, and individual dwelling units are seriously deteriorated, and ineffective maintenance has been a long-standing problem. These conditions are identical to those found in a 1983 OIG audit of the MHA (Report No. 83-AT-201-1039). Prior efforts by HUD, audits by OIG, and management reforms at the MHA have not been effective in reversing the trend.

In August 1997, the MHA and HUD entered into a performance agreement that provided for contracting out the management of the MHA maintenance program, addressed improvements to the management of the modernization program, and set goals and objectives including benchmarks and timelines for improving the management and processes of the MHA. It also allowed HUD to declare the MHA in substantial default under its Public Housing and Section 8 Annual Contributions Contracts if it failed to accomplish targeted goals. OIG reviewed the performance agreement and agreed with the provisions. HUD and the MHA executed the agreement on June 18, 1998. HUD program officials have not implemented corrective actions within established target dates. (Report No. 97-AT-201-1001)

### ***Section 203(k) Rehabilitation Mortgage Insurance Program***

*Issued February 6, 1997.* Our nationwide review of the Section 203(k) Program disclosed numerous abuses by investors and nonprofit borrowers and a very high rate of default on their loans. Because of the serious potential drain on the insurance fund that could result from these type of loans, we recommended that HUD: (1) no longer allow investors to participate in the program; and (2) make improvements in program procedures for loans to nonprofit borrowers.

Instead of removing investors from the program, HUD placed a temporary moratorium on investor participation. On June 9, 1997, this matter was referred to the Deputy Secretary. On June 30, 1997, we briefed him on the issues. On February 2, 1998, the former Deputy Secretary decided to maintain the suspension on investor participation, but postponed the decision to permanently ban investors from the program until HUD decided whether to implement a new rehabilitation program. While we believe HUD should permanently ban investors from the 203(k) Program as it has done in other Single Family Programs, the suspension was an acceptable interim solution. Over the long term, however, we are convinced that investors should be banned from the Section 203(k) Program.

On August 14, 1997, the former Assistant Secretary for Housing-Federal Housing Commissioner proposed to implement revised program procedures to improve controls over loans to nonprofit borrowers. The improved controls were to be included in a mortgagee letter which was to be issued by December 31, 1997. Although we concurred in the draft mortgagee letter, the Assistant Secretary did not issue the letter. As a result, the program improvements we recommended have not been implemented. (Report No. 97-AT-121-0001)





## ***Riverside South Apartments***

*Issued February 21, 1997.* The mortgagee of Riverside South Apartments submitted an application for \$356 million of mortgage insurance under Section 220 of the National Housing Act. OIG reviewed the application and concluded that the FHA should not take the risk of insuring the proposed mortgage for three reasons. First, only 333 out of the 1,663 units to be developed would have been used for low- and moderate-income housing. Second, immediately following the endorsement of the mortgage, nearly one-fourth of the security for the mortgage, which constituted a park and a pier, would have been given to the City of New York. Consequently, in the case of default, a potential significant loss to the FHA insurance fund was a practical certainty. Third, there was a question whether the Congress authorized FHA to insure a park and pier. We recommended that FHA: (1) not bear the risk of insuring the proposed mortgage; (2) immediately place a limit on items such as parks and piers; and (3) provide better guidance to its field offices on FHA processing procedures.

The mortgagee subsequently withdrew its application for \$356 million in mortgage insurance. This action in effect resolved the first recommendation. The Assistant Secretary for Housing-Federal Housing Commissioner disagreed with the need for the second and third recommendations. Therefore, on November 19, 1997, we referred the disagreement to the former Deputy Secretary. On February 12, 1998, the former Deputy Secretary responded that in view of the substantial effort that had gone into reviewing and restructuring the way HUD does business in multifamily housing, this matter should be left to the discretion of the Assistant Secretary for Housing as part of implementing the new organizational structure. In our opinion, the former Deputy Secretary did not address the issue pertaining to how much insurance FHA should allow for items such as parks.

In August 1997, a new application was submitted to FHA that drastically reduced the project's size and mortgage amount. The request for mortgage insurance was cut from \$356 to \$180 million. OIG reviewed this application and issued a second report on December 18, 1997 (Report No. 98-NY-112-0802). Our review of the revised application resulted in the same concerns that we raised in our first report. We recommended that FHA seek a legal opinion to determine if the Congress intended for the FHA to insure mortgages that included the value of a park as an allowable amenity when it passed Section 220 of the National Housing Act.

On April 3, 1998, HUD's Office of General Counsel issued a legal opinion stating that a loan insured under Section 220 could include non-dwelling facilities such as a park, provided it was consistent with an urban renewal plan or the locally developed strategy for neighborhood improvement, conservation or preservation. Additionally, the facilities must be predominantly residential; non-dwelling facilities such as parks that are included in the mortgage must contribute to the economic feasibility of the project; and the Secretary must give due consideration to the possible effect of the project on other business enterprises in the community.

OIG reviewed the legal opinion and on April 20, 1998, wrote to the Assistant Secretary for Housing stating that the park is more of a liability, as opposed to being necessary to the economic success of the project, inasmuch as project funds must be provided to maintain the park. We suggested that the Assistant Secretary review this issue and not allow the value of the park to be included as part of the mortgage.





While HUD, the mortgagee, and the developer continued to discuss the possibility of including the park in the mortgage, HUD failed to address the two remaining procedural recommendations in our report, that is, (1) place a limit on items such as parks and piers; and (2) provide better guidance to field offices on processing procedures. Therefore, on August 21, 1998, we asked the Assistant Secretary for Housing to address the two remaining recommendations. On September 17, 1998, the mortgagee notified HUD that it was withdrawing its application for the project. While the mortgagee's action resolves our recommendation that HUD not insure the mortgage, HUD still needs to address the two remaining recommendations before this report can be considered resolved. We have discussed the recommendations with the Assistant Secretary and are still awaiting a response. (Report Nos. 97-NY-112-0802 and 98-NY-112-0802)

***San Diego Housing  
Commission (SDHC),  
Section 8 Housing  
Assistance Payments  
Program***

*Issued July 29, 1997.* Beginning in 1994, the SDHC approved Section 8 contract rents that were too high and made annual adjustments to previously established rents without determining that the adjustments were warranted. As a result, the SDHC paid some owners more Section 8 subsidies than HUD regulations allowed. We recommended that SDHC determine the total amount of the Section 8 overpayments that were made between January 1, 1994, and the date that the overpayments were stopped, and that SDHC repay HUD from non-federal funds.

The SDHC and HUD's Los Angeles Office of Public Housing disagreed with our recommendation and we referred the matter to the Assistant Secretary for Public and Indian Housing for resolution. On August 18, 1998, we met with the Deputy Assistant Secretary to discuss Public and Indian Housing's position on our recommendation. On November 3, 1998, we reached agreement on how to resolve the recommendation, and on December 9, 1998, the Los Angeles Office Director of Public Housing instructed SDHC to determine the amount of the overpayment made to the owners. The Director also told SDHC to propose a repayment plan to HUD by April 30, 1999, which plan is to provide for the return of the excessive assistance from non-HUD funds. (Report No. 97-SF-203-1005).

***Section 203(k)  
Consultants***

*Issued August 27, 1997.* We completed a review of HUD's procedures for approving consultants and consultant trainers for the Section 203(k) Program. We determined that HUD's procedures were not properly documented and resulted in inconsistent decisions by HUD Headquarters and field office staff. The former Assistant Secretary for Housing-Federal Housing Commissioner proposed to develop a certification examination for 203(k) consultants which would be administered by a HUD approved testing organization. The improvements which were to have been completed by January 5, 1999, have not yet been made. (Report No. 97-AT-121-0803)

***HUD Contracting***

*Issued September 30, 1997.* We identified seven areas needing improvement: (1) planning, needs determination, and periodic assessments; (2) cost consciousness; (3) contractor oversight and monitoring; (4) prohibited personal services and inherently governmental functions; (5) better coordination of data systems; (6) timely contract close-out; and (7) review of interagency agreements. The lack of adequate planning, needs assessment, good initial estimates, monitoring, and





control of costs on several multimillion dollar contracts exposes HUD to waste and abuse. HUD managers had abdicated their procurement and contract oversight responsibilities with costly consequences.

On several contracts, HUD used an indefinite quantity/task order process to expedite procurement, but the combination of vague work orders, inadequate estimates and lack of oversight led to incumbent contractors holding HUD hostage to the contract. As a result, HUD found itself in some financially unsound and costly long-term arrangements. HUD's contracting problems were compounded over the past 4 years due to a lack of integrated financial and management data systems, dwindling experienced staff resources, and the proliferation of new programs and initiatives.

HUD management responded to the report on March 10, 1998, and initiated several procurement reforms including: (1) establishing a Chief Procurement Officer; (2) establishing a Contract Management Review Board; (3) requiring mandatory training and certification for Government Technical Representatives and Monitors (GTR/GTMS); (4) adding performance standards to evaluate the performance of all GTR/GTMS; (5) requiring the Office of General Counsel to establish a team of contract specialists to review contract terms and assist in negotiations; (6) standardizing GTR/GTM recordkeeping and making integrated financial payments data systems accessible to GTR/GTMS; and (7) utilizing a General Services Administration (GSA) schedule contractor for major contracts where a GSA schedule meets HUD's needs.

OIG responded to HUD management and requested additional information on how and when some of their proposals would be implemented and/or completed. On September 24, 1998, OIG met with HUD management to discuss and clarify the unresolved matters. Management decisions have still not been reached on all recommendations. Meanwhile, HUD management claims corrective action has been taken on most of the recommendations. OIG is planning to confirm these actions through the Corrective Action Verification process, which is planned to begin early in the next reporting period. (Report No. 97-PH-163-0001)

***Section 203(k)  
Rehabilitation  
Mortgage Insurance  
Program***

*Issued May 1, 1998.* We completed an audit of the Section 203(k) Program as it pertains to owner/occupant borrowers. We found incomplete and poor rehabilitation work even though inspectors had certified the work was properly completed. As a result, HUD's risk was increased and the borrowers' living conditions were poor. The Office of Housing drafted a mortgagee letter requiring lenders to field review the final inspection report for a sample of lenders' loans. We concurred in the proposed corrective action and the draft mortgagee letter on January 4, 1999. The target date for completion is June 30, 1999. (Report No. 98-AT-121-0002)

***Review of HUD's  
Efforts to Correct Year  
2000 Problems***

*Issued June 1, 1998.* Our first report detailing the results of an OIG review of the Department's efforts to correct Year 2000 problems disclosed that HUD needed to take several steps to minimize risks and impacts of system failures caused by the millennium date change. We have closed four of the six recommendations, including one involving OIG disagreement with the Department's refusal to place the Office of Information Technology (IT) within the Office of the Chief Information Officer (CIO) (see narrative under Significant Management Decision With Which OIG Disagrees).





We have been unable to reach management decisions for two recommendations to place all mission critical systems under the control of automated configuration management (CM) tools to control software changes. It is important that the Department fully implement automated CM to track changes made to the millions of lines of codes containing date fields needing correction for the Year 2000. The Department recognizes the importance of implementing automated CM and has agreed to provide to the OIG the plans, with schedules and milestones, for full installation on all computing platforms. However, these promised plans have not been completed. (Report No. 98-DP-166-0003)

***Atlanta, Philadelphia,  
Chicago, and Detroit  
Empowerment Zones***

*Issued September 28, September 30, October 15, and October 20, 1998.*

These four reports showed common weaknesses in program administration. The Cities lacked adequate oversight of Empowerment Zone funds and controls to assure accurate reporting of program accomplishments. They used about \$1.9 million of Empowerment Zone funds to pay for inappropriate services and inaccurately reported Zone activities. This gave the appearance that Zone benefits and accomplishments were greater than they actually were.

We made a number of recommendations to the Cities to improve program administration and asked that they reimburse their Empowerment Zone Program accounts for the inappropriate expenditures. Management decisions have been rendered on 33 of the 51 recommendations, but HUD's Empowerment Zone/Empowerment Community Initiative (EZ/EC) Coordinator has disagreed with the remaining 18 recommendations because "they derive from an erroneous interpretation of the statutes, regulations, and policies related to the EZ/EC initiative." Fourteen of these recommendations deal with the reimbursement of program funds; the remaining four recommendations provide for the establishment of procedures and controls for Cities to appropriately report Empowerment Zone activities to HUD.

HUD's failure to implement our recommendations will result in the continued misreporting and misapplication of Empowerment Zone funds in these locations. This ultimately affects the amount and quality of services provided to Zone residents.

The delayed implementation of corrective action involves recommendations in our reports on the City of Atlanta (Report No. 98-CH-259-1005); the City of Philadelphia (Report No. 98-CH-259-1006); the City of Chicago (Report No. 99-CH-259-1002); and the City of Detroit (Report No. 99-CH-259-1003). We have referred these reports to the Deputy Assistant Secretary for Community Empowerment to resolve the outstanding issues and reach management decisions.

***Single Family Acquired  
Management System  
(SAMS)***

*Issued September 30, 1998.* Our audit disclosed numerous internal control deficiencies that render the SAMS ineffective for managing and controlling the inventory of properties undergoing disposition. Management decisions have been reached on all but three of the recommendations included in our report. These recommendations were all addressed to the Office of Housing.

The most serious deficiency is in controlling expenses and disbursements. The Office of Housing did not develop a module in SAMS to record and track purchases and work orders because of schedule delays and cost overruns during system development. This module would have provided the capability to check





the accuracy and legitimacy of the billings for goods and services ordered for properties under disposition. We recommended the Office of Housing complete this contracts module of SAMS or consider alternative methods to validate payments before they are made. In their proposed management decision, the Office of Housing has not provided an acceptable plan with target dates for completion of the corrective action.

We also recommended the Office of Housing work with the Office of Information Technology to set up SAMS user access profiles which reflect appropriate segregation of duties and job responsibilities. The Office of Housing has not provided an acceptable plan to reduce the risks of theft and misuse. In response to our recommendation to develop a quality assurance process for maintaining data quality in SAMS, the Office of Housing has not addressed the full intent of our recommendation. They have not provided a plan to periodically review SAMS data to ensure information in the system remains reliable after the data clean-up process has been completed. (Report No. 98-DP-166-0004)

## Reopened Recommendations

HUD management is responsible for closing audit recommendations when they determine all corrective actions have been completed. Sometimes, we become aware of inappropriate closures when performing corrective action verification reviews, or during subsequent audit work relating to the previously reported problems. These reviews provide an element of quality control over the audit resolution process. Recommendations inappropriately closed are reopened and cannot be closed without our review and concurrence. This means that HUD management must address the problems originally reported. In the following paragraphs, we discuss significant recommendations on which we found that HUD management reported closure before all agreed upon actions were implemented.

### ***Buffalo Municipal Housing Authority***

*Issued June 21, 1996.* Our audit report showed that the Buffalo Municipal Housing Authority maintained staffing levels which exceeded HUD's suggested levels. We recommended that the Authority evaluate and reduce its staff to more reasonable levels. In November 1996, the HUD Buffalo Area Office accepted the Housing Authority's promise to develop a plan that would address its staffing levels. Based on this promised action, the Buffalo Area Office closed the recommendation in November 1997.

As a result of a corrective action verification review, we reopened the recommendation. The Buffalo Municipal Housing Authority has not made acceptable progress in developing a staffing plan. Its current staffing levels still exceed HUD's guidelines by 169 maintenance and administrative employees. (Report No. 96-NY-201-1002)

### ***Section 236 Program, Excess Rental Income Collections***

*Issued December 21, 1994.* The OIG issued a multi-district audit on the Section 236 Rental Housing Program and reported that HUD needed to pursue changes in calculating excess income; HUD needed to take more aggressive action to collect about \$14.9 million in overdue excess income; and HUD needed to





identify projects that are delinquent in submitting excess income forms, determine the amount of excess income owed, and establish a plan to collect overdue excess rental income. The audit recommendations were closed when guidance and instructions were issued to multifamily property owners.

Our review of the corrective action taken showed that HUD management did not satisfactorily implement 11 of the 17 recommendations in our report. As a result, the amount of uncollected reported excess income has increased to over \$18 million through November 1998. The number of missing excess income reports also increased from 10,000 to nearly 14,000, so it is likely the amount of unreported and uncollected excess income has also increased. We have, therefore, requested the Assistant Secretary for Housing to submit a new plan of action with target dates for our review and concurrence which addresses these recommendations. (Report No. 95-SF-111-0001)

### ***Contra Costa, CA Drug Elimination Program***

*Issued December 21, 1991.* As result of our latest audit of the Drug Elimination Program administered by the Housing Authority of the County of Contra Costa, we have reopened one recommendation from our 1991 report. This recommendation required that the Housing Authority submit semiannual reports that included a complete program assessment. The most recent audit found that the reports were still incomplete because the Authority did not have a suitable method to measure the program's effectiveness. As a result, HUD was not provided information necessary to make a proper assessment of the program. To correct this, the California State Office of Public Housing is requiring the Housing Authority to adopt, by June 30, 1999, an acceptable methodology to measure the effectiveness of its Drug Elimination Program. (Report No. 92-SF-209-1002)

## Significant Management Decision With Which OIG Disagrees

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

### ***Review of HUD's Efforts to Correct Year 2000 Problems***

*Issued June 1, 1998.* HUD recognized the Year 2000 date problem in June 1996 and established a Year 2000 Project in the Office of Information Technology (IT). Progress has been made in the Department's efforts to correct the Year 2000 date problem. The Project Office has identified all mission critical systems, prepared a Year 2000 readiness guide, and conducted a risk assessment. HUD, however, has failed to implement several "industry recognized" best practices to minimize the risk and impact of system failures caused by the Year 2000 date problem.

We recommended the HUD Deputy Secretary establish an executive level Project Office to manage and coordinate Year 2000 activities and that the Project Office report directly to the Deputy Secretary. The Deputy Secretary did not





agree with our recommendation and claimed that the Chief Information Officer (CIO) appointed by the Department would provide the needed leadership for Year 2000 efforts.

In an October 7, 1998 memorandum to the Deputy Secretary, we noted our concern that the CIO has no direct operational control or authority over IT staff or the contractors responsible for correcting the Year 2000 date problem. The current separation between IT planning/policy and operational control over IT resources is contrary to industry accepted best practices. Without operational control, the CIO cannot ensure accountability over the Department's Year 2000 renovation and testing efforts. Assigning the CIO authority over all aspects of IT planning/policy and operations would ensure all necessary actions are undertaken to minimize the risk of Year 2000 failures. (Report No. 98-DP-166-0003)

## Revised Management Decision

Section 5(a)(11) of the Inspector General Act, as amended, requires that the OIG report information concerning the reasons for any significant revised management decision made during the reporting period. During the current reporting period, there was one significant revised management decision.

*City of New York,  
Department of  
Housing Preservation  
and Development*

*Issued January 29, 1993.* Our report recommended repayment of more than \$22 million of ineligible expenditures to the City's (grantee's) CDBG Program. The grantee agreed to repay \$4.5 million over 5 years and has made 2 payments totaling \$1,801,800.

The remaining \$17 million involved the use of CDBG funds to pay for liability insurance for employees involved in the City's property management program. The Office of CPD in Headquarters determined it was appropriate to pay the insurance, but hired a consultant to review the reasonableness of the costs. The consultant's report, submitted to CPD in September 1997, concluded that the insurance expenditures were reasonable, but raised two areas of concern. First, it questioned an apparent \$80,000 overpayment of a short-rate cancellation penalty. Second, it reported \$1.2 million in premiums could have been saved by re-committing the insurance policies at renewal. The consultant's report generated disagreement between the City and the consultant on events that happened long ago.

The Headquarters Office of CPD requested that the recommendations be closed. After reviewing and reconsidering all of the circumstances in this matter, we decided to concur in closing two recommendations for the following reasons:

- CPD determined that it was acceptable for the grantee to pay the insurance, so the only issue that remained was whether the costs that were charged to the program were reasonable.
- To pursue legal/administrative remedies would be difficult since the consultant employed by HUD concluded that the insurance costs charged to the program were appropriate and reasonable based on the published manual rates in existence at the time.





- The consultant stated that its estimates of potential cost savings could be debated. The cost effectiveness of obtaining another consultant study was questionable since there was no assurance it would be able to provide more concrete information. Even if another consultant study were to conclude that the costs were unreasonable, the conclusions could be debated.
- The grantee acted in good faith and implemented corrective action on other matters in our audit report. A repayment plan of \$4.5 million was executed between HUD and the grantee and over \$1.8 million has been repaid to the grantee's CDBG Program.
- The grantee made changes to its policies and procedures regarding the procurement of insurance for its Superintendent and Handyman contracts as a result of our audit, and according to staff in HUD's New York Office, the grantee's CDBG Program has effectively saved the costs of insurance by implementing self-insurance for these contracts.

On March 30, 1999, we concurred in CPD's decision to close the subject recommendations and reverse \$17,018,427 in questioned costs. (Report No. 93-NY-241-1002)





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# Appendices



# APPENDIX 1 - AUDIT REPORTS ISSUED

## Internal Reports

### PIH

99-BO-101-0001  
99-FO-108-0002  
99-FW-101-0001

Multi-district Audit, Public Housing Drug Elimination Program, Boston, MA, January 8, 1999.  
Federal Housing Administration, Audit of FY 1998 Federal Basis Financial Statements, March 12, 1999.  
Nationwide Audit, HOPE VI Urban Revitalization Program, December 17, 1998.

### CPD

99-CH-156-0001  
99-PH-156-0001

HUD's Oversight of the Empowerment Zone Program, March 30, 1999.  
Youthbuild Program, Multiple Location Review, November 10, 1998.

### Administration

99-DP-163-0001  
99-DP-169-0002

Commercial Credit Card Program, February 1, 1999.  
Review of HUD's Efforts to Correct Year 2000 Problems, (Phase II), March 25, 1999.

### Miscellaneous

99-FO-171-0001  
99-FO-177-0003

Audit of Government National Mortgage Association FY 1998 Financial Statements, March 5, 1999.  
U.S. Department of HUD FY 1998 Financial Statements, March 29, 1999.

### Multifamily

99-BO-119-0801  
99-SF-111-0801

Advisory Report on Section 8 Contract Administration, Boston, MA, October 7, 1998.  
Corrective Action Verification, Multi-district Audit of Section 236 Program, Excess Rental Income Collection, March 26, 1999.

### CPD

99-FW-155-0801  
99-SE-148-0801

Homebuyers Assistance Program (funded by HOME Program), CDBG Program, Houston, TX, March 29, 1999.  
Section 108 Loan Guarantee Assistance Program, Opportunities for Improvements, March 31, 1999.

## Audit Reports

## Audit-Related Memoranda



## External Reports

### PIH

- 99-AT-206-1004 Housing Authority of the City of Sarasota, FL, February 24, 1999.
- 99-BO-207-1001 Narragansett Indian, Wetuomuck Housing Authority, Housing Development Grant, Charlestown, RI, January 29, 1999.
- 99-CH-202-1001 Springfield, OH Metropolitan Housing Authority, Comprehensive Review, October 9, 1998. Questioned: \$139,306, Unsupported: \$101,591, Better Use: \$93,588.
- 99-FW-201-1001 Dallas, TX Housing Authority, HOPE VI Program, October 9, 1998. Questioned: \$1,241,846, Unsupported: \$1,098,544.
- 99-FW-202-1002 St. James Parish Housing Authority, Public Housing Drug Elimination Program, Lutcher, LA, November 6, 1998. Questioned: \$15,690, Unsupported: \$5,292.
- 99-FW-201-1003 San Antonio, TX Housing Authority, HOPE VI Grants, January 29, 1999. Questioned: \$447,727, Unsupported: \$447,727.
- 99-NY-209-1001 Buffalo, NY Municipal Housing Authority, Public Housing Drug Elimination Program, October 27, 1998. Questioned: \$741,959, Unsupported: \$466,132.
- 99-NY-206-1005 Cohoes, NY Housing Authority, Low-Rent Housing Program, March 11, 1999. Questioned: \$93,225, Unsupported: \$89,706.
- 99-SE-207-1002 Citizen Complaint, Cascade Inter-Tribal Housing Authority, Sedro Woolley, WA, March 31, 1999.
- 99-SF-209-1002 Housing Authority of the County of Contra Costa, Drug Elimination Program, Martinez, CA, December 17, 1998. Questioned: \$127,029, Unsupported: \$102,923.

### Multifamily

- 99-AT-211-1003 Eastover Apartments, Multifamily Mortgagor Operations, Indianola, MS, January 26, 1999. Questioned: \$142,896, Unsupported: \$114,124, Better Use: \$3,902.
- 99-NY-212-1003 Seaview Arms Associates, Multifamily Project Operations, Project Number 012-44101, Staten Island, NY, November 25, 1998.
- 99-PH-212-1001 Charlestowne at Cavalier Mutual Homes, Inc., Multifamily Mortgagor Operations, Portsmouth, VA, February 2, 1999. Questioned: \$769,535, Unsupported: \$177,583.
- 99-SE-214-1003 SIDRA, Inc., Multifamily Management Agent, Portland, OR, March 31, 1999. Questioned: \$121,414.

### Single Family

- 99-CH-229-1004 Detroit, MI Revitalization, Inc., Section 203(k) Mortgage Insurance Program and Partners for Affordable Housing, February 22, 1999. Questioned: \$105,007, Unsupported: \$105,007.
- 99-NY-221-1004 Homestead Financial Services, Inc., Non-supervised Mortgagee, Syracuse, NY, February 17, 1999.
- 99-SF-221-1001 Sun American Mortgage Company, Single Family Mortgage Insurance Program, Mesa, AZ, December 7, 1998.



## External Reports - continued

### CPD

- 99-AT-241-1001 Municipality of Arecibo, PR, Community Development Block Grant and Section 108 Loan Guarantee Assistance Programs, November 5, 1998. Questioned: \$6,552,521, Unsupported: \$309,324, Better Use: \$294,955.
- 99-AT-241-1002 Augusta-Richmond County Consolidated Government (ARC), CDBG, HOME, and UDAG Programs, Augusta, GA, December 4, 1998. Questioned: \$2,138,479, Unsupported: \$587,668.
- 99-CH-259-1002 City of Chicago, IL Empowerment Zone Program, October 15, 1998. Questioned: \$1,804,503, Unsupported: \$1,012,496.
- 99-CH-259-1003 City of Detroit, MI Empowerment Zone Program, October 20, 1998. Questioned: \$2,879.
- 99-FW-255-1004 Houston, TX Homebuyers Assistance Program (funded by the HOME Program), March 23, 1999. Questioned: \$804,365, Unsupported: \$457,394.
- 99-KC-244-1001 Community Development Block Grant Program, Kansas City, MO, December 8, 1998.
- 99-NY-241-1002 Utica, NY Community Action, Inc., Community Planning and Development Program, November 20, 1998.
- 99-PH-241-1002 Norfolk, VA CDBG Program, February 16, 1999. Questioned: \$912,549, Unsupported: \$236,718.
- 99-SE-255-1001 City of Seattle, WA HOME Program, November 20, 1998.

### Audit Reports

### Multifamily

- 99-BO-219-1802 Review of Service Coordinator - Davenport Associates, Ltd., Providence, RI, January 12, 1999.
- 99-KC-211-1801 Brittany Acres Apartments, Bridgeton, MO, February 26, 1999.
- 99-NY-214-1801 Affordable Housing, LLC - d/b/a Aries Management, New York, NY, December 9, 1998. Questioned: \$66,517.
- 99-NY-212-1802 Stanley Park Houses, Tenant Complaints, Project No. 012-44092, Glen Cove, NY, January 15, 1999. Questioned: \$72,601, Unsupported: \$7,045.
- 99-SF-212-1801 Unfavorable Laundry Lease Agreements at HUD Insured Multifamily Projects, Davis/Sacramento, CA, October 23, 1998.
- 99-SF-213-1802 Limited Review of Mortgagor Operations, Astoria Gardens Tenant Association, Sylmar, CA, December 29, 1998. Questioned: \$133,128, Unsupported: \$13,724

### Audit-Related Memoranda

### PIH

- 99-AT-202-1801 Hotline Complaints, Demolition of College Homes, Knoxville, TN Community Development Corporation, October 28, 1998.
- 99-BO-202-1801 Analysis of Project Funds, West Street Apartments, New Haven, CT, December 22, 1998.
- 99-CH-201-1801 Assessment of Progress Follow-up, Chicago, IL Housing Authority, December 2, 1998.
- 99-FW-206-1801 Victoria, TX Housing Authority, Hotline Complaint, March 19, 1999.



## External Reports - continued

CPD

**Audit-Related Memoranda**

99-AT-241-1802

Pine Knolls Neighborhood Revitalization Program, Town of Chapel Hill, NC, December 22, 1998. Questioned: \$181,500.

99-AT-241-1803

Citizen Complaints, Eagle/Market Streets Development Corporation, Asheville, NC, December 24, 1998. Questioned: \$14,000.

99-CH-243-1802

Clark County, State Community Development Block Grant Program, Jeffersonville, IN, December 23, 1998.



## TABLE A

AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH  
NO MANAGEMENT DECISION AT 03/31/99

\*Significant Audit Reports Described in Previous Semiannual Reports

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE/ TARGET FOR MANAGEMENT DECISION
*97NY0802. Riverside South Apartments. New York, NY.	Two recommendations were referred to the Assistant Secretary for Housing. We have met with the Assistant Secretary and are awaiting a decision.	10/21/97 06/15/99
98HQ0801. Review of HUD's 2020 Management Reform Plan.	OIG does not disagree with the actions proposed by the Deputy Secretary, but has asked for additional information. We are awaiting a response.	11/25/97 05/31/99
98DP0003. Review of HUD's Efforts to Correct Year 2000 Problems.	The Department has not provided OIG a detailed plan for adopting a Configuration Management process for all mission critical systems.	06/01/98 05/31/99
98DP0004. Controls Over the Single Family Acquired Asset Management System.	The Office of Housing has not provided an acceptable plan to reduce the risks of theft and misuse of the system nor has the Office provided OIG a plan to periodically review system data to assure its reliability.	09/30/98 06/30/99
98AO1806. Innovative Homeless Initiatives Program - Creative Partnership for the Prevention of Homelessness, Washington, DC.	OIG is evaluating the proposed management response.	09/28/98 05/31/99
98AO1804. Ridgecrest Heights Apartments, Washington, DC.	Program managers have not provided any information to OIG regarding proposed actions to correct deficiencies cited in the report.	09/24/98 05/01/99



## TABLE B

### SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WHERE FINAL ACTION HAD NOT BEEN COMPLETED AS OF 03/31/99

Report Number	Report Title	Issue Date	Decision Date	Final Action
90FW1004	Regency Place Apartments	04/05/90	07/31/90	06/30/99
91TS0001	Limited Review of HUD's Process for Determining Undue Concentration of Assisted Persons	10/19/90	10/01/91	Note 1
92TS0007	Audit of Fiscal Year 1991 Financial Statements, Federal Housing Administration	03/27/92	09/29/92	06/03/99
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
92SF1009	San Francisco, CA Housing Authority, Low-Income Public Housing Program	09/10/92	01/08/93	Note 1
93HQ0004	Interim Audit of Bond Refundings of Section 8 Projects	10/30/92	10/26/93	Note 1
93FW1003	Grimmet Drive Apartments	12/10/92	04/08/93	08/30/99
93NY1002	New York Department of Housing Preservation and Development	01/29/93	07/06/93	09/01/02
93HQ0005	Limited Review of HUD's Management and Control of Staff Resources	03/08/93	09/30/93	Note 1
93FO0003	Audit of Federal Housing Administration's Fiscal Year 1992 Financial Statements	04/30/93	03/31/94	Note 2
93FO0004	Audit of HUD's Fiscal Year 1992 Consolidated Financial Statements	06/30/93	03/31/94	Note 1
93SF1014	Tucson Health Care Limited Partnership	09/23/93	01/21/94	06/12/99
93SF1016	Maricopa County, CA, Department of Housing and Community Development	09/24/93	01/21/94	Note 2
93FW1016	Anthony and Associates, Inc.	09/28/93	12/10/93	Note 2
94FO0002	Audit of Fiscal Year 1993 Financial Statements - Federal Housing Administration	06/08/94	09/12/94	Note 1



TABLE B, APPENDIX 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
94FO0003	Audit of Fiscal Year 1993 HUD Consolidated Financial Statements	06/30/94	01/27/97	Note 1
95SF0001	Multi-district Audit of Section 236 Program	12/21/94	03/31/96	04/25/99
95CH1009	Alliance Mortgage Corporation, Single Family Mortgage Insurance Program, Villa Park, IL	08/08/95	11/30/95	06/30/99
96SF1002	Pascua Yaqui Housing Authority, Tucson, AZ	02/13/96	06/11/96	Note 2
96DE1003	City Wide Mortgage, Nonsupervised Mortgagee, Smyrna, GA	03/08/96	06/12/96	Note 2
96AT1821	Puerto Rico Public Housing Administration, Comprehensive Grant and Drug Elimination Programs, San Juan, PR	06/26/96	12/10/96	Note 1
96FO0003	HUD Fiscal Year 1995 Financial Statements	08/16/96	02/12/97	06/30/99
96SF1808	Pascua Yaqui Neighborhood Association, Inc., Tenant Opportunities Program, Tucson, AZ	09/20/96	01/23/97	Note 2
96DP0002	Multifamily Information Systems	09/30/96	03/31/97	Note 2
97BO1801	Equity Skimming Review, Boston, MA	11/18/96	03/11/97	05/01/99
97PH1002	Newport News General Hospital, Section 242 Hospital Program, Newport News, VA	12/09/96	03/26/97	09/04/99
97AT1001	Memphis, TN Housing Authority	01/13/97	03/31/98	Note 2
97NY1001	Pilgrim Village Associates, Multifamily Project Operations, Buffalo, NY	01/31/97	05/28/97	Note 2
97KC0801	Multifamily Housing Programs, Multi-District Review of Excess Insurance Proceeds	02/05/97	07/16/97	09/30/99
97AT0001	Section 203(k) Rehabilitation Mortgage Insurance Program	02/06/97	07/01/98	10/01/99
97AT0002	Tenant Opportunity Program, Grantees of Atlanta Housing Authority Developments, Atlanta, GA	02/21/97	06/18/97	06/30/99
97NY0802	Riverside South Apartments, New York, NY	02/21/97	Note 3	
97SF1002	Granada Gardens, CA, Use of HUD's Earthquake Loan Program (HELP) Funds	04/14/97	07/16/97	06/30/99



Report Number	Report Title	Issue Date	Decision Date	Final Action
97AT1806	Limited Review of Martin Street Plaza, Atlanta, GA	04/17/97	07/14/97	10/31/99
97DE1003	Turtle Mountain Housing Authority, Housing Development Program, Belcourt, ND	05/21/97	09/09/97	Note 2
97CH1007	Developing Economical and Better Living, Inc., Single Family Direct Sales Program, Chicago, IL	05/22/97	09/19/97	Note 2
97KC0001	Review of Low-Income Housing Tax Credits Program	05/23/97	10/01/98	Note 2
97SF1005	Limited Review of Contract Rents, Section 8 HAP Program, San Diego, CA Housing Commission	07/29/97	11/10/98	04/30/99
97FW1003	Medlock Southwest Management Corporation, Multifamily Management Agent, Lubbock, TX	08/26/97	01/16/98	Note 2
97AT0803	Review of HUD Procedures for Approval of Section 203(k) Program Consultants	08/27/97	01/05/98	Note 2
97CH1010	Major Mortgage Corporation, Section 203(k) Rehabilitation Home Mortgage Insurance Program, Livonia, MI	09/17/97	01/06/98	Note 2
97CH1011	Hough Area Partners in Progress, Inc., CDBG Program, Empowerment Zone Program, Cleveland, OH	09/24/97	01/15/98	Note 2
97DP0001	HUDCAPS Access Controls Need Improvement	09/30/97	02/20/98	Note 2
97PH0001	HUD Contracting	09/30/97	02/10/99	02/10/00
98BO1001	City of New Haven, CT PHA Drug Elimination Program	10/06/97	02/09/98	Note 2
98NY0801	Proposed Financing Plan for Jose De Diego Beekman Houses	10/10/97	10/22/97	Note 2
98FW1002	New Orleans, LA Housing Authority, Contract with Tucker and Associates, Inc.	10/24/97	01/21/98	03/31/00
98NY1001	Limited Review of Braco I - Multifamily Operations, Buffalo, NY	10/24/97	12/23/97	Note 2
98HQ0801	Review of HUD's 2020 Management Reform Plan	11/25/97	Note 3	
98CH1804	Detroit, MI Housing Commission, Update of Progress Made on Agreements with HUD	12/11/97	03/09/98	02/19/03
98AT1001	Review of the Housing Authority of the City of Alma, GA	01/20/98	05/04/98	Note 2



Report Number	Report Title	Issue Date	Decision Date	Final Action
98CH1807	Columbus, OH Metropolitan Housing Authority, Supplemental Police Services	01/23/98	05/22/98	Note 2
98SE1001	Congressional Inquiry, Citizen Complaint, Cascade Inter-Tribal Housing Authority, Sedro Woolley, WA	01/30/98	06/26/98	05/28/99
98SE0002	Secretarial Request, Oversight of Indian Housing Programs	02/23/98	06/25/98	04/20/00
98SF1001	Villa San Carlos Garden Apartments, Multifamily Mortgagor Operations, Santa Cruz, CA	03/24/98	09/24/98	10/31/99
98AT1003	City of Miami, FL Community Planning and Development Programs	03/26/98	09/22/98	Note 2
98SF1002	Redwood Villa, Multifamily Mortgagor Operations, Mountain View, CA	03/31/98	08/14/98	07/31/99
98AT1005	Housing Authority of the City of Tampa, FL	04/23/98	10/21/98	03/31/00
98CH1002	Warren Metropolitan Housing Authority, Lebanon, OH, Comprehensive Audit	04/29/98	08/20/98	10/29/99
98AT0002	Audit of Section 203(k) Rehabilitation Mortgage Insurance Program	05/01/98	01/04/99	06/30/99
98CH1003	Bloomfield, IN Housing Authority, Safeguarding Monetary Assets and Inventory	05/06/98	09/03/98	09/05/99
98BO1004	City of New Haven, CT Housing Corporation (Subgrantee)	05/07/98	07/07/98	07/07/99
98AT1006	Centro Campesino, Youthbuild Grants, Florida City, FL	05/19/98	03/25/99	04/30/99
98DP0003	Review of HUD's Efforts to Correct Year 2000 Problems	06/01/98	Note 3	
98SE1002	Request for Assistance, Nampa, ID Housing Authority, Child Care Center	06/03/98	10/14/98	05/30/01
98FW1004	New Orleans, LA Housing Authority, HOPE VI Grants	06/15/98	10/30/98	07/31/99
98AT1807	Indianola, MS Housing Development Corporation, Bond Refund, Eastover Apartments	06/24/98	10/22/98	06/30/99
98AT1808	Hazard, KY Housing Authority	07/07/98	02/05/99	12/01/02
98SF1003	San Francisco, CA Housing Authority, Drug Elimination Program	07/22/98	12/09/98	08/31/99



Report Number	Report Title	Issue Date	Decision Date	Final Action
98AO1803	Multifamily Equity Skimming Review - Washington, DC	08/18/98	03/04/99	12/31/99
98AT1008	Metropolitan Dade Housing Agency, Public Housing Drug Elimination Program, Miami, FL	09/01/98	01/25/99	01/25/00
98AT1009	Metro Atlanta, GA Task Force for the Homeless, Inc., Innovative and Supportive Housing Homeless Programs	09/03/98	01/11/99	12/22/99
98AT1811	City of Covington, KY, Hotline Complaints	09/03/98	02/25/99	05/31/99
98SF0002	Audit of the Office of Fair Housing and Equal Opportunity	09/15/98	02/24/99	12/31/99
98AO1804	Upfront Grant for Ridgecrest Heights Apartments - Washington, DC	09/24/98	Note 3	
98AO1806	Innovative Homeless Initiatives Program - Creative Partnership for the Prevention of Homelessness (CHHP) - Washington, DC	09/28/98	Note 3	
98CH1005	City of Atlanta, GA Empowerment Zone Program	09/28/98	03/26/99	12/31/99
98AO1001	Public Housing Drug Elimination Program - Alexandria, VA Redevelopment and Housing Authority	09/29/98	03/31/99	10/01/99
98CH1006	City of Philadelphia, PA Empowerment Zone Program	09/30/98	03/26/99	12/31/99
98DP0004	Controls Over the Single Family Acquired Asset Management System	09/30/98	Note 3	

## AUDITS EXCLUDED:

- 17 audits under repayment plans
- 26 audits under formal judicial review, investigation, or legislative solution

## NOTES:

- 1 Management did not meet the target date. Target date is over 1 year old.
- 2 Management did not meet the target date. Target date is under 1 year old.
- 3 No management decision.



## TABLE C

APPENDIX 2

### INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED AND UNSUPPORTED COSTS AT 03/31/99 (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	18	15,735	5,457
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	11	16,569	4,788
A3 For which additional costs were added to reports in beginning inventory	—	396	0
A4 For which costs were added to non-cost reports	2	92	—
B1 Which were issued during the reporting period	22	16,629	5,333
B2 Which were reopened during the reporting period	—	—	—
Subtotals (A+B)	53	49,421	15,578
C For which a management decision was made during the reporting period	28 <sup>1</sup>	26,820	7,633
(1) Dollar value of disallowed costs:			
• Due HUD	9 <sup>2</sup>	3,062	1,083
• Due Program Participants	20	21,223	5,523
(2) Dollar value of costs not disallowed	9 <sup>3</sup>	2,597	1,027
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	10	16,162	4,788
E For which no management decision had been made by the end of the reporting period	15 <43> <sup>4</sup>	6,439 <6,439> <sup>4</sup>	3,157 <3,157> <sup>4</sup>

1 7 audit reports also contain recommendations with funds due program participants.

2 2 audit reports also contain recommendations with funds agreed to by management.

3 8 audit reports also contain recommendations with funds agreed to by management.

4 The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.



**TABLE D**  
**INSPECTOR GENERAL ISSUED REPORTS**  
**WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**  
**AT 03/31/99**  
**(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	456
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	2	3,911
A3 For which additional costs were added to reports in beginning inventory	—	—
A4 For which costs were added to non-cost reports	—	—
B1 Which were issued during the reporting period	3	392
Subtotals (A+B)	10	4,759
C For which a management decision was made during the reporting period	7 <sup>1</sup>	844
(1) Dollar value of recommendations that were agreed to by management:		
• Due HUD	—	—
• Due Program Participants	3	459
(2) Dollar value of recommendations that were not agreed to by management	4	385
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	2	3,911
E For which no management decision had been made by the end of the reporting period	1 <1> <sup>2</sup>	4 <4> <sup>2</sup>

## Notes:

1 7 audit reports also contain recommendations with questioned costs.

2 The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Table C and D.



## 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  
October 1, 1998 through March 31, 1999

Audit and White Collar Crime Investigative Results	Audit	Investigation	Combined
Cash, Cost Savings, and Other Recoveries	\$5,211,294	\$515,311	\$5,726,605
Court Ordered: Restitution Fines Levied		\$1,636,854 \$16,450	\$1,636,854 \$16,450
Commitments to Recover Funds	\$24,400,250		\$24,400,250
Cost Efficiencies: Identified Sustained	\$50,000 \$459,812		\$50,000 \$459,812
Indictments		80	80
Convictions		36	36
Years of Prison Sentences		223	223
Years of Probation		140	140
Administrative Actions Against Persons/Firms Doing Business with HUD	0	31	31
Subpoenas Issued	11	42	53
<b>Operation Safe Home Violent Crime Investigative Results</b>			<b>This Reporting Period</b>
Arrests			1,303
Search Warrants			228
Cash Seized			\$1,868,125
Drugs Seized			\$2,672,180
Weapons Seized			265



## Report fraud, waste and mismanagement in HUD programs and operations by:

### Calling the OIG Hotline:

1-800-347-3735 Nationwide  
1-202-708-4200 in the DC area  
1-800-304-9597 by TDD  
1-202-708-4829 by fax

### Sending written information to:

OIG Hotline  
Office of Investigation  
Room 8270  
451 7th St., SW  
Washington, DC 20410-4500

via the internet: [www.hud.gov/oig/oighot.html](http://www.hud.gov/oig/oighot.html)

### or contacting your local HUD OIG District Office:

New England District  
Thomas P. O'Neill, Jr. Building  
10 Causeway St.  
Boston, MA 02222-1092  
Tele: 617-565-5293  
fax: 617-565-6916  
States: CT, MA, ME, NH, RI, VT

Midwest District  
Ralph Metcalfe Federal Building  
77 W. Jackson Boulevard, Suite 2646  
Chicago, IL 60606-3507  
Tele: 312-353-4196  
fax: 312-353-3188  
States: IL, IN, MI, MN, OH, WI

Pacific/Hawaii District  
Phillip Burton Federal Building &  
Courthouse  
450 Golden Gate Boulevard  
San Francisco, CA 94102-3448  
Tele: 415-436-8108  
fax: 415-436-8114  
States: AZ, CA, HI, NV

New York/New Jersey District  
26 Federal Plaza  
New York, NY 10278-0068  
Tele: 212-264-8062  
fax: 212-264-4933  
States: NJ, NY

Southwest District  
1600 Throckmorton  
P.O. Box 1839  
Ft. Worth, TX 76113-2905  
Tele: 817-978-9310  
fax: 817-978-9373  
States: AR, LA, NM, OK, TX

Northwest/Alaska District  
Seattle Federal Office Building  
909 1st Ave., Suite 125  
Seattle, WA 98104-1000  
Tele: 206-220-5380  
fax: 206-220-5160  
States: AK, ID, OR, WA

Mid-Atlantic District  
The Wanamaker Building  
100 Penn Square East  
Philadelphia, PA 19107-3390  
Tele: 215-656-3410  
fax: 215-656-3409  
States: DE, MD, PA, VA, WV

Great Plains District  
Gateway Tower II  
400 State Ave.  
Kansas City, KS 66101-2406  
Tele: 913-551-5866  
fax: 913-551-5496  
States: IA, KS, MO, NE

Capital District  
800 North Capitol Street, NW  
Suite 590  
Washington, DC 20002  
Tele: 202-501-1200  
fax: 202-501-1312  
States: DC metropolitan area

Southeast/Caribbean District  
Richard B. Russell Federal Building  
75 Spring St., SW  
Atlanta, GA 30303-3388  
Tele: 404-331-3359  
fax: 404-331-1243  
States: AL, FL, GA, KY, MS, NC, SC,  
TN, and Puerto Rico

Rocky Mountains District  
First Interstate Tower North  
633 17th Street  
Denver, CO 80202-3607  
Tele: 303-672-5449  
fax: 303-672-5087  
States: CO, MT, ND, SD, UT, WY

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HUD Office of Inspector General

## **Semiannual Report to the Congress**

as of March 31, 1999

[www.hud.gov/oig/oigindex.html](http://www.hud.gov/oig/oigindex.html)

