



Office of Inspector General Report to The Congress for the Six Month Period

October 1, 1979 to March 31, 1980

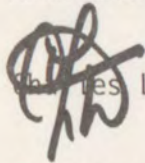
Pursuant to Public Law 95-452



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20410

April 30, 1980

TO : Moon Landrieu, Secretary, S

FROM :  Charles L. Dempsey, Inspector General, Z

SUBJECT: Semiannual Report on Activities of Office of Inspector General

Pursuant to section 5(b) of the Inspector General Act of 1978, I respectfully submit our semiannual report on the activities of the Office of Inspector General for the period October 1, 1979 to March 31, 1980.

Section 5(b) requires that you transmit this report to the appropriate committees or subcommittees of the Congress within thirty days after its receipt, together with your own report containing any comments you deem appropriate.

FOREWORD

This report, consisting of 12 sections and three appendices, is the HUD Office of Inspector General's third semiannual report to Congress since enactment of the Inspector General Act of 1978 (Public Law 95-452).

The report addresses each reporting requirement in Section 5 of the Inspector General Act and also provides other relevant information on HUD Office of Inspector General activities, accomplishments and concerns during the current semiannual reporting period October 1, 1979 to March 31, 1980.

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Appendices

- Appendix 1 - Inspector General Bulletin No. 80-ZF-12,
FY 1980 Travel Funds
- Appendix 2 - HUD Staff Bulletin 79-128,
Implementation of Fraud Information
Bulletins
- Appendix 3 - Fraud Information Bulletin 80-1,
Section 8--Administration

SUMMARY

I. SIGNIFICANT PROBLEMS, ABUSES, DEFICIENCIES AND RECOMMENDATIONS (page 1)

During the current semiannual reporting period October 1, 1979 to March 31, 1980, the OIG reported many important matters to HUD management and made numerous recommendations to correct problems, abuses and deficiencies in the operations of HUD and its program participants. Under the Department's Audits Management System, many of these matters were resolved or will be resolved by HUD management. Because of their significance, however, several ongoing and completed matters are worthy of mention to Congress as shown below.

OIG Activities in Puerto Rico Involving GNMA Mortgage-Backed Security Pools and Mortgage Origination Practices

At March 31, 1980, extensive audit and investigation work was ongoing in Puerto Rico involving GNMA mortgage-backed security pools and mortgagee origination practices. Because VA-guaranteed loans, as well as FHA-insured loans are involved, the VA Office of Inspector General is participating with us in several of the mortgagee audits and investigations.

Some of the problems disclosed to date include defaulted payments to holders of GNMA mortgage-backed securities, diversions of about \$1.5 million in GNMA-owned pools, and alleged poor and improper origination practices by mortgagees. With respect to the latter, four audits have already disclosed over 100 insured single family mortgage loans based upon potentially fraudulent loan applications.

Audit of Community Development Agency-- City of Yonkers, New York

At March 31, 1980, we were in the process of preparing the report on our audit of the Yonkers Community Development Agency (CDA). The audit primarily focused on the CDA's administration of the Community Development Block Grant Program. In addition, at March 31, 1980, the Justice Department was conducting an investigation of alleged program abuses by the CDA. Our audit is considered particularly significant in view of the nature and extent of deficiencies found and their adverse impact on the CDA. Our audit has disclosed 33 tentative findings involving \$2.8 million of disallowed costs and \$5.2 million of questionable costs.

Both our audit and the alleged mismanagement and program abuses by CDA officials have received considerable local news media coverage. The news media reported that two top CDA officials have recently resigned from their positions.

Audit of Community Development Block Grant Program--
City of Los Angeles, California

At March 31, 1980, we were in the process of preparing the report on our audit of Los Angeles' Community Development Block Grant (CDBG) Program. This audit is considered particularly significant in view of the nature and extent of our tentative audit findings and the fact that two lawsuits by public interest groups have been filed involving both the Los Angeles CDBG Program and HUD. One of the lawsuits seeks to enjoin HUD from further granting or disbursing CDBG funds to Los Angeles and to prohibit the City from further expending such funds until the City meets the housing needs of low and moderate income persons.

Special Operational Survey of Rehabilitation Activities
in the Community Development Block Grant Program

During the semiannual reporting period, we initiated a nationwide Special Operational Survey of Community Development Block Grant (CDBG) rehabilitation activities to identify possible indicators of fraud, program abuses and administrative deficiencies, particularly with respect to the eligibility of recipients' receiving CDBG rehabilitation assistance and the reasonableness of the quality and cost of rehabilitation work. (During FY 1978, cities budgeted about one-sixth of the \$3.4 billion of obligated CDBG Program funds for rehabilitation activities.) Based on our current findings and prior audit experience in the rehabilitation area, we believe that our nationwide report will disclose several important findings and recommendations.

Review of Accounting for Program Funds

During the current semiannual reporting period, we initiated an audit of HUD's Rehabilitation Loan Fund which includes in excess of \$600 million in assets. We found that as of March 31, 1980, active loans exceeding \$450 million were unreconciled with subsidiary accounts. A portfolio of loans which is \$60 million less than the amount shown by HUD's records has been reported. In addition, defaulted loans were not reconcilable. Account balances at September 30, 1979 were understated by about \$2.7 million. Moreover, weaknesses have been found in controls over HUD's receipt and deposit of loan payments.

At the request of the Assistant Secretary for Administration, we also commenced a review of annual obligations for assisted housing. Preliminary indications are that HUD's practice of recording obligations at the point that reservations are made may be incorrect since there is no legal obligation on the part of the U.S. Government at this point.

Philadelphia Housing Authority--
City of Philadelphia, Pennsylvania

During the semiannual reporting period, we reviewed and accepted an Independent Public Accountant (IPA) report on the Philadelphia Housing Authority (PHA). The report encompassed a four-and-one-quarter-year period and included 46 current audit findings and disclosed disallowed expenditures of over \$6 million covering the current audit period and nearly \$18.4 million of unresolved disallowed expenditures covering the prior audit period (the OIG performed the prior audit of the PHA). In addition, prior

audit findings covering disallowances of \$940,567 were not the subject of current findings by the IPA; however, these findings have not been resolved by the auditee to date. The PHA's aggregate disallowances at March 31, 1979 (close of audit period) totaled about \$25.4 million. As of March 31, 1980, none of the reported audit findings had been resolved by the PHA.

Community Development Block Grant Program--
City of New York, New York

The Office of the Comptroller, City of New York, performed an audit of the City's Community Development Block Grant (CDBG) Program from its inception on June 16, 1975 through June 30, 1977. The audit encompassed 72 programs which had been allocated \$193 million. The Comptroller's report was accepted by our office and the report's findings were concurred in by HUD during the current reporting period. Of the \$94 million in net costs charged to the City's CDBG Program during the audit period, about \$61.4 million or approximately 65.3 percent of such costs were either disallowed or questioned as to their eligibility by the Comptroller. As of March 31, 1980, \$40.8 million of the \$61.4 million of costs had not been resolved by the City.

Model Cities and Community Development Block Grant Programs--
City of New Orleans, Louisiana

As of March 31, 1980, the City of New Orleans had not resolved 223 audit findings involving approximately \$4.9 million of questioned and disallowed costs which were disclosed as a result of OIG and non-Federal audits of the City's Model Cities and Community Development Block Grant (CDBG) Programs. These audit findings were contained in four audit reports -- two prepared by the OIG and two prepared by an Independent Public Accountant (IPA). The IPA's reports also included audit findings on subgrantees of the City of New Orleans which were disclosed as a result of other IPA audits. The audit reports covered the period August 1, 1972 through September 30, 1978 and disclosed a total of 302 audit findings. The latest report was prepared by the IPA and was accepted by our office on January 21, 1980.

Inadequate Monitoring of Program Participants

In our two previous semiannual reports to Congress, we reported that HUD was not adequately monitoring its program participants. During the current semiannual reporting period, we continued to disclose matters in our audit reports on HUD's inadequate monitoring of program participants. Moreover, on-site monitoring of program participants is being further hampered by recent cuts in HUD travel funds.

II. UNRESOLVED SIGNIFICANT RECOMMENDATIONS IN
PRIOR SEMIANNUAL REPORTS (page 12)

In our prior semiannual report to Congress, we summarized the findings and recommendations of our Special Operational Survey of the Section 8 Leased Housing Program. During the current semiannual reporting period, the Office of the Assistant Secretary for Housing-Federal Housing Commissioner took further actions to correct the deficiencies disclosed in our report. Our report recommendations, however, had not been fully resolved at March 31, 1980.

III. SIGNIFICANT MATTERS AFFECTING THE
OFFICE OF INSPECTOR GENERAL (page 13)

Several matters are adversely impacting on our ability to perform needed audits and investigations and to effectively carry out certain provisions of the Inspector General Act. These matters are a severe shortage of travel funds for the remainder of FY 1980 and a need to facilitate the hiring of qualified auditors and investigators.

IV. SUMMARY OF MATTERS REFERRED TO PROSECUTIVE AUTHORITIES (page 15)

During the current semiannual reporting period, we referred 433 investigation cases for prosecutive consideration. Of these cases, 252 were referred directly to the FBI with no investigation on our part. Prosecution was declined on 399 investigation cases. Also, a total of 52 investigation cases resulted in the indictment and/or conviction of 89 persons/firms having business with HUD. Of these 89 persons/firms, 55 were as a result of cases referred by the OIG; the remainder or 34 were the result of cases initiated solely by the FBI.

Moreover, a total of 53 persons/firms were convicted during the semiannual reporting period. Of these 53 persons/firms, 27 were the result of cases referred by the OIG. The 53 persons/firms received a total of 108 years imprisonment, 88 years probation, suspended sentences of 24 years, fines amounting to \$55,325 and were required to make restitution amounting to \$6,444.

V. REVIEW OF LEGISLATION AND REGULATIONS (page 21)

During the semiannual reporting period October 1, 1979 to March 31, 1980, we reviewed 34 proposed new regulations or revisions to existing regulations, an undetermined number of existing regulations and statutes in conjunction with our internal audits, and 87 proposed new legislative bills or revisions to existing bills. As a result of these reviews, we provided many comments and recommendations which we believe have been, or will be satisfactorily resolved. Our semiannual report includes comments which discuss the possibility of amending the Real Estate Settlement Procedures Act to provide for some alternative enforcement mechanisms.

VI. UNREASONABLE REFUSAL OR NON-PROVISION OF
REQUESTED INFORMATION OR ASSISTANCE (page 22)

During the semiannual reporting period, there were no instances reported to the Secretary wherein information or assistance requested by the OIG was unreasonably refused or not provided.

VII. SUMMARY OF SUBPOENAS (page 23)

During the semiannual reporting period, we found it necessary to exercise our subpoena authority on five occasions. In each case, the use of our subpoena authority resulted in the necessary records or documents being obtained.

VIII. COOPERATIVE EFFORTS WITH OTHER FEDERAL AND STATE AGENCIES (page 24)

In addition to our ongoing cooperation and coordination with other Federal agencies during the current semiannual reporting period, we also engaged in several special cooperative efforts with the Congress, a State agency and the Offices of Inspector General of VA, HEW, and GSA. One of these efforts was mentioned in our prior semiannual report and is updated below.

Review of HUD's Management of Personal Property

As part of a coordinated effort with Inspectors General of other major Federal departments and agencies pursuant to a GSA Office of Inspector General-requested governmentwide audit of Federal property management, we reviewed HUD's property management activities. Our February 1980 report disclosed a need for HUD to establish and maintain more reasonable inventory levels. We reviewed certain inventory valued at \$680,000. Of this amount, we determined that inventory valued at \$553,000 was in excess of HUD's needs. The \$553,000 of inventory involved 2,500 individual pieces of furniture. We also found a need on the part of HUD to develop better accounting controls, maintain more complete and accurate property control records, establish better accountability over the transfer of excess personal property to other agencies, and take measures to improve the physical security of the inventory.

IX. SELECTED AUDIT FINDINGS AND RECOMMENDATIONS (page 28)

Section IX summarizes the results of four of our nationwide internal audits in the Housing Programs area and includes a summary of findings contained in 82 external audit reports on FHA-insured multifamily mortgagor operations.

Our nationwide review of multifamily project operations prior to final endorsement disclosed that HUD Field Offices were not adequately monitoring multifamily project operations at this stage to identify unfavorable conditions in project operations.

Our nationwide review of the timeliness of foreclosure of multifamily project mortgages disclosed that some HUD Field Offices were not obtaining workout proposals promptly and were permitting mortgagors to defer making payment toward mortgage delinquencies without determining the prospects for reinstatement of the defaulted mortgages.

Our nationwide review of previous participation review and clearance procedures revealed that some principals were being cleared for participation in HUD programs without having corrected known serious deficiencies in connection with their prior participation in HUD programs.

Our nationwide review of the servicing of delinquent Title I and Section 312 rehabilitation loans disclosed that HUD Field Offices were not aggressively servicing such defaulted loans which diminished HUD's ability to collect on these accounts.

A review of 82 external audit reports on FHA-insured Multifamily Mortgagor Operations (MFMO) revealed that improper or questionable use of operating revenues was the most prevalent finding, occurring in 77 percent of MFMO projects and accounting for \$7.8 million of questionable or disallowed costs in the audit reports. Other reported problems included: incomplete or inaccurate accounting records and/or reports; inadequate internal controls; improper or untimely recertification of tenants eligible for subsidies; rental rates in excess of approved rates; improper computations of rents and/or subsidies; failure to apply excess funds against delinquent mortgage payments; and improper use and maintenance of escrow or reserve funds.

X. INTERNAL ORGANIZATIONAL AND MANAGEMENT
IMPROVEMENT EFFORTS (page 31)

During the semiannual reporting period, we commenced, continued or completed a number of organizational and management improvement initiatives designed to enhance the effectiveness and efficiency of our operations. For example: (1) an "Executive Management Reporting" System was established to facilitate our monitoring of OIG goals and objectives; (2) the policies, procedures and responsibilities governing the implementation of our audit planning systems were formalized and made part of our permanent operating manual system; and (3) efforts were initiated to hire staff appraisers (to appraise valuation of properties) and to transfer out of the OIG our current responsibility for investigating complaints relating to equal employment opportunity.

XI. OTHER ACTIVITIES AND ACCOMPLISHMENTS (page 34)

Other important activities and accomplishments during the current semiannual reporting period were as follows:

Committee on Fraud, Waste and Mismanagement

In cooperation with HUD's Committee on Fraud, Waste and Mismanagement, the following projects were implemented during the semiannual reporting period: (1) a Fraud Vulnerability Assessment System for all new or substantially revised HUD programs; (2) a research project on HUD's monitoring systems and procedures; (3) revisions to the basic regulatory and management agent agreements governing multifamily housing management operations; and (4) a review of the certification process in the Community Development Block Grant Program.

OIG Fraud Control Initiatives

OIG's fraud control initiatives during the semiannual reporting period included: (1) preparation of a management control assessment guide for use by HUD offices in measuring the existence and effectiveness of management controls in HUD's programs and functions; (2) implementation of a series of Fraud Information Bulletins to alert HUD employees to the types of schemes used by program participants to improperly divert HUD funds for personal gain and the issuance of the first bulletin in the series covering HUD's Section 8 Program; and (3) the conducting of a new training course for our auditors and investigators on the "Detection and Prevention of Fraud and Program Abuse."

Employee Hotline Activities

During the semiannual reporting period, we issued formal procedures covering the receipt, screening, maintenance and tracking of employee hotline complaints. A total of 185 hotline complaints were received during the semiannual reporting period (62 through the HUD hotline and 123 from GAO via its hotline).

Referrals to Mortgagee Review Board

During the semiannual reporting period, we referred two mortgage companies to HUD's Mortgagee Review Board for possible disciplinary action. The Board withdrew the mortgagee's approval status in one instance; issued a letter of reprimand and entered into an indemnification agreement with the other. Additionally, HUD realized monetary savings of about \$139,000 from the Board's action on a case we referred during the previous fiscal year.

Actual and Potential Cash Recoveries

OIG and non-Federal auditor monetized audit findings concurred in by HUD during the semiannual reporting period amounted to about \$76.4 million. This total has already substantially exceeded the \$31.3 million of such monetized findings for all of FY 1979.

Cash recoveries resulting from OIG external audits and audits performed by non-Federal auditors amounted to about \$11.1 million.

XII. OIG AUDIT REPORTS COMPLETED (page 44)

During the semiannual reporting period, we issued 53 internal audit/survey reports and 333 external audit and accounting system evaluation reports.

BACKGROUND

ESTABLISHMENT

The Office of Inspector General (OIG), Department of Housing and Urban Development (HUD), was established on January 29, 1972. The establishment of the OIG provided for the consolidation of the audit, investigation, and personnel security operations of HUD into one cohesive and independent organization headed by an Inspector General reporting directly to the Secretary.

The establishment of Offices of Inspector General became a matter of law with the signing of the Inspector General Act of 1978 on October 12, 1978. This Act provided for the establishment of such offices in 12 departments and agencies of the Executive Branch, including HUD, effective October 1, 1978.

ROLE AND AUTHORITY

The HUD Inspector General heads an independent organization responsible for audit, investigation, fraud control and designated security services relating to programs and operations of HUD.

The Inspector General reports directly to the Secretary of HUD and is a member of the Secretary's Principal Staff. The Inspector General has authority to inquire into all programs and activities of HUD and the related activities of persons or parties performing under grants, contracts or other agreements with the Department. These inquiries may be in the form of audits, surveys, criminal and other investigations, personnel security checks, or such other inquiries as may be appropriate in the circumstances. The primary purpose of these inquiries is to assist all levels of HUD management by identifying and reporting on problem areas and weaknesses or deficiencies in procedures, policies, program implementation and employee conduct; and to recommend corrective actions when appropriate.

Pursuant to the Inspector General Act of 1978, the Inspector General is responsible for providing leadership, supervision and coordination; and for recommending policies for, activities and organizational relationships designed to promote economy, efficiency, and effectiveness in the administration of programs and operations, as well as to detect and prevent fraud and abuse in such programs and operations. In this regard, the Inspector General is responsible for keeping the Secretary and the Congress fully and currently informed about problems and deficiencies in the administration of HUD's programs and operations and the necessity for and progress of corrective action.

RELATIONSHIP TO OTHER PRINCIPAL HUD OFFICES

Full responsibility is vested with HUD Primary Organization Heads for establishing, executing and ensuring compliance with policies, plans and procedures; for proper protection and use of the Department's resources; and for appropriate action on conditions needing improvement, including those

reported by the OIG. The operations of the OIG neither replace established lines of operating authority nor eliminate the need for HUD Primary Organization Heads to carry out reasonable measures to protect and enhance the integrity and effectiveness of their operations. All Primary Organization Heads in HUD are responsible for effectively monitoring and evaluating the programs entrusted to them.

In the context described, the role of the OIG is that of a departmentwide overseer and advisor in ensuring that management is carrying out their responsibilities to protect and enhance the integrity and effectiveness of the Department's operations.

ORGANIZATION AND STAFFING

The OIG consists of three major offices, each headed by an Assistant Inspector General. These offices are the: (1) Office of Audit; (2) Office of Investigation; and (3) Office of Fraud Control and Management Operations.

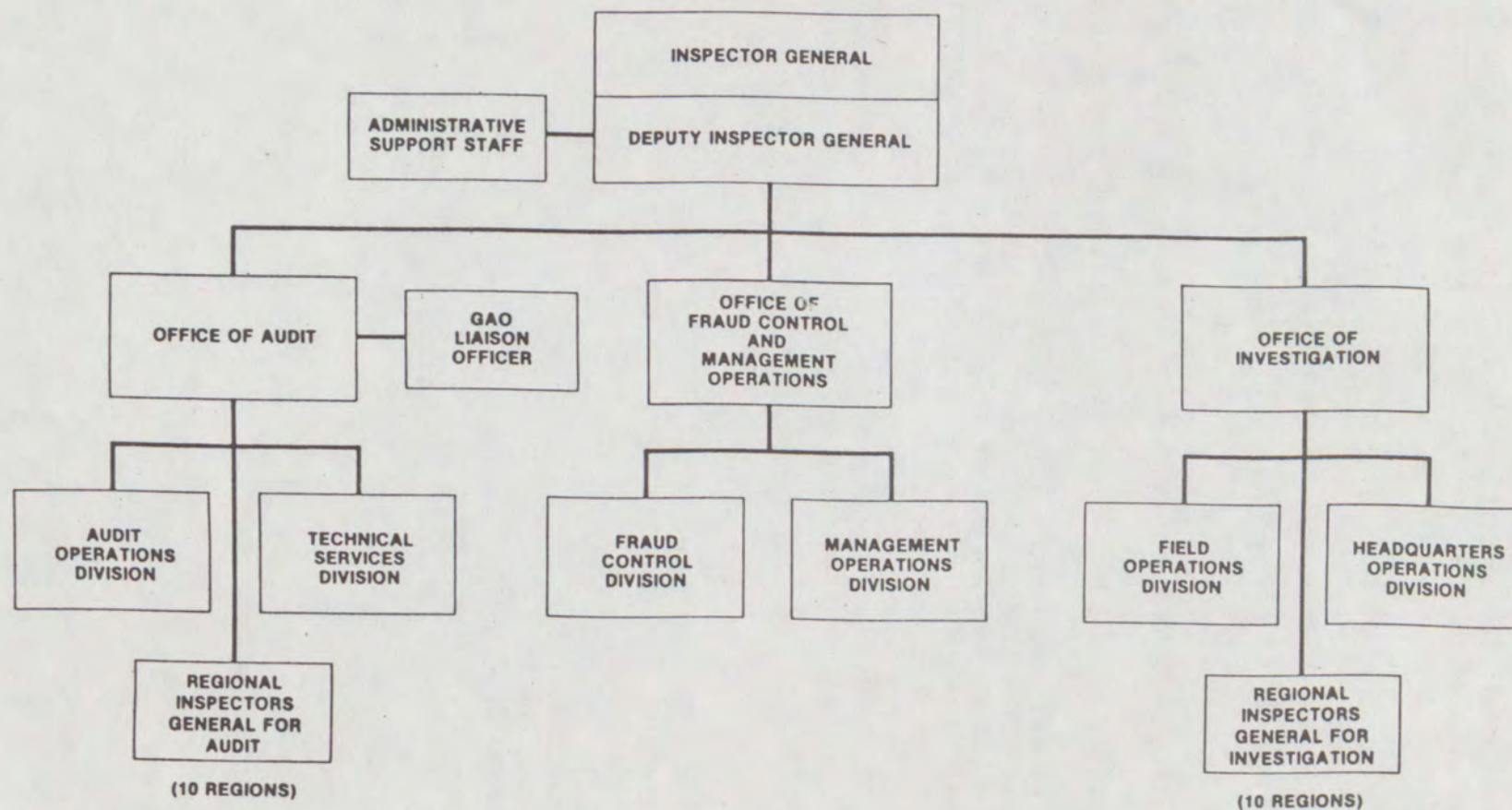
Within each of HUD's Regions is a Regional Inspector General for Audit who directs a staff of auditors, and a Regional Inspector General for Investigation who directs a staff of investigators. The Regional Inspectors General report to their counterpart Assistant Inspector General in Headquarters (See Organizational Chart on following page).

As of March 31, 1980, the OIG had a staff ceiling of 488 permanent full-time employees. This ceiling is distributed as follows:

	<u>Headquarters</u>	<u>Field</u>	<u>Total</u>
Inspector General (Immediate Office)	15	0	15
Office of Audit	50	300	350
Office of Investigation	20	84	104
Office of Fraud Control and Management Operations	<u>19</u>	<u>0</u>	<u>19</u>
Total OIG	<u>104</u>	<u>384</u>	<u>488</u>

DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT

OFFICE OF
INSPECTOR GENERAL



May 1979

I. DESCRIPTION OF SIGNIFICANT PROBLEMS, ABUSES AND DEFICIENCIES AND RECOMMENDATIONS FOR CORRECTIVE ACTION DURING THE CURRENT REPORTING PERIOD

Section 5(a)(1) and (2) of the Inspector General Act of 1978 provide for a description of the significant problems, abuses and deficiencies, as well as related significant recommendations with respect to the programs and operations of the Department, as disclosed by the OIG during the six-month reporting period.

During the six-month period October 1, 1979 to March 31, 1980, we reported many important matters to HUD management and made numerous recommendations to achieve corrective action. Under the Department's Audits Management System, many of these matters were resolved or will be resolved by HUD management. Several matters, however, are worthy of mention some of which involve large amounts of disallowed* and questioned* costs which had not been resolved as of March 31, 1980.

A. SIGNIFICANT WORK IN PROCESS

During the current semiannual reporting period, we initiated several significant work efforts which had not been completed as of March 31, 1980. These efforts are briefly described below. If appropriate, we will report further on these matters in our subsequent semiannual reports to Congress.

HOUSING AND GNMA

OIG ACTIVITIES IN PUERTO RICO INVOLVING GNMA MORTGAGE-BACKED SECURITY POOLS AND MORTGAGEE ORIGINATION PRACTICES

Diversion of Funds -- GNMA Mortgage-Backed Security Pools

Officials of James T. Barnes and Company of Puerto Rico informed the Government National Mortgage Association (GNMA) in December 1979 that it did not have sufficient funds to make its December 15 payment to holders of mortgage-backed securities guaranteed by GNMA. GNMA declared the existence of a default, paid the security holders, and initiated the process of transferring 85 mortgage pools to another mortgage banking firm. In January

*Disallowed costs are costs which clearly are not allowable, i.e., they are ineligible by law, contract, HUD or local agency policies or regulations. HUD is required to direct the auditee to adjust its project records to reflect such costs and to reimburse the project or Department for any amounts due as a result of the disallowances.

*Questioned costs are costs which are not clearly eligible or ineligible, but which warrant being contested by the auditor for any number of reasons (e.g., lack of satisfactory documentation to support the eligibility of the cost, etc.). These costs are brought to the attention of HUD management for a decision as to their eligibility.

1980, GNMA was informed that with respect to pools sold by James T. Barnes to another firm, the payments made on mortgages foreclosed or assigned by the Veterans Administration (VA) and HUD-Federal Housing Administration (FHA) were not deposited in the mortgage-backed security pool bank accounts. As a result, audit work indicated that for a period of over a year, claim payments made by the VA and FHA were deposited in James T. Barnes of Puerto Rico operating accounts and not passed through to the holders of mortgage-backed securities. In some cases, the monies were deposited at a later date in the proper bank accounts and paid to the security holders. The audit work revealed that there was a diversion of funds totaling about \$1.5 million in GNMA-owned pools and \$1.7 million of monies in the pools owned by a private firm. In order to protect HUD's interests, we subpoenaed the records of the James T. Barnes Company of Puerto Rico to prevent their loss or disposal. At March 31, 1980, the James T. Barnes Company of Puerto Rico was no longer in business. Our audit and investigative work is continuing.

Joint HUD/VA Audits of Questionable Mortgage Origination Practices

At meetings with issuers of GNMA mortgage-backed securities pools, the Executive Vice President of GNMA was informed of alleged poor and improper origination practices by originating mortgagees. Because of these allegations, the high delinquency and foreclosure rate in Puerto Rico, audit findings in previous OIG audit reports, and past experience; the Assistant Secretary for Housing-Federal Housing Commissioner sent a team to Puerto Rico to review the single family underwriting procedures of the HUD Caribbean Area Office. This review was conducted February 11-22, 1980.

We determined there was a need to make eight special audits of mortgage origination activities. Because of the involvement of VA-guaranteed loans as well as FHA-insured loans, we discussed the situation with the Inspector General of the Veterans Administration. He fully cooperated by furnishing four VA auditors to work with us on the eight special audits. On February 11, we initiated audits of four mortgagees, with each audit team consisting of two of our auditors and one VA auditor. The field work on these four audits has been completed and has disclosed improper mortgage origination practices by the mortgagees. Cases were found wherein mortgagors' incomes were overstated, employment references were incorrect, downpayments were misstated and the mortgagors may not have intended to occupy their properties. We believe that in a number of cases, these factors resulted in HUD's approving mortgages for insurance, and contributed to, if not caused the mortgages, to be foreclosed. The audit work on the other four mortgagees was in process at March 31, 1980.

Cooperative Investigation Efforts

The four audits, initiated on February 11, 1980, disclosed in excess of 100 single family mortgage loans guaranteed or insured by the VA or HUD which were based upon potentially fraudulent loan applications. Therefore, in addition to the aforementioned audit efforts, a team of HUD and VA investigators is also currently conducting investigations of these activities, with HUD acting as the lead agency. Our work is being coordinated with the U.S. Attorney's Office.

The second round of audits initiated in March may reveal similar findings. Additional violations of HUD/VA regulations and Federal criminal statutes will be included in investigations currently in progress and will be used as a basis for identifying mortgagees, realtors and loan solicitors for investigation.

Additional HUD Actions

Because of the subject matters, the Assistant Secretary for Housing-Federal Housing Commissioner instructed the HUD Caribbean Area Office to initiate special procedures to review and verify data on mortgagors furnished for FHA mortgage insurance. In addition, HUD claim payment data will be developed for FHA-insured mortgages in mortgage-backed security pools. This will be used pursuant to reviews of issuers to assure prompt payment to security holders.

COMMUNITY PLANNING AND DEVELOPMENT

1. AUDIT OF COMMUNITY DEVELOPMENT AGENCY -- CITY OF YONKERS, NEW YORK

At March 31, 1980, the close of the current semiannual reporting period, we were in the process of preparing the report on our audit of the Yonkers Community Development Agency (CDA). While the audit primarily encompassed the CDA's administration of the Community Development Block Grant (CDBG) Program, it also included a review of the CDA's administration of the Section 8 Existing Housing Program and Section 23 Leased Housing Program. The objectives of the audit were to: determine the degree of compliance by the CDA with applicable laws and regulations; assure that costs incurred were reasonable and eligible; and identify program areas where evidence of irregularities or abuse occurred.

In addition, throughout the past year the Justice Department has been conducting an investigation of various accusations of a local citizen's group and others concerning alleged mismanagement and program abuse by CDA officials.

Our audit disclosed 33 tentative findings involving \$2.8 million of disallowed costs and \$5.2 million of questioned costs. The major disallowance resulted from improper use of a HUD Urban Development Action Grant to pay CDBG costs. Improper distribution of costs to the CDBG program and unapproved expenditures resulted in the major portion of the questioned costs.

The local news media has provided considerable coverage of our audit and the allegations of management and program abuse. According to the local news media, the Yonkers City Manager, who is also Chairman of the CDA's Board, resigned from his position as City Manager and CDA Board Chairman on March 18, 1980. The news media also reported that, effective March 1, 1980, the Director of the CDA, who is also the City's Commissioner of Development, resigned from his position.

2. AUDIT OF COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM-- CITY OF LOS ANGELES, CALIFORNIA

We commenced an audit of Los Angeles' Community Development Block Grant (CDBG) Program in August 1979. Our audit report was in the draft stage at March 31, 1980. The audit has resulted in 15 tentative audit findings. City officials have provided us comments on all the findings and indicated that corrective action is underway.

Examples of our tentative findings include: (1) ineligible public service activity costs of \$1.4 million; (2) project funds of \$9.6 million reprogrammed without HUD approval; (3) ineffective administration of the Section 312 Rehabilitation Loan Program; (4) deficiencies relating to property acquisition and relocation activities; and (5) need for improving and expanding opportunities for neighborhood citizen participation.

On December 11, 1979, the Coalition for Community Development Reform initiated a lawsuit against HUD in which it seeks to compel HUD to administer the CDBG program in Los Angeles in a manner that the Coalition believes would more appropriately meet the housing needs of low and moderate income persons. In pursuit of these goals, the Coalition seeks to enjoin HUD from further granting or disbursing CDBG funds to Los Angeles, and to prohibit the City from further expending such funds until the Coalition's desires are met.

On January 28, 1980, an additional lawsuit was filed by neighborhood groups in Los Angeles in which an attack was made on the methodology used by Los Angeles in determining the boundaries of Neighborhood Strategy Areas, the reduction of funds allocated for public services in east Los Angeles, and the environmental review procedures employed by the City. In addition, it was claimed that the fifth year CDBG program discriminates against minority residents of Los Angeles.

3. SPECIAL OPERATIONAL SURVEY OF REHABILITATION ACTIVITIES IN THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

During FY 1978, cities budgeted about one-sixth of the \$3.4 billion of obligated Community Development Block Grant (CDBG) Program funds for rehabilitation activities.

We initiated a Special Operational Survey of CDBG rehabilitation activities to identify possible indicators of fraud, program abuses, and administrative deficiencies in the operation of such activities. Our Survey was designed to review the eligibility of recipients' receiving CDBG rehabilitation assistance and the quality and cost of rehabilitation work.

The field work for this Survey began in October 1979 and involved work in each of HUD's ten Regions, including 33 Area Offices. It also encompassed 1,200 property owners and 99 grantees. The selection of property owners, grantees, and HUD Area Offices was made on a statistical sampling basis.

The Survey field work was completed in February 1980. Reports to involved HUD Area Office managers are being drafted and processed. As of March 31, 1980, 12 of the 33 Area Office reports were issued. Information related to deficiencies disclosed during the Survey will be reviewed by a qualified statistician who will project the extent to which these deficiencies exist.

Some of the deficiencies disclosed to date include: (1) poor workmanship and incomplete repairs; (2) inadequate work write-ups; (3) inadequate inspections of rehabilitation work; (4) final inspections not documented or not performed; (5) contractors paid for work not done or poorly done; (6) ineligible participants; (7) eligibility of participants not verified; (8) lack of competitive bidding on contracts; and (9) rehabilitated properties not meeting housing quality standards.

ADMINISTRATION

REVIEW OF ACCOUNTING FOR PROGRAM FUNDS

Weaknesses have been disclosed in accounting for funds of two separate housing programs. In both cases, the result has been that HUD's accounting records failed to accurately show the status of the accounts involved. These matters are further discussed in the following subsections.

Financial Audit of the Rehabilitation Loan Fund

We commenced an audit of HUD's Rehabilitation Loan Fund in December 1979. While this audit is not yet complete, the conditions noted to date are such that we will be unable to provide an unqualified opinion on the financial statements of the fund which show over \$600 million in assets. HUD cannot determine with any certainty whether or not loans are in fact being collected by the loan servicer.

As of March 31, 1980, active loans exceeding \$450 million were unreconciled with subsidiary accounts. The servicer who services the loans for HUD has reported a portfolio of loans which is \$60 million less than the amount shown by HUD's records. Causes for this unreconciled difference include: unexplainable delays in referring loans to the servicer; inadequate accounting treatment of loans made under modified payment plans; possible delays by local public authorities due to borrowers' inability to make payments; and local public authority delays in settlement without HUD knowledge.

Additionally, defaulted loans were not reconcilable. Account balances at September 30, 1979 failed to reflect all transactions; the understatement at the end of the year was about \$2.7 million. Also, an allowance for a bad debts account was established at 10 percent of the amount of the loans rather than basing the allowance on the probable collectibility of loans. Of the 8,000 borrowers in default, 500 borrowers cannot be located. Weaknesses have also been noted in controls over HUD's receipt and deposit of loan payments.

Review of Annual Obligations for Assisted Housing

At the request of the Assistant Secretary for Administration, we commenced a review of annual obligations for assisted housing. The review has given rise to the question as to when a valid obligation is created. HUD's Office of Finance and Accounting has been recording obligations at the point that reservations are made rather than when a contract is signed by parties. HUD's Office of General Counsel has given an opinion that obligating funds at the point of reservation meets the requirements for a legal obligation. However,

the United States General Accounting Office (GAO), which is making a review of year-end spending, has questioned the propriety of obligating funds at the reservation point.

Preliminary indications are that notification and reservation letters may not be legally sufficient to constitute obligations. If this is the case, then HUD has been recording obligations for assisted housing even though there is no legal obligation on the part of the United States Government.

B. SIGNIFICANT WORK COMPLETED

The following three matters concern both OIG-prepared audit reports and audit reports prepared by non-Federal auditors.* These reports contained numerous audit findings and significant amounts of questioned and disallowed costs which had not been resolved as of March 31, 1980. Such costs amounted to about \$71 million for the three auditees.

HOUSING

PHILADELPHIA HOUSING AUTHORITY -- CITY OF PHILADELPHIA, PENNSYLVANIA

On December 28, 1979, we reviewed and accepted the Independent Public Accountant's (IPA's) audit report on the Philadelphia Housing Authority (PHA). The IPA issued a qualified opinion on the PHA's Balance Sheet and a disclaimer with respect to its Statements of Income and Expenses, and Analysis of Surplus. The report encompassed a four-and-one-quarter-year period and included 46 current audit findings and disclosed disallowed expenditures of over \$6 million covering the current audit period and nearly \$18.4 million of unresolved disallowed expenditures covering the prior audit period (the OIG performed the prior audit of the PHA). In addition, prior audit findings covering disallowances of \$940,567 were not the subject of current findings by the IPA; however, these findings have not been resolved by the auditee to date. Many of the findings reported during the current audit period were reported by the OIG during the previous audit of the PHA. Both the IPA's current disallowances and our prior disallowances were not resolved by the auditee as of the close of the semiannual reporting period. The PHA's aggregate disallowances at March 31, 1979 (close of audit period) totaled about \$25.4 million.

Summary of Audit Findings

The major finding covering the current audit period concerned the PHA's inadequate control over tenants' use of utilities and the PHA's incurrence of excessive utility costs which were not collected from tenants. These matters resulted in disallowing costs incurred by the PHA of \$5.5 million. A similar

*Pursuant to the Inspector General Act of 1978, we are required to establish guidelines for determining when it shall be appropriate to use non-Federal auditors and to take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General of the United States. In FY 1980 we anticipate spending about 25 staff years monitoring the work of non-Federal auditors (See page 42).

finding during the prior audit resulted in \$880,816 being disallowed. In connection with the latter audit finding, the PHA in April 1978 filed a complaint against HUD for declaratory and injunctive relief in U.S. District Court. However, disposition of this matter has not yet occurred.

The IPA also reported that the PHA failed to comply with its own as well as HUD's personnel policies and imprudently used its staff during the current audit period. This resulted in the IPA's disallowing \$195,441 of PHA personnel costs. Similarly, as a result of our prior audit of the PHA, we disallowed over \$6.3 million of costs because the PHA was employing personnel under questionable circumstances and was paying employees wages which exceeded local public practice for the positions involved.

Pursuant to our prior audit of the PHA, we also reported that the PHA unnecessarily increased its maintenance and security costs by about \$5.8 million because it was not: enforcing eviction policies with respect to tenants who were damaging units and posing a threat to the safety of other tenants; adequately controlling its maintenance employees; assessing tenants for maintenance costs when required and coordinating security activities between the Philadelphia police and tenants.

Our prior audits also disclosed that the PHA lost potential rental income of \$1.6 million primarily because it was not getting vacant units ready for occupancy in a timely manner. Another prior audit matter involved a \$2 million disallowance and concerned the PHA's uneconomical use of development funds which resulted in unrealized income, costly long-term financing with no material benefits, and budget overruns. Moreover, our prior audit report disclosed that the PHA was not assuring that parties responsible for damages and faulty property conditions were being charged. This resulted in a prior audit disallowance of \$387,000 which had not been resolved by the PHA.

Additionally, PHA expenditures for mechanics lien and title insurance for its Used Housing Program (UHP) structures were unwarranted resulting in a prior audit disallowance of \$182,546 and a current audit disallowance of \$101,289. Another prior audit disallowance in connection with the UHP concerned the PHA's incurrence of \$523,600 in additional and unnecessary costs because it allowed UHP developers to supply equipment for properties acquired through the UHP at high costs. For example, the audit disclosed that kitchen ranges could have been purchased through HUD's consolidated supply procedures or the PHA itself could have procured equipment from independent suppliers in the area at a lower cost.

Many other findings in the IPA's report related to waste and inefficiency and indicated the PHA exercised ineffective internal and management control over numerous phases of key operations. This condition has remained virtually unchanged since the OIG's prior audit. Unresolved disallowances in connection with these other findings totaled \$486,468, of which \$112,848 was disallowed as a result of the IPA's audit.

Recommendations

We recommended that the HUD Area Office: assure that the PHA record in its books disallowed expenditures in the amount of \$25,422,567; require the PHA to provide documentation which would fully detail its actions in implementing our audit recommendations; and perform frequent on-site visits to assure that the PHA has corrected the reported deficiencies.

Status at Close of Semiannual Reporting Period

As of March 31, 1980, none of the reported audit findings had been resolved by the PHA. While HUD management has concurred in the OIG's audit findings, including the \$19.3 million of disallowed costs, it has not yet concurred in the IPA's audit findings, including the \$6 million of disallowed costs. Under the Department's Audits Management System, HUD management has until June 10, 1980 to act on the IPA's audit findings before action will be considered overdue.

COMMUNITY PLANNING AND DEVELOPMENT

1. COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM -- CITY OF NEW YORK, NEW YORK

The Office of the Comptroller, City of New York, performed an audit of the City's Community Development Block Grant (CDBG) Program from its inception on June 16, 1975 through June 30, 1977. The audit encompassed 72 programs which had been allocated \$193 million. The Comptroller's report was accepted by our office. Of the \$94 million in net costs charged to the City's CDBG Program during the audit period, about \$61.4 million or approximately 65.3 percent of such costs were either disallowed or questioned as to their eligibility by the Comptroller (about \$20.1 million of the \$61.4 million of costs have since been resolved in favor of the City).

In a letter to the Mayor of New York City dated February 15, 1980, the HUD Area Manager stated that the HUD Area Office concurred in the report's findings, including all questioned and disallowed costs. He recommended that the City submit documentation to resolve the findings or else reimburse HUD for the disallowed costs.

Summary of Audit Findings

The Comptroller's report cited City agencies for failing to act expeditiously in spending CDBG Program funds. Unspent funds of \$98.6 million at the end of the audit period represented more than one-half of the total CDBG funds for the two program years audited. Of the \$94 million of net expenditures during these two program years, \$30 million went for administration and planning. As a result, much of the available CDBG funds during the two years were not spent to benefit citizens and meet community needs.

In addition, the Comptroller's report concluded that \$34.6 million in expenditures for 30 Model Cities Programs were of questionable eligibility. Twenty-seven programs with expenditures totaling \$29.5 million failed to serve primarily the residents of the Model Cities areas for whom they were designed. A high percentage of the program staffs and recipients of program services were not residents of the Model Cities geographic areas. Also, in three Model Cities scholarship award programs involving \$5.1 million in expenditures, a large number of students failed to fulfill either financial, academic or residency eligibility requirements.

There was also complete lack of fiscal accountability over \$1.4 million of Community Management program funds. In this regard, the Comptroller disallowed \$1.3 million of costs charged to the CDBG Program due to the unreliability of fiscal data and disallowed an additional \$163,806 because CDBG funds were improperly used to partially fund prior years' Community Management contracts which were entered into more than six months before HUD's approval date for the release of funds.

The Comptroller's report disclosed a number of other significant deficiencies. For example, of approximately \$4 million spent for fuel oil and repairs under the City's Emergency Repair Program, only \$191,000 or less than 5 percent was recouped from landlords, contrary to regulations. Also, payroll and related fringe benefit costs amounting to \$622,938, charged to various CDBG-funded programs, were disallowed because of unsubstantiated charges, computational errors and a lack of documentation proving the employees were engaged in CDBG-related activities. Additionally, a total of \$106,971 in interest payments to owners of condemned property were ineligible CDBG expenditures because they were made contrary to HUD's mandated time schedule.

Recommendations

We recommended that the HUD Area Manager follow up with the auditee on the resolution of the Comptroller's reported audit findings and that we be provided with any documentation submitted by the auditee to resolve the findings.

Status at Close of Semiannual Reporting Period

Of the \$61.4 million of questioned and disallowed costs which were originally concurred in by the HUD Area Manager, about \$20.1 million of costs have since been resolved in favor of the City, while costs amounting to \$465,000 have been resolved in favor of HUD. Costs of \$40.8 million had not been resolved by the City as of March 31, 1980.

2. MODEL CITIES AND COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAMS-- CITY OF NEW ORLEANS, LOUISIANA

As of March 31, 1980, the City of New Orleans had not resolved 223 audit findings involving approximately \$4.9 million of questioned and disallowed costs which were disclosed as a result of OIG and non-Federal audits of the City's Model Cities and Community Development Block Grant (CDBG) Programs. These audit findings were contained in four audit reports -- two prepared by the OIG and two prepared by an Independent Public Accountant (IPA). The IPA's reports also included audit findings on subgrantees of the City of New Orleans which were disclosed as a result of other IPA audits. The audit reports covered the period August 1, 1972 through September 30, 1978 and disclosed a total of 302 audit findings. The latest report was prepared by the IPA and was accepted by our office on January 21, 1980.

Summary of Audit Findings -- City of New Orleans, Louisiana

The Model Cities audit report, prepared by the OIG and issued on March 1, 1976, included two findings: one concerning inadequate fiscal monitoring and auditing of subgrantees; the other involving deficient accounting systems (grantee and subgrantees). In connection with these findings, about \$1.6 million of costs were determined ineligible.

The three CDBG audit reports, prepared by the OIG and IPA, included 300 audit findings and involved \$3.3 million in questioned and disallowed costs. The audit findings covered a wide variety of matters including such matters as: inadequate financial management procedures; lack of program performance; lack of approval for indirect cost allocations; inadequate subgrantee operations; lack of supporting documentation for program costs; inadequate internal control; and noncompliance with labor standards and procurement regulations.

Recommendations

In addition to recommending that HUD be reimbursed for all ineligible costs, we recommended that New Orleans' third-year entitlement grant be reduced because of the City's inadequate performance.

Status at Close of Semiannual Reporting Period

As of March 31, 1980, the two audit findings on New Orleans' Model Cities Program had not been resolved by the City. With respect to the \$1.6 million Model Cities disallowance, the City had not made any effort to repay HUD this amount as of March 31, 1980, despite repeated efforts by the Assistant Secretary for Community Planning and Development and HUD Regional Office officials to obtain repayment. (The New Orleans press reported on April 1, 1980 that City officials are planning to ask Congress to forgive the \$1.6 million of Model Cities debt.)

As of March 31, 1980, 221 of the 300 audit findings on New Orleans' CDBG Program had not been resolved by the City, including all audit findings reported by the OIG. The unresolved audit findings included \$3.3 million of disallowed costs which must be repaid to HUD. Moreover, the City's third year entitlement grant was not reduced by HUD as recommended by the OIG; instead, it was made on a conditional basis.

On March 21, 1980, HUD personnel and a City work group agreed to meet weekly to resolve all outstanding findings. Because of New Orleans' lack of substantive progress and poor financial management, its fifth-year (FY 1980 entitlement grant) was approved with several special conditions including conditions relating to "General Performance" and "Financial Management." Failure to comply with these conditions and to demonstrate continued improvement shall be causes for reduction of the grant pursuant to 24 CFR 570.911 of the CDBG regulations.

C. OTHER SIGNIFICANT CONCERNS

In addition to our ongoing and completed audits and investigations, we have identified one other matter which, because of its critical nature, warrants mention to Congress. We believe this matter has a significant impact on the ability of HUD to effectively administer its programs and activities.

INADEQUATE MONITORING OF PROGRAM PARTICIPANTS

Program participant monitoring is an important means of protecting HUD's interests inasmuch as it often serves as an "early warning system" which assists HUD in identifying serious participant problems or irregularities that require technical assistance or other corrective measures. However, in our two previous semiannual reports to Congress, we reported that HUD was not adequately monitoring its program participants. We indicated that the lack of monitoring of such participants was not confined to any single program participant, but instead included mortgagees, mortgagors, area management brokers, and Community Development Block Grant Program recipients, among others.

During the current semiannual reporting period October 1, 1979 to March 31, 1980, we continued to disclose matters in our audit reports pertaining to HUD's inadequate monitoring of program participants.

In addition, the Department recently had to absorb a significant cut in travel funds for FY 1980 which will adversely impact on the ability of HUD to conduct on-site monitoring of program participants. Any further decrease in the level of program participant monitoring may further increase the chances of fraud, waste and mismanagement going unchecked for lengthy periods of time.

In response to the monitoring problems disclosed in our audit reports, HUD's Committee on Fraud, Waste and Mismanagement has initiated a project whose purpose is to establish improved standards and procedures concerning program participant monitoring (See page 35). The current cut in travel funds, however, may severely limit the scope of this Committee project.

II. UNRESOLVED SIGNIFICANT RECOMMENDATIONS DISCLOSED IN PRIOR SEMIANNUAL REPORTS

Section 5(a)(3) of the Inspector General Act of 1978 provides for the reporting of each significant recommendation described in previous semiannual reports on which corrective action has not been completed.

In our prior semiannual report to Congress, we summarized the findings and recommendations of our Special Operational Survey of the Section 8 Program. At the close of the prior semiannual reporting period, the Office of the Assistant Secretary for Housing-Federal Housing Commissioner was still in the process of implementing our Survey recommendations.

During the current semiannual reporting period, the following additional actions on our findings and recommendations were planned and/or taken by the Office of the Assistant Secretary:

- HUD Handbooks were revised and other administrative steps were implemented to insure that HUD Field Offices would make required monitoring visits to public housing agencies.
- Workshops for program staff were conducted to insure that correct procedures are being used to assess the Housing Quality Standards of Section 8 units.
- The Housing Quality Standards were revised in those cases where the criteria needed clarification.
- An Administrative Guide for public housing agencies was distributed. It included guidance on the interpretation and review of Housing Quality Standards, a description of the penalties for abuse in the Section 8 Existing Housing Program and advice to the housing agencies to utilize data from other sources (i.e., from Internal Revenue Service and Social Security Administration) to verify tenant information.

In addition, the Administrative Guide provides guidance for reviewing owner billings to HUD and illustrates how the improved monitoring and payment procedures will enable HUD to recoup improperly claimed payments.

- A field study is being made to determine if sanctions are feasible against principals who have participated in abuses of the Section 8 Program.

In addition to the above efforts, we issued a Fraud Information Bulletin to HUD program managers and others covering the management aspects of the Section 8 Program (See Appendix 3). The Bulletin alerts HUD disciplines to the types of fraudulent and abusive schemes used by participants in the Section 8 Program.

III. SIGNIFICANT MATTERS AFFECTING THE OFFICE OF INSPECTOR GENERAL

As described below, several matters are adversely impacting on our ability to perform needed audits and investigations and to effectively carry out certain provisions of the Inspector General Act. We are continuing to explore every available avenue to alleviate these problems.

1. ADVERSE IMPACT OF REDUCED TRAVEL FUNDS

Travel funds are the lifeblood of an operation such as ours inasmuch as the amount of available travel funds is a key determining factor in the number and types of audits and investigations that can be performed. However, we are currently faced with a severe shortage of travel funds for the remainder of FY 1980. This has been caused by a recent cut in travel funds which both the Department and OIG have had to absorb, and an unanticipated need for additional travel funds as a result of several unplanned audit and investigation efforts in Puerto Rico.

While the Department has since agreed to provide us with about \$85,000 in additional travel funds for our current Puerto Rico efforts, we are still faced with a shortfall of about \$225,000 in travel funds. This will result in our performing 15 fewer internal audits and 98 external audits, and will further result in delays of up to 90 days in completing investigation cases. Additionally, there will be unrealized cash recoveries to HUD by virtue of less audits being performed. To compensate for the lack of travel funds, we have cancelled three operational surveys of HUD Area Offices; 14 internal management reviews of the operations of our Regional Inspectors General; and all currently scheduled Regional staff conferences. We are also studying ways to restructure audit work in certain areas to reduce the number of persons in travel status (See Appendix 1 for other measures being taken).

2. EFFORTS TO IMPROVE HIRING PROCESS

With the passage of the Inspector General Act of 1978, the need for highly qualified auditors and investigators has become critical--both in terms of the quantity and quality of the persons required. However, our efforts to hire qualified persons to carry out the provisions of the Inspector General Act have been impeded by the difficulties associated with working Office of Personnel Management (OPM) registers.

Briefly, the problems experienced to date have included: (1) poor quality of candidates; (2) difficulties in reaching minority and/or female candidates; (3) delays in obtaining OPM certificates and in processing them when received; (4) a high declination rate primarily for GS-510 auditor candidates; and (5) inability to recruit new graduates from colleges and universities. We prepared a discussion paper on these problems and presented it to other Inspectors General and OPM through the President's Executive Group to Combat Fraud and Waste in Government.

OPM has been most cooperative with the OIG community on this matter and has agreed to provide several options to OIGs to facilitate the hiring of needed staff. One of the options involves making "special examining authority" available to Inspectors General. Such authority would extend to Grades GS-9 through 15 and would enable Inspectors General to certify eligible candidates for positions.

While problems in hiring at Grades 5 and 7 still exist, we believe that these problems can be solved in time, perhaps through a refining of the qualification standards for OIG employees.

IV. SUMMARY OF MATTERS REFERRED TO PROSECUTIVE AUTHORITIES AND PROSECUTIONS AND CONVICTIONS DURING THE CURRENT REPORTING PERIOD

In response to Section 5(a)(4) of the Inspector General Act of 1978, the following is a summary of matters referred to prosecutive authorities and resulting prosecutions and convictions during the period October 1, 1979 to March 31, 1980.

A. CASES REFERRED FOR PROSECUTION

During the period October 1, 1979 to March 31, 1980, we referred 433 investigation cases for prosecutive consideration (Table 1).

<u>Referred Directly by OIG to:</u>	<u>No. of Cases</u>
FBI (No Investigation by OIG)	252
FBI (Prima Facie Investigation by OIG)	94
Department of Justice	87
TOTAL	433

Table 1. Investigation Cases Referred for Prosecutive Consideration-October 1, 1979 to March 31, 1980

Although the FBI is not a prosecutive authority, referrals to it are ultimately presented for prosecutive consideration.

Table 2 provides a breakdown of the 433 investigation cases by major HUD organizational component. As shown, 371 or 86 percent of the referred cases are in the Housing area.

<u>Organization</u>	<u>No. of Cases</u>	<u>Percent</u>
Housing Management	173	40%
Housing Production (Not Title I)	102	24%
Housing Production (Title I)	96	22%
Community Planning & Develop.	46	10%
Miscellaneous	16	4%
TOTAL	433	100%

Table 2. Investigation Cases Referred for Prosecution by Organization - October 1, 1979 to March 31, 1980

Table 3 provides a breakdown of the 433 investigation cases by category of investigation. As shown, 252 or 58 percent of the referred cases relate to fraud and involve some type of false statement (e.g., false certification of income and/or misstating family composition on various housing assistance applications).

<u>Category of Investigation</u>	<u>No. of Cases</u>	<u>Percent</u>
False Statements	252	58%
FHA Title I	98	23%
Other	<u>83</u>	<u>19%</u>
TOTAL	<u>433</u>	<u>100%</u>

Table 3. Investigation Cases Referred for Prosecution by Category of Investigation - October 1, 1979 to March 31, 1980

The "Other" category shown in Table 3 consists of embezzlement (20 cases), kickbacks (14 cases), conflict of interest (10 cases), and miscellaneous subjects (theft of government property, bribery, etc.).

B. PROSECUTIONS AND CONVICTIONS

During the period October 1, 1979 to March 31, 1980, a total of 52 investigation cases resulted in the indictment and/or conviction of 89 persons/firms having business with the Department (Table 4). Of the 89 persons/firms, 55 were the result of investigations that we referred to prosecutive authorities/FBI, and 34 were the result of investigations initiated by the FBI.

	<u>Cases Referred by OIG</u>		<u>Initiated by FBI</u>	<u>Total</u>
	<u>Prior to 10/1/79</u> <u>Persons/Firms</u>	<u>10/1/79-3/31/80</u> <u>Persons/Firms</u>	<u>Persons/Firms</u>	
Indictment	27	1	8	36
Indictment & Conviction	20	0	16	36
Conviction	<u>7</u>	<u>0</u>	<u>10</u>	<u>17</u>
TOTALS	<u>54</u>	<u>1</u>	<u>34</u>	<u>89</u>

Table 4. Indictments, Indictments and Convictions, and Convictions-- October 1, 1979 to March 31, 1980

Of the 89 persons/firms indicted, convicted, or both as a result of our referrals, 54 were the result of 34 investigation cases referred to prosecutive authorities/FBI prior to October 1, 1979; the remainder, or one person/firm, was the result of one case referred during the period October 1, 1979 to March 31, 1980.

A total of 53 persons/firms were convicted during the period October 1, 1979 to March 31, 1980. Of the 53 persons/firms, 27 were the result of OIG referrals. The 53 persons/firms received a total of 108 years imprisonment, 88 years probation, suspended sentences of 24 years, fines amounting to \$55,325 and were required to make restitution amounting to \$6,444.

Prosecution was declined on 399 investigation cases during the period October 1, 1979 to March 31, 1980. However, the average universe of HUD investigation cases in the hands of prosecutive authorities during this period is not readily determinable; therefore, the rate of declinations cannot be determined.

C. DESCRIPTION OF SELECTED PROSECUTIVE ACTIONS DURING REPORTING PERIOD

Below is a brief description of the more significant indictments and/or convictions which occurred during the period October 1, 1979 to March 31, 1980. The cases described are based on the latest information we have in our files and may not include information as to where the cases stand in terms of the status of trial proceedings, pleadings or sentencings.

HOUSING

Four Persons Found Guilty of Conspiracy, Embezzlement and False Statements Involving Title I Home Improvement Loan Scheme

As reported in our previous semiannual report, two Title I loan recipients, the branch manager of a credit union and a home improvement contractor were indicted on January 16, 1979. They were charged in a four-count indictment involving conspiracy, embezzlement, and false statements to a Federal credit union and HUD. It was alleged that the home improvement contractor paid the branch manager between \$2,500 and \$3,000 in return for the branch manager's approving 19 Title I home improvement loans of \$7,500 each or a total of \$127,500. The two loan recipients knowingly supplied false information on their loan applications in that they were not the owners of the property to be improved and misrepresented their existing debts and obligations. The four were subsequently found guilty and sentenced. The two loan recipients convicted on October 22, 1979 were sentenced to seven years in prison each; the home improvement contractor convicted on March 19, 1979 was sentenced to serve five years in prison; the branch manager convicted on December 17, 1979 testified for the government, was sentenced to serve 60 days in prison, and was given a ten-month suspended sentence and placed on two years probation.

Former Executive Director of a Housing
Authority and Three Contractors Indicted
for Conspiracy and Making False Statements

A 22-count indictment was returned on January 31, 1980 against four co-conspirators for conspiring to defraud HUD in connection with Federal funding of low-income housing modernization contracts. The contracts involved amounted to over \$500,000 and were let by a local housing authority. The former Executive Director of the housing authority, an engineering architect, an electrical contractor and a brick contractor were involved in the indictment. In addition to the conspiracy charges, the defendants allegedly engaged in separate acts of covering up the diversion of \$305,951 of funds from the contracts and making false statements about the completion of the contracts and the payments of contract funds.

Contractor Indicted for Davis-Bacon Labor Violations

On November 27, 1979, an electrical contractor was indicted on eight counts of submitting false payrolls to HUD. The contractor obtained a subcontract for electrical work during construction of a HUD-insured multifamily project. He falsely certified on original payrolls submitted to HUD that employees were being paid in accordance with the Department of Labor's predetermined wage rates. Subcontractor employees, however, were underpaid by nearly \$10,000. The contractor then submitted supplemental payrolls, which were also falsely prepared, indicating that wage restitutions had been effected. In a Pre-trial Diversion Agreement, the contractor agreed to make restitution to subcontractor employees. However, his failure to comply with the terms of the Pre-trial Diversion Agreement resulted in his subsequent indictment. The contractor was temporarily suspended from participating in HUD programs pending the outcome of the trial.

Indictment Returned for Impersonation
of a Federal Official

An individual was indicted by a Federal Grand Jury on October 26, 1979, on four counts of impersonating a Federal official. An investigation determined that the individual had falsely represented himself as a HUD official to four persons and had obtained \$14,000 from these persons for properties that he represented were owned by HUD. However, neither the individual nor HUD owned the properties and the buyers did not obtain possession of the properties.

Executive Director of Housing Authority
Indicted for Conspiracy and Kickbacks

On January 2, 1980, a Federal Grand Jury indicted the Executive Director of a housing authority on one count of conspiracy, one count of solicitation of monies from a developer and 25 counts of soliciting kickbacks from a local security firm and a local bank. The Director is alleged to have used his position with the housing authority to obtain kickbacks from the security firm in return for the awarding of housing authority contracts to the security firm. The Director is also alleged to have used his position to solicit monies in return for the developer and bank's obtaining favored treatment from the housing authority.

Real Estate Broker and Wife Indicted
for Submitting False Statements to HUD

Our Operational Survey developed information indicating that numerous mortgagors who purchased their homes from a real estate broker had submitted false statements to HUD regarding their financial status and employment. Further investigation disclosed that the mortgagors were conspiring with the real estate broker in the purchase of HUD-insured properties. On January 10, 1980, a 22-count indictment was returned by a Federal Grand Jury charging the broker and his wife with conspiracy and causing the submission of false statements to HUD and the Veterans Administration.

Local Housing Authority Employee
Convicted of Embezzlement

The bookkeeper of a local housing authority was indicted on October 5, 1979, and charged with embezzling approximately \$14,000 of the authority's funds. On December 19, 1979, the bookkeeper pled guilty to two felony counts of grand theft and was sentenced to two concurrent four-year jail terms on each of the charges.

Indictments Returned Against Two Realtors
for Mail Fraud and False Statements

On October 12, 1979, a Federal Grand Jury indicted two realtors on 17 counts of defrauding HUD and the Veterans Administration. The realtors were charged with knowingly and willfully supplying false and fraudulent information to induce the agencies to insure loans. The indictments included six counts of mail fraud and 11 counts of filing false applications for HUD mortgage insurance. A joint investigation by U.S. Postal Inspectors and HUD's OIG is still in process.

Mobile Home Dealers Indicted for
Submitting False Statements

On January 23, 1980, a 10-count indictment was returned against a mobile home dealer and his wife charging them with submitting false statements to HUD and causing a criminal act. A former employee alleged that the dealers had altered and inflated manufacturers' invoices of mobile homes in order for purchasers to apply less down payment than required. Investigation identified ten mobile home manufacturers' invoices that had been altered for the purpose of obtaining a loan insured by HUD.

Office Manager for HUD-Owned Multifamily
Project Indicted for Submitting False
Statements and Embezzlement

A 19-count indictment was returned on February 27, 1980, against an office manager of a HUD-owned multifamily project. The office manager was charged with submitting false statements to HUD and embezzling HUD project funds. It was alleged the office manager forged the signature of the HUD project manager on 16 checks amounting to \$3,430 and withdrew the funds from the HUD bank account.

COMMUNITY PLANNING AND DEVELOPMENT

Former Executive Director of an Urban Homesteading Program and Two Aides Plead Guilty to Conspiracy, Extortion and Filing False Income Tax Returns

The former Executive Director of an urban homesteading program and two of his aides were indicted on April 10, 1979. The nine-count indictment included charges of conspiracy to commit extortion, extortion, and filing false income tax returns. The three allegedly received approximately \$48,000 from five contractors who had received more than \$1 million in contracts under the urban homesteading program. The contractors were forced to kickback a portion of each contract they were awarded. The Executive Director pled guilty to conspiracy, extortion, and filing a false income tax return and was sentenced in September 1979 to two and one-half years in prison, three years probation, and was fined \$3,000. The two aides also pled guilty to extortion and conspiracy and each received five years probation and fines of \$2,500 in September and November 1979.

Three Contractors Convicted for Conspiring to Subvert Bidding Procedures

Four contractors were indicted on November 2, 1979, on a conspiracy charge in connection with their participation in the Section 312 Rehabilitation Program. Three of the contractors conspired with an urban redevelopment authority supervisor (an unindicted co-conspirator) to subvert bidding and inspection rules prescribed by HUD. The three contractors carried out their conspiracy by paying the urban redevelopment supervisor to falsify bidding and inspection reports. Each was convicted on January 21, 1980. The remaining contractor was acquitted on January 28, 1980. One of the contractors was sentenced to serve three years on probation and fined \$500. Another was sentenced to serve 30 days in prison, and was placed on three years probation and fined \$1,000. The date for sentencing the third convicted contractor had not been set at the close of the semiannual reporting period.

Contractor and Subcontractor Indicted for Conspiring to Submit Altered and Inflated Invoice

A contractor and subcontractor were indicted on December 13, 1979, by a Federal Grand Jury and charged with two counts of conspiracy to submit an altered and inflated invoice. The invoice was submitted in connection with work performed on a community center being rehabilitated with Community Development Block Grant funds. The invoice had been inflated by nearly \$7,500.

V. REVIEW OF LEGISLATION AND REGULATIONS

Section 4(a)(2) of the Inspector General Act of 1978 requires the Inspector General to review existing and proposed legislation and regulations relating to programs and operations of the Department and to make recommendations in the semiannual reports to Congress concerning the impact of such legislation and regulations on the economy and efficiency in the administration of programs and operations or the prevention and detection of fraud and abuse in such programs and operations.

During the semiannual reporting period October 1, 1979 to March 31, 1980, we reviewed 34 proposed new regulations or revisions to existing regulations, an undetermined number of existing regulations and statutes in conjunction with our internal audits, and 87 proposed new legislative bills or revisions to existing bills. As a result of these reviews, we provided many comments and recommendations which we believe have been, or will be satisfactorily resolved. However, in our opinion, the legislative matter shown below is particularly worthy of mention.

REAL ESTATE SETTLEMENT PROCEDURES ACT OF 1974

In 1974, the Real Estate Settlement Procedures Act (RESPA) was enacted with the stated objective of eliminating kickbacks or referral fees that tend to unnecessarily increase the costs of certain settlement services. Section 8 of the Act specifically prohibits the payment or receipt of kickbacks or unearned fees in connection with Federally-related mortgages and provides criminal sanctions (misdemeanor) for any violations.

In cooperation with the Department of Justice, we have conducted some 30 investigations concerning possible criminal violations of Section 8; however, none of these investigations has resulted in criminal prosecution. While we are continuing to work with the Department of Justice to identify violations warranting criminal prosecution, consideration should be given to amending the legislation to provide some alternative enforcement mechanisms. We believe Congress needs to consider the following alternative enforcement mechanisms: injunctive relief; civil fines; and competitors standing to sue under the treble damage provision.

We are working with HUD's Real Estate Practices Division and Office of General Counsel as well as the Department of Justice in an effort to develop specific recommendations with respect to any proposed legislative amendments. It is anticipated the Department will include such recommendations in its RESPA report which must be submitted to Congress by January 1981.

VI. UNREASONABLE REFUSAL OR NON-PROVISION
OF REQUESTED INFORMATION OR ASSISTANCE

Section 5(a)(5) of the Inspector General Act of 1978 provides for including in each Inspector General semiannual report to Congress a summary of each report made to the head of the agency concerning information or assistance requested by the Inspector General which, in the judgment of the Inspector General, was unreasonably refused or not provided.

During the period October 1, 1979 to March 31, 1980, there were no instances reported to the Secretary of HUD wherein information or assistance requested by the Inspector General was unreasonably refused or not provided.

VII. SUMMARY OF SUBPOENAS ISSUED

Section 6(a)(4) of the Inspector General Act provides the Inspector General with authority to require by subpoena the production of all information, documents, reports, answers, accounts, papers, and other data and documentary evidence necessary to carry out the performance of his or her assigned functions.

During the semiannual reporting period October 1, 1979 through March 31, 1980, we found it necessary to exercise our subpoena authority on five occasions. Four of the subpoenas were issued in conjunction with investigations, while one was issued to require the production of records necessary to perform an audit. In each case, the use of our subpoena authority resulted in the necessary records or documents being obtained. A summary of each subpoena is shown below.

- On January 8, 1980, two subpoenas were issued to produce needed documents in the possession of HUD project contractors in the Fort Worth and San Francisco Regions.
- While carrying out an investigation, it became necessary to issue a subpoena to obtain bank records pertaining to a multi-family housing project in the Philadelphia Region. The subpoena was issued on January 8, 1980, and the records were subsequently obtained.
- In conjunction with an audit in Puerto Rico, a subpoena was issued on February 11, 1980, to obtain mortgagee-held documents.
- On March 24, 1980, a subpoena was issued to obtain documents required for an investigation of a mortgagee's business dealings with HUD. The mortgagee is located in Puerto Rico.

VIII. COOPERATIVE EFFORTS WITH OTHER FEDERAL AND STATE AGENCIES

Section 4(a)(4) of the Inspector General Act of 1978 provides, among other things, that the Inspector General conduct, supervise, or coordinate relationships between the Department and other Federal agencies, State and local governmental agencies, and nongovernmental entities with respect to matters relating to the promotion of economy and efficiency, the prevention and detection of fraud and program abuse, and the identification and prosecution of participants in such fraud and abuse.

During the current semiannual reporting period October 1, 1979 through March 31, 1980, we participated in several special cooperative efforts with other Federal and State agencies in connection with audits and investigations. Such efforts as shown below are in addition to our ongoing cooperation and coordination with other Offices of Inspector General and agencies such as the Department of Justice (referrals for investigation/prosecution), General Accounting Office (coordination of audit work), Office of Personnel Management (training, personnel security clearances, etc.) and various other agencies.

1. ASSISTANCE TO CONGRESS

During the current semiannual reporting period, we provided assistance to various Congressional committees in the form of request audits, testimony at hearings on HUD operations and the providing of detailed information on our activities.

We have conducted or are in the process of conducting 13 reviews requested by Congressional committees. Also, the Inspector General has testified at two hearings where HUD or HUD program participants were being investigated. Additionally, detailed information was completed on our operations and provided on March 31, 1980 to the Chairman, Subcommittee on Intergovernmental Relations and Human Resources, Committee on Government Operations. It is expected that the information will be used in conjunction with anticipated hearings on the implementation of the Inspector General Act.

We are also providing to the Chairman, Subcommittee on Limitations of Contracted and Delegated Authority, Committee on the Judiciary, copies of all of our internal audit reports issued after FY 1971 and all audit referrals to our Office of Investigation during the period October 1, 1977 through February 29, 1980.

Lastly, we are in the process of providing information on the Department's systems for suspending and debarring government contractors and entities doing business with the Department to the Chairman, Subcommittee on Federal Spending Practices and Open Government, Committee on Governmental Affairs.

2. AUDIT AND INVESTIGATION ACTIVITIES IN PUERTO RICO

At March 31, 1980, we were in the process of carrying out joint audit and investigation efforts in Puerto Rico with the Veterans Administration OIG. The focus of these efforts included diversions of funds in GNMA-owned mortgage pools and poor and improper origination practices by mortgagees. These efforts are more fully described on pages 1 through 3.

3. REVIEW OF HUD'S MANAGEMENT OF PERSONAL PROPERTY

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As part of a coordinated effort with Inspectors General of other major Federal departments and agencies pursuant to a governmentwide audit of Federal property management, we reviewed HUD's property management activities to determine the adequacy of property management procedures and practices and compliance with Federal Property Management Regulations. The review was made because of media coverage about suspected deficiencies in the Federal Government's control over the purchase, utilization, storage and disposition of furniture and equipment. Because this appeared to be a governmentwide problem, the Inspector General of the General Services Administration (GSA) requested the cooperation of major Federal departments and agencies in performing a governmentwide review of agency controls over furniture and equipment. Eighteen Federal departments and agencies participated in the review.

Our report, issued on February 15, 1980, disclosed a need for HUD to establish and maintain more reasonable inventory levels. We reviewed certain inventory valued at \$680,000. Of this amount, we determined that inventory valued at \$553,000 was in excess of HUD's needs. The \$553,000 of inventory involved 2,500 individual pieces of furniture. We also found a need on the part of HUD to develop better accounting controls, maintain more complete and accurate property control records, establish better accountability over the transfer of excess personal property to other agencies, and take measures to improve the physical security of the inventory.

We recommended that a complete inventory be taken of the items stored at HUD's two warehouse locations; that the inventory be reconciled to property control records; and that any excess property be reported to GSA. We also recommended that accounting controls over property transfers be strengthened.

Under the Department's Audits Management System, HUD management's response to the report was not due as of March 31, 1980.

The results of the audits by all departments and agencies will be combined in a single report to the Administrator of GSA together with recommendations for improvement of the management of personal property. The combined report will also be submitted to the Committee on Governmental Affairs, Subcommittee on Federal Spending Practices and Open Government.

4. AUDIT OF PASCO COUNTY HOUSING AUTHORITY -- PASCO COUNTY, FLORIDA

As a result of a Congressional request, the HUD-OIG and the U.S. Department of Agriculture (USDA) performed a joint audit of the Federally-funded activities of the Pasco County Housing Authority (PCHA), Pasco County, Florida, during the period August 1979 to February 1980. The audit work was also coordinated with the Florida State Attorney General's office and the Pasco County Sheriff's office because they were actively investigating alleged improprieties in PCHA operations at the time of our audit work. In addition, auditors of the State of Florida reviewed State-financed land acquisition and development activities.

Our audit efforts were primarily directed toward reviewing PCHA's administration of two projects (new construction and existing housing) receiving funds under the Section 8 Housing Assistance Payments (HAP) Program. The joint audit disclosed numerous deficiencies in the PCHA's administration and management of the HUD-funded programs and in its operation of 72 USDA Farmers Home Administration (FmHA) Section 515 Rural Rental Housing units. One by-product of the joint audit was the disclosure of duplicate subsidies (about \$37,000) resulting from a Section 8 HAP Program subsidy being paid on units subsidized by the USDA/FmHA Section 515 Rural Rental Housing Program. As a result of this matter, another joint review was undertaken to determine the extent of this problem. Similar conditions were found to exist with respect to other Housing Authorities' Section 8 HAP/Section 515 Programs. Due to the potential significance of this problem, we plan to undertake future work in these areas.

FmHA will issue a separate audit report. The report will address PCHA management and operating problems and use of USDA loan funds.

5. AUDIT OF EXODUS, INC. -- ATLANTA, GEORGIA

From August 1979 to January 1980, our Region IV audit staff participated in a highly successful joint Federal audit of Exodus, Inc., Atlanta, Georgia, a nonprofit community service corporation. We were requested by the Department of Health, Education and Welfare (HEW) OIG to assist them in conducting an audit of Exodus because possible fraudulent activities were disclosed during its audit of an HEW grant program administered by Exodus. The other Federal agencies involved in this audit were the Law Enforcement Assistance Administration (LEAA), Department of Labor (DOL), and Community Services Administration (CSA).

Because HEW provided most of the Federal funding (about \$2 million annually) received by Exodus, HEW operated as the cognizant agency with overall audit responsibility. The approach used during the audit had each audit representative review the projects supported by his or her agency. Daily coordination among the auditors was maintained to avoid overlapping of work and to direct audit efforts to those areas most susceptible to fraud and abuse. The audit not only covered financial aspects of Exodus' operations, but included audit review regarding compliance with laws and regulations, economy and efficiency of resources, and program results in accordance with the auditing standards established by the General Accounting Office.

HUD, in conjunction with DOL, had awarded a grant to Exodus to explore the feasibility and value, and test the effectiveness of operating youth employment projects. We submitted a draft audit report covering the deficiencies found concerning the HUD-funded grant. Our draft report contained six findings involving questioned costs of \$59,255 and disallowed costs of \$34,678. Our report also commented on poor overall program effectiveness and efficiency in accomplishing goals. We also referred a matter for possible investigation to HEW.

6. PILOT AUDIT RELATED TO ATTACHMENT P OF OMB CIRCULAR A-102

Attachment P (Audit Requirements for State and Local Governments) of OMB Circular A-102 (Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments), issued October 22, 1979, requires that only a single audit be obtained by a grantee which receives funds from more than one Federal agency. In conjunction with OMB, we are monitoring an audit of the Virginia Department of Housing and Community Development being made by the State Auditor of Virginia. The purpose of the monitoring is to identify problems in implementing Attachment P and provide guidance to other involved parties.

IX. SELECTED AUDIT FINDINGS AND RECOMMENDATIONS DISCLOSED DURING THE CURRENT REPORTING PERIOD

During the current semiannual reporting period, we disclosed many problem areas to HUD management, along with recommendations for corrective action. In this regard, selected matters are summarized below. All matters pertain to the Housing Programs Area. With one exception, these matters were disclosed in our nationwide internal audit reports. The one exception concerns a summary of audit findings disclosed in 82 external audit reports on FHA-insured multifamily mortgagor operations. This summary of findings was also reported to HUD management. We believe the matters shown below are good examples of the types of matters that we reported to HUD management during the current semiannual reporting period.

1. MULTIFAMILY PROJECT OPERATIONS PRIOR TO FINAL ENDORSEMENT

This nationwide review disclosed that HUD Field Offices were not adequately monitoring multifamily project operations prior to final endorsement to identify unfavorable conditions in project operations and to protect HUD interests. In this regard, we found limited efforts being made by HUD Field Offices to conduct preoccupancy conferences, review monthly accounting reports and annual financial statements, or perform on-site management reviews within six months subsequent to the availability of all units. This significantly reduced Field Offices' ability to detect existing or potential problems in the early stages of project operations prior to final project endorsement.

We recommended that instructions be issued to HUD Field Offices on monitoring and servicing projects prior to final endorsement; that the performance of Field Offices be monitored relative to the deficiencies we identified; and a method be established for coordinating the activities of Field Offices in connection with project operations prior to final endorsement.

Under the Department's Audits Management System, the Office of the Assistant Secretary for Housing-Federal Housing Commissioner response to our recommendations is not due until May 1980.

2. TIMELINESS OF FORECLOSURE OF MULTIFAMILY PROJECT MORTGAGES

We made a nationwide review to evaluate the effectiveness of HUD policies and practices governing the servicing and foreclosure of HUD-held multifamily project mortgages.

Our nationwide review disclosed that some HUD Field Offices were not obtaining workout proposals promptly and were permitting mortgagors to defer making payment toward mortgage delinquencies without determining the prospects for reinstatement of the defaulted mortgages. Field Offices were also accepting unrealistic workout proposals and were delaying their recommendations to foreclose when the mortgagors failed to make required payments under workout arrangements. We also found inordinate delays from the time foreclosure was officially recommended to the time foreclosure was completed. This unnecessarily extended the period of time during which projects were exposed to waste, vandalism and deterioration.

We recommended that procedures for servicing HUD-held properties be expanded and be made more specific. We also recommended that monitoring of referrals for foreclosure be improved and responsibility be delegated to HUD Area Counsels for handling foreclosure liaison work with U.S. Attorneys.

The Office of the Assistant Secretary for Housing-Federal Housing Commissioner agreed with our recommendations and has initiated corrective actions.

3. PREVIOUS PARTICIPATION REVIEW AND CLEARANCE PROCEDURES

This nationwide review revealed that some principals were being cleared for participation in HUD programs without having corrected known serious deficiencies in connection with their prior participation in HUD programs. This was occurring because HUD regulations or procedures did not provide for HUD Field Offices' review of principals' previous participation in HUD programs. Consequently, critical adverse information available at HUD Field Offices was not being transmitted to HUD Headquarters where it could have been used in the previous participation review and clearance process and Field Offices were not assuring that all principals received a prior participation review.

We also found that the Participation Control Branch in Headquarters was not collecting data on all HUD projects relative to prior participation, thereby increasing the Department's vulnerability to improperly approving principals' participation in HUD programs. Additionally, the Headquarters Previous Participation Review Committee did not have any criteria and guidelines to support the disapproval of principals; referrals of matters for investigation; and follow-up on conditional Committee approvals.

We recommended that formal procedures and guidelines be established for the Previous Participation Review Committee and for HUD Field Offices' role in the previous participation review and clearance process. We further recommended the establishment of an automated system for collecting relevant data on project participation or an increase in staff to maintain a comprehensive manual system.

The Office of the Assistant Secretary for Housing-Federal Housing Commissioner agreed with our recommendations and has initiated corrective actions.

4. SERVICING OF DELINQUENT TITLE I AND SECTION 312 LOANS

Our nationwide review disclosed that HUD Field Offices' Title I staffs were not aggressively servicing defaulted Title I and Section 312 rehabilitation loans. Weaknesses included Title I Representatives' failure to promptly contact debtors of newly assigned accounts, as well as not implementing adequate controls to ensure that delinquent accounts were routinely serviced. Consequently, delinquent debtors were allowed to continue their delinquency which diminished HUD's ability to collect on these accounts and which made HUD vulnerable to incurring unnecessary losses. Among the reasons for these deficiencies was the lack of monitoring of Field Office servicing operations by the Headquarters Liquidation Branch.

We recommended that a system be developed for Field Offices which would readily identify the status of accounts so that nonpaying delinquent loans would be segregated for immediate follow-up. We also recommended measures to improve staffing capabilities and systems for monitoring Field Office activities.

Under the Department's Audits Management System, a response to our findings and recommendations is not due until May 1980.

5. SUMMARY OF AUDIT FINDINGS DISCLOSED IN AUDIT REPORTS
COVERING FHA-INSURED MULTIFAMILY MORTGAGOR OPERATIONS

During the semiannual reporting period, we reviewed audit findings disclosed in 82 external audit reports on FHA-insured Multifamily Mortgagor Operations (MFMO), covering 93 projects. The reports were issued during a one-year period.

The most prevalent audit finding reported as a result of MFMO audits was the improper or questionable use of operating revenues. This finding occurred in 72 of the 93 MFMO projects and comprised 35 percent of all MFMO audit findings reported during the review period. It also accounted for \$7.8 million or about 64 percent of the total \$12.3 million questioned or disallowed in the audit reports reviewed. Included in this category were improper distributions of revenues to mortgagors, the use of project funds for nonproject and questionable expenses, and loans and other liabilities which were incurred and recorded without being approved by HUD. The improper use and maintenance of escrow or reserve funds was another prevalent deficiency disclosed in the audit reports. This problem occurred in 34 of the 93 projects. The more significant findings in this category include the failure to make adequate payments to the reserve for replacement fund; the underfunding of tenant security deposits or the funding of security deposit accounts from project revenues; and the commingling of tenant security deposit funds with operating funds or personal funds of owners or managers.

Other problems encountered in audits of MFMO projects included: (1) incomplete or inaccurate accounting records and/or reports; (2) inadequate internal controls; (3) improper or untimely recertification of tenants eligible for subsidies; (4) rental rates in excess of approved rates; (5) improper computations of rents and/or subsidies; and (6) failure to apply excess funds against delinquent mortgage payments.

It should be noted that it was impractical to project these types of MFMO deficiencies to other MFMO projects. This is due to the fact that the audit reports cover MFMO projects that were known to have problems. Such audits were performed by us usually upon request from HUD Field Offices due to the existence of known or suspected serious problems at the projects involved.

We reported the results of our review to the Assistant Secretary for Housing-Federal Housing Commissioner and recommended that his office perform a comprehensive management review of HUD's control over MFMO projects to determine the reasons for recurring deficiencies of the type found during our review.

The Office of the Assistant Secretary for Housing-Federal Housing Commissioner was in the process of reviewing these matters as of the close of the semiannual reporting period.

X. INTERNAL ORGANIZATIONAL AND MANAGEMENT IMPROVEMENT EFFORTS

During the semiannual reporting period October 1, 1979 through March 31, 1980, we commenced, continued or completed a number of organizational and management improvement initiatives designed to enhance the effectiveness and efficiency of our operations. Highlights of these initiatives are described below.

1. EMPLOYEE TRAINING AND DEVELOPMENT

Our efforts to produce a highly trained work force to combat fraud and abuse in HUD programs and operations continued during the current semiannual reporting period. In the first half of FY 1980, we presented in-house courses which concerned the auditing of such programs as the Community Development Block Grant Program, the Assisted Housing and the Property Disposition Programs.

Two new courses were introduced. The "Detection and Prevention of Fraud and Program Abuse" course deals with management control mechanisms, identified system weaknesses and indicators of fraud and abuse, with particular emphasis on HUD-administered programs, functions and activities. This course is more fully described on page 37 of this report. The "Contract Cost Audits and Price Proposal Evaluations" course provides techniques for auditing costs claimed by contractors and grantees, and for evaluating price proposals and techniques and procedures for identifying unallowable costs.

During the current semiannual reporting period, we had planned to hold several additional formal in-house classes at HUD's National Training Center in Columbia, Maryland. However, they had to be cancelled because of imposed training and travel budgetary restraints (See page 13). Consequently, our overall training class enrollment had to be reduced by 80 persons during the first half of FY 1980.

In addition, substantial efforts on the part of our staff produced a "Compendium of Training Sources" for the Subcommittee on Training of the Committee on Staffing, Training, Organization and Management (President's Executive Group to Combat Fraud and Waste in Government). The Compendium, disseminated to all Inspectors General, was designed to include training sources which were representative of the kinds of training opportunities generally available to auditors and investigators. Also, auditors and investigators from our staff took part in a week-long seminar headed by the Workforce Effectiveness and Development Group of the Training Consulting Division, Office of Personnel Management. This project was designed to identify the training needs of auditors and investigators and resulted in the publication in March 1980 of the "Report on the Training Needs of Auditors and Investigators in the Offices of Inspector General."

2. ESTABLISHMENT OF OIG EXECUTIVE MANAGEMENT REPORTING SYSTEM

In February 1980, we established an Executive Management Reporting (EMR) System in the OIG designed to gather and present monthly and quarterly data on accomplishments of our major operating groups.

The goals of the EMR System are to: (1) provide OIG management with a well-organized presentation of accomplishments during each month, each quarter and for the entire fiscal year; (2) relate these accomplishments to pre-established goals; (3) establish a framework wherein variances or shortfalls can be examined and explained; and (4) present other informative data to help top management obtain a clear picture of OIG operations.

The new EMR System, in conjunction with existing HUD personnel evaluation systems, will provide a formal means of measuring the effectiveness of OIG managers. It will also facilitate and promote the accomplishment of OIG goals and objectives.

3. PROGRESS IN AFFIRMATIVE ACTION EFFORTS

In February 1980, we completed an internal review of selected aspects of our staffing process for the fiscal years 1977 through 1979. Based on this review, we identified what appears to be favorable trends in the annual turnover of women occupying professional-series positions and in the percentage of professional-series women hired and on-board.

Women occupying professional-series positions in the OIG comprised only 9.7 percent of total professional-series persons in the OIG at September 30, 1977, whereas at September 30, 1979, they comprised 14.2 percent of total professional-series persons. In addition, the percentage of professional-series women hired has more than doubled from 17 percent in FY 1977 to 38 percent in FY 1979. Annual turnover of women in professional-series positions has also shown gradual improvement. In FY 1977, the rate was 23 percent, whereas in FYs 1978 and 1979, it was 17.4 percent and 16 percent, respectively.

We are currently seeking ways to better recruit and identify high potential women for higher level professional-series positions in the OIG.

4. FORMALIZATION OF THE AUDIT PLANNING PROCESS

In March of 1980, we formalized the policies, procedures and responsibilities governing the implementation of our audit planning systems. This was accomplished by issuing a permanent chapter on audit planning for inclusion in our operating manual.

The audit planning process, which culminates in the issuance of our Annual Audit Plan, is a process which requires many months of research and preparation. It is one of our most important tasks inasmuch as it assists us in achieving maximum return on our investment of audit resources. It also enables us to respond to HUD's most critical problems and concerns.

The formalization of policies, procedures and responsibilities in connection with our audit planning process will go a long way toward ensuring a high degree of consistency, uniformity and effectiveness in identifying valid audit subjects, determining the scope and location of planned audits, and pinpointing the resources needed to carry out such audits.

5. EMPLOYMENT OF STAFF APPRAISERS

20 During the course of our audits, it is sometimes necessary to make appraisals or valuations of single family or multifamily properties insured by HUD. Such audits may relate to a specific property or to a number of properties in connection with a HUD Field Office review of the procedures and practices of HUD staff appraisers or fee (contract) appraisers. In the past, we have used HUD staff appraisers to perform such work and provide our staff auditors with requested information. However, because we require their services at times concurrent with our audit work, we may interfere with HUD Field Offices' work schedules. Therefore, appraisers may not be available when needed, which may delay the audit work or the preparation of appraisers' reports. The use of HUD staff appraisers may also jeopardize the independence of appraisals because such appraisers represent the program area being audited and their perspective may be influenced accordingly. HUD is currently planning to reduce the number of staff appraisers in the Field Offices and to rely to a greater extent on the use of fee appraisers. This will make it more difficult for us to utilize HUD staff appraisers.

Accordingly, we plan to broaden our work disciplines by employing HUD staff appraisers affected by the aforementioned staff change. This will improve the independence of the appraisers and assure their availability. Besides appraisal work, we will likely use such persons to make on-site inspections of properties to validate the need for repair and rehabilitation work and to determine if work done was in fact performed in accordance with stated specifications. We plan to engage ten appraisers and assign them to six OIG Regional Offices.

6. TRANSFER OF RESPONSIBILITY FOR EEO COMPLAINT INVESTIGATIONS

20 The OIG is currently responsible for conducting investigations of complaints relating to Equal Employment Opportunity (EEO). Our internal evaluation of the impact of EEO complaint investigations on our criminal investigative workload, coupled with our experience in carrying out such investigations, led us to conclude that EEO complaint investigations should not be an OIG responsibility. Therefore, based on an agreement with HUD's Office of Fair Housing and Equal Opportunity (FHEO), we recommended to the Secretary that effective October 1, 1980, all EEO complaint investigations be conducted by FHEO. This will enable our criminal investigators to spend more time investigating matters concerning fraud and program abuse. This arrangement will also provide FHEO with more direct control over the processing of EEO complaints.

To enable FHEO to carry out EEO complaint investigations, a total of three permanent full-time positions will be transferred from our office to FHEO as of September 30, 1980.

XI. OTHER ACTIVITIES AND ACCOMPLISHMENTS DURING THE CURRENT REPORTING PERIOD

Our next semiannual report to Congress will recap the results of our major activities and accomplishments for the full FY 1980. However, a number of our activities and accomplishments during the current semiannual reporting period are particularly worthy of mention at this time. These activities and accomplishments are briefly described below.

A. COMMITTEE ON FRAUD, WASTE, AND MISMANAGEMENT

On November 2, 1978, the Secretary of HUD established a Departmental Committee on Fraud, Waste, and Mismanagement. Recognizing the respective roles of program management personnel and the OIG, the Committee was formed to advise the Secretary on policy matters associated with minimizing occurrences of fraud, waste, and mismanagement in HUD programs and activities.

The Committee consists of representatives from all principal offices in HUD, including Regional and Area Offices. The Inspector General, as Chairman, coordinates and guides Committee activities. Our Fraud Control Division provides technical assistance and support to the Committee in undertaking its various projects.

1. IMPLEMENTATION OF FRAUD VULNERABILITY ASSESSMENT SYSTEM

A major study by the Committee on Fraud, Waste, and Mismanagement culminated in HUD's implementation on September 4, 1979 of a new policy and improved management system which provide for the appropriate recognition of effective management controls when designing programs and developing related procedures for their implementation. The system, known as the Fraud Vulnerability Assessment System, commenced on November 1, 1979 and applies to all new or substantially revised programs. This system is viewed as an important step in HUD's efforts to shut off any new opportunities for fraud and waste in its programs by placing increased emphasis on front-end controls.

Basic elements of the system include:

- An analysis of a proposed program's vulnerability which entails summarizing its goals, objectives and delivery systems and comparing them with HUD or another agency's experience with similar or related programs.
- A narrative statement detailing the management controls and/or incentives that will be incorporated into the various delivery cycles to assist in minimizing fraud, waste, and mismanagement. Special attention is to be placed on those areas identified during the aforementioned vulnerability analysis.
- A summary statement for top management's consideration that details the risks associated with a given program and the costs of the various levels of management controls that could overcome the identified risks.

During the current semiannual reporting period, the Department's Primary Organization Heads established procedures within their offices to comply with the guidelines set forth by the Committee and adopted by HUD top management. In addition, a Departmental handbook formalizing the system and related procedures has been drafted by our staff and will be issued shortly.

2. RESEARCH PROJECT ON HUD'S MONITORING SYSTEMS AND PROCEDURES

One of HUD's most persistent problems has been the quality and effectiveness of its monitoring systems (See page 11). Consequently, a Committee work group conducted a research study during the current semiannual reporting period to identify specific areas that need to be addressed in detail by the Committee itself or by various HUD disciplines. The group reviewed and analyzed data from numerous sources relating to monitoring requirements, resources allocated and used, and various reports criticizing past monitoring performance. The results of this research project were reported to the full Committee for consideration of future actions.

The group's report detailed five issue areas that require further detailed study as follows: (1) adequacy of HUD instructions and guidance to employees in detecting and preventing irregularities or abuses; (2) adequacy and use of resources allocated to program participant monitoring; (3) effectiveness of monitoring results; (4) use of sanctions and penalties against program participants; and (5) adequacy of internal monitoring of employee performance.

Based on this report, the Committee has initiated a follow-on study to address the first two issues above. A Committee work group is currently assessing HUD policies and related implementation plans concerning program participant monitoring. The basic objective will be to determine how and where available resources can be better used to protect program integrity. However, it is possible that a recent severe cut in travel funds which the Department has had to absorb may cause delays in this project (See page 11).

3. REVISIONS TO BASIC REGULATORY AND MANAGEMENT AGENT AGREEMENTS

A Committee work group, consisting of representatives from the Offices of Housing, General Counsel, and Inspector General, has made substantial progress in revising the agreements that govern multifamily housing management operations. This task has received impetus because experience has shown that multifamily operations are a highly vulnerable area from the standpoint of fraud and abuse. Moreover, for various reasons, the current agreements have seldom been enforced in either criminal or civil matters.

It is hoped that the revised agreements can be placed in Departmental clearance shortly. Once they become effective, HUD will be better able to measure performance and take punitive actions when necessary. The revised agreements more clearly define program participants' responsibilities when obtaining HUD mortgage insurance or when managing HUD-insured projects. HUD top management views the revised agreements as a positive step in curtailing the types of abuses that have occurred in the past.

4. REVIEW OF THE CERTIFICATION PROCESS IN THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

State and local governments are primarily responsible for the administration and delivery of Community Development Block Grant (CDBG) Program funds. HUD places reliance on certifications made by local administrators to the effect that funds will be used effectively and in compliance with various statutory objectives. A Committee work group recently completed an analysis of this process to determine whether it adversely impacts on HUD's ability to prevent and detect fraud and abuse. The group concluded that the certification process generally is a useful and effective management control; however, the group also suggested that HUD personnel can and should do more to verify the propriety of certifications made by states and localities. In this regard, the Committee is currently evaluating what steps might be taken to improve HUD's methods for monitoring CDBG certifications.

B. OIG FRAUD CONTROL INITIATIVES

Our Fraud Control Division has been assigned several key responsibilities that place increased emphasis on the detection and prevention of fraud and program abuse, and which complement and supplement our ongoing audit and investigation activities. The primary thrust of the Division's efforts has been and will continue to be in the prevention area. We believe a sound management control system is the best defense against the illegal or improper use of HUD funds. In this regard, the Division has concentrated on coordinating the Department's resources to measure, and improve where necessary, those systems and procedures designed to minimize losses from fraud or program abuse. Some of the Division's work efforts during the past six months are shown below.

1. PREPARATION OF MANAGEMENT CONTROL ASSESSMENT GUIDE

Our efforts were instrumental in the establishment of a Departmentwide goal in HUD's Executive Management Reporting (EMR) system relative to management control evaluations. The EMR is used by top management to measure and track the accomplishment of high level goals on a monthly and quarterly basis. Starting in the quarter ending June 30, 1980, each HUD Primary Organization Head will be held responsible for the completion of management control assessments. The assessments are designed to measure the existence and effectiveness of management controls in HUD's existing programs and functions.

As part of our responsibility concerning this goal, a guide was developed for HUD offices which included a methodology for the required assessments. The guide is to be applied to specific functions, e.g., determination of applicant eligibility, monitoring of recipients, or servicing of receivables.

The approach combines a general evaluation of the function under review with completion of a control questionnaire. Evaluation of the function involves five steps: (1) a comprehensive study of the function; (2) summarization of the information collected; (3) identification of the risks that could occur in the performance of the function; (4) establishment of the extent to which controls are in effect to prevent or minimize those risks; and (5) determination of corrective action needed. To supplement the evaluation, a series of individual management control questionnaires, by function, is being developed.

The management control assessment guide is currently being tested. Later in the year, a final version of the guide will be forwarded to Primary Organization Heads for their use and guidance in conducting required assessments.

2. FRAUD INFORMATION BULLETINS

We also instituted a series of Fraud Information Bulletins (See Appendix 2). These bulletins are intended to alert various HUD disciplines, primarily program managers, to the types of schemes used by program participants to improperly divert HUD funds for personal gain. Based on our audit and investigation experience, case examples are described in the bulletins showing not only how various fraudulent schemes occur but also how such schemes can be detected or prevented in the future. While the bulletins are not intended to replace current operating procedures, we believe they will prove useful to those HUD employees responsible for monitoring the implementation of HUD programs.

The initial issuance in this series covers the management aspects of HUD's Section 8 Program. The bulletin provides case examples and detection techniques for the three major categories in which this program is being abused. These categories include misrepresentations by tenants and Section 8 administrators, false billings and overcharges by owners, and collusion/bribery. The bulletin is shown in Appendix 3.

3. FRAUD TRAINING COURSE

In March 1980, we conducted a training course on the "Detection and Prevention of Fraud and Program Abuse," attended by 20 of our auditors and investigators. The objectives of the course were to increase OIG employees' awareness of common fraudulent schemes in HUD programs and to sharpen their knowledge and skills in detecting and preventing fraud and abuse.

Comprehensive case studies, coupled with guest lectures by representatives of the General Accounting Office, Department of Justice, New York State Deputy Attorney General's Office, and HUD's Office of General Counsel, were used to exchange information and ideas on current and future approaches for protecting the integrity of HUD programs and activities.

This course represented our initial effort at presenting an in-house training course specifically focused on fraud and program abuse. We will continue to improve the course and present it as warranted.

C. HOTLINE ACTIVITIES

1. ESTABLISHMENT OF SYSTEMS AND PROCEDURES

Under the Inspector General Act of 1978, employees can talk to the Inspector General or designated representatives without fear of reprisal and with assurance that complaints will be kept confidential unless such disclosure is unavoidable during the course of an investigation.

In consideration of the above and in response to a suggestion of the Office of Management and Budget, HUD established an employee hotline on February 1, 1979, for the reporting of activities in the Department which involve fraud, waste, and mismanagement.*

In October 1979, we issued formal procedures covering the receipt, screening, maintenance and tracking of hotline complaints. This effort included working with Fraud Task Force hotline personnel of the General Accounting Office (GAO) to establish procedures for the referral of HUD-related hotline complaints received through GAO's hotline. (GAO's hotline is similar in nature to HUD's, except that it is primarily used by the general public to report on activities administered by all Federal agencies.)

The procedures established for the hotline system require that, on all hotline calls, basic information is obtained on the allegation, the details are written up on a prenumbered control record and the caller is provided with a control number for future reference. As the complaints come to our Fraud Control Division, a preliminary screening is made to gather any additional information that may be necessary relative to the allegation. After the preliminary screening, the allegation is then referred to the appropriate organization for further action. The office to which referrals are made then proceeds with its action and our Fraud Control Division is required to be advised of any actions taken. Applicable case files are maintained in our Central Files.

We periodically analyze hotline calls to identify trends and patterns useful to our fraud control efforts. We also prepare quarterly management reports on hotline activities.

2. HOTLINE WORKLOAD

During the current semiannual reporting period, 185 hotline calls were received by our Fraud Control Division. Of the 185 calls, 62 were received through the HUD hotline (31 from HUD employees and 31 from the public) and 123 were referred to the Division from GAO via its hotline.

The following Table summarizes the hotline calls by the affected program area and the office responsible for following up on the complaint after OIG preliminary screening.

*In a memorandum to all HUD employees on March 7, 1980, the Secretary expanded the use of the hotline to include matters pertaining to sexual harassment by HUD employees during the conduct of their official duties.

By Program	Received	Hotline Complaints		
		Follow-up OIG	Office Program Office	Not Referred At 3/31/80
Housing	171 (80)	95 (42)	72 (36)	4
Community Planning and Development	147 (53)	87 (27)	55 (21)	5
Administration	84 (36)	53 (22)	30 (13)	1
Fair Housing and Equal Opportunity	6 (3)	1 (-)	5 (3)	-
Policy Development and Research	2 (-)	2 (1)	-	-
New Communities Dev. Corp.	1 (1)	1 (1)	-	-
Neighborhoods, Voluntary Associations & Consumer Protection	5 (4)	1 (-)	4 (4)	-
Non-HUD	36 (8)	29 (7)	7 (1)	-
TOTALS	452 (185)	269 (100)	173 (78)	10

Note: Numbers in () represent semiannual numbers

Table. Hotline Workload by Affected Program Area
and Action Office as of March 31, 1980

Of the 452 hotline calls received in the OIG since the inception of the OIG and GAO hotlines through March 31, 1980, 91 were referred to our Office of Audit, 109 to our Office of Investigation, 69 were handled by our Fraud Control Division, 173 were referred to HUD program offices, and ten had not been referred at March 31, 1980.

A breakdown by program organization showing repetitive type complaints which indicate possible programmatic problems follows:

Housing - 171

The preponderance of Housing complaints involve the questionable eligibility of tenants receiving aid under HUD's multifamily programs. Eighty-eight such complaints have been received to date.

Thirty-two complaints pertain to the processing of applications for multifamily mortgage insurance and the quality or reasonableness of project construction.

Community Planning and Development - 147

The prevalent complaints concerning Community Planning and Development involve rehabilitation loans and grants and the Community Development Block Grant (CDBG) Program.

Fifty-five complaints have been received involving rehabilitation loans and grants. Shoddy workmanship, bidding irregularities, contractor favoritism, and local agency mismanagement are the subjects most often mentioned. These complaints have confirmed the soundness of our decision to perform a Special Operational Survey of CDBG rehabilitation activities which will be completed in FY 1980.

Fifty-four complaints question the administration of the Community Development Block Grant Program at the local level. Such matters as ineligible activities, improper aspects of third party contracting, and questionable contractor performance have been alleged.

Administration - 84

Forty-three of the Administration complaints concern personnel matters such as misuse of leave and overtime, merit staffing irregularities, and payroll problems associated with HUD's new automated payroll system.

3. HOTLINE ACTIONS TAKEN

At March 31, 1980, our Fraud Control Division had acted on 442 of the 452 complaints received. Of the 442 complaints acted on, 333 or 75 percent were closed upon appropriate screening by our Fraud Control Division and follow-up by our Offices of Audit and Investigation and HUD's program offices. Of the complaints closed, 248 or 74 percent were found to be nonsubstantive and required no further action; 85 or 25 percent were found to be valid. With respect to the latter, HUD management was required to take corrective action such as assuring that construction deficiencies were corrected; requiring local agency personnel to improve their management procedures; correcting administrative problems encountered by HUD employees; and debarring a landlord from future participation in HUD programs.

At March 31, 1980, 109 or 25 percent of the 442 complaints acted on remained open. All were undergoing various stages of review by the OIG and HUD program offices.

D. REFERRALS TO MORTGAGEE REVIEW BOARD

In 1975, HUD established the Mortgagee Review Board in order to strengthen the Department's monitoring and control of mortgagee performance, to ensure better responses to consumer complaints, and to act on poor performance by mortgagees. The Board has the authority to take a range of sanctions up to and including the withdrawal of the HUD-approved status of mortgagees. The Board is composed of the Assistant Secretaries for Housing; Administration; Neighborhoods, Voluntary Associations and Consumer Protection; and the HUD General Counsel.

During this semiannual reporting period, we referred two mortgage companies to HUD's Mortgagee Review Board for appropriate action. Reviews of these companies disclosed program violations such as: use of strawbuyers; questionable processing of insured loans; questionable payments to third parties; charging of excessive closing costs; delays in payments of prior liens; improper handling of deposits and employment verifications; and loan documents signed by persons other than original applicants. The Board withdrew mortgagee approval in one case; and issued a letter of reprimand and entered into an indemnification agreement with the other.

Additionally, during the semiannual reporting period, HUD realized monetary savings of about \$139,000 from Board action on a case that we referred during FY 1979.

E. ACTUAL AND POTENTIAL CASH RECOVERIES

There is no definite trend or pattern in the amount of monetized audit findings or cash recoveries from year to year. Such audit findings and cash recoveries are affected by a variety of factors such as types of programs audited, amount of program funds audited, extraordinary items, types of costs incurred, internal versus external audit emphasis and the phasing out of HUD's categorical grant programs.

1. MONETIZED AUDIT FINDINGS CONCURRED IN BY HUD

All of the audit findings that the OIG and non-Federal auditors (primarily Independent Public Accountants or IPAs) report cannot be expressed in monetary terms. However, the audit findings that were monetized and sustained or concurred in by HUD during the period October 1, 1979 to March 31, 1980 amounted to about \$76.4 million (OIG--\$10.6 million and IPAs--\$65.8 million). These findings are normally in the external audit area and are not reported until we are advised in writing by the applicable HUD program official that he or she has concurred in the audit findings and has requested the recipient of the program funds to make restitution or take other corrective action.

The monetized audit findings of \$76.4 million concurred in by HUD for the first half of FY 1980 have already substantially exceeded the \$31.3 million of such monetized audit findings for all of FY 1979. This is due in part to increased emphasis by non-Federal auditors on monetizing audit findings when possible and the positive actions taken by HUD management on audit findings.

2. CASH RECOVERIES

Cash recoveries resulting from OIG external audits and audits performed by non-Federal auditors (primarily Independent Public Accountants or IPAs) during the period October 1, 1979 to March 31, 1980 amounted to about \$11.1 million (OIG--\$7 million and IPAs--\$4.1 million). Cash recoveries are reported only after we have satisfactory evidence that HUD's program costs have actually been reduced. Monies recovered become available for reprogramming to grantees or borrowers within the programs involved.

Recovery of Excess Contractor Fees

A survey report we issued in June 1977 indicated that 16 states did not perform State Administrative Agency functions. As a result, \$491,000 in fees accumulated from collections relating to the Federal Mobile Home Program was held in reserve by the National Conference of States on Building Codes and Standards, Inc. We recommended that the fees collected be transferred to a HUD Treasury account. Program representatives of the Office of Neighborhoods, Voluntary Associations and Consumer Protection responded to our report stating that HUD's Office of Finance and Accounting had been requested to establish an account for the accumulated fees.

During a January 1980 follow-up of our report on HUD's Mobile Home Certification Program, we found that our recommendation to deposit the subject fees had not been fully implemented. The financial statement of the National Conference of States on Building Codes and Standards, Inc., indicated that over \$4 million in fees had been accumulated as of December 31, 1979. This surplus resulted from fees collected in excess of monitoring expenses and disbursements to the states.

We subsequently learned that legislative authorization was needed to establish an account with the U.S. Treasury. HR 3875, Section 327, dated July 13, 1979, proposed an amendment to the National Mobile Home Construction and Safety Standards Act of 1974 by adding that, "...the Secretary may use any fees so collected to pay expenses incurred in connection with such inspections." The Act was amended on December 21, 1979, and GAO subsequently issued an opinion on January 15, 1980, stating that fees could be used to offset costs of the mobile home inspection program. We again recommended that the fees be returned to HUD and deposited in the U.S. Treasury. On February 5, 1980, the contractor transferred to HUD \$4,155,587 which was deposited in a U.S. Treasury account. This amount is included in the \$11.1 million of cash recoveries mentioned previously.

F. MONITORING INDEPENDENT PUBLIC ACCOUNTANTS

The Inspector General Act of 1978 requires each OIG to take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions.

Most audits of HUD program participants are performed by Independent Public Accountants (IPAs). We have been monitoring the work of IPAs from the time of our establishment in 1972. During FY 1980, we anticipate spending about 25 staff years monitoring the work of IPAs engaged in auditing HUD program participants. Our IPA monitoring program consists of reviewing IPA reports for acceptability, conducting selected field reviews of IPA workingpapers, and evaluating the scope of IPA audit work.

We are also responsible for recommending sanctions against IPAs. Such sanctions usually consist of referral to the appropriate State regulatory authority, State accounting board, or American Institute of Certified Public Accountants (AICPA), for review and adjudication and/or initiation of a recommendation to the responsible HUD official to suspend or debar the IPA



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, D.C. 20410

May 30, 1980

Report to the Congress by the Office of Inspector General,
for the Period Ending March 31, 1980

The Department of Housing and Urban Development has had an Office of Inspector General since 1972. This Office served as a model when the Congress established Offices of Inspector General in twelve Executive Branch departments and agencies in 1978. The Department welcomes the work of the Inspector General in helping to improve overall program management and to prevent and detect fraud and abuse. Over the years, a close, cooperative working relationship has evolved between the OIG and HUD which has served the public, and the Department, well. The comments below underscore that cooperation.

GNMA Mortgage-Backed Security Pools and Mortgage Origination Practices in Puerto Rico

The Report describes significant deficiencies in the administration of GNMA mortgage-backed securities by the James T. Barnes Company of Puerto Rico, and finds poor and improper loan origination and servicing practices among mortgage originators in Puerto Rico.

The OIG audit and investigation work on the mortgage-backed securities issue resulted from a specific request made by GNMA to OIG immediately after GNMA learned that a possible deficiency existed. In addition to contacting OIG and cooperating throughout the investigation, GNMA has also initiated firm actions to minimize its losses and prevent further losses and abuses. The actions taken include: (1) declaring the Barnes Company to be in default under its contracts with GNMA, thereby transferring to GNMA full control of all mortgage documents and pool monies associated with the Barnes securities issuances; (2) conducting a special task force review of issuers in Puerto Rico, which resulted in the identification of specific deficiencies and substantially improved performance; (3) upgrading the on-site review of procedures used by GNMA staff on a nationwide basis, particularly with respect to those areas where abuses have been identified; and (4) improving records systems to monitor loan liquidations and prevent diversion of funds. GNMA officials have also met with mortgage lenders in Puerto Rico to emphasize the gravity and importance of sound mortgage underwriting and pool administration.

As an example of the continued cooperation with the OIG in this area, GNMA has requested that OIG prepare an Audit Guide for Independent Public Accountants (IPAs) to be used specifically for the audit of GNMA issuer activities. Also at GNMA's request, the OIG has in the past year agreed to increase the number of on-site audits it will perform on GNMA issuers.

Audit of Yonkers, New York Community Development Agency

The Report notes that in addition to approximately \$8 million of disallowed or questionable costs identified during the OIG audit, the Justice Department is conducting an investigation of alleged program abuses by the Yonkers Community Development Agency. As of May 15, 1980, the audit by the OIG had been completed but the final audit report had not been issued. When we receive a copy of the final audit report and have an opportunity to review any findings indicated therein, we will be in a position to discuss the findings and their early resolution with the officials of the City of Yonkers. In the meantime, the Yonkers Letter of Credit has been revoked and the City has been put on a reimbursable basis.

Any action which might be required of the Department as a result of the criminal investigation by the Department of Justice will be taken at such time as that investigation is completed.

Audits of HUD-Related Community Development and Housing Agencies in Los Angeles, New York City, Philadelphia and New Orleans

The Department regards the routine programmatic audits by the OIG as an important element in its overall effort to detect and prevent fraud and abuse, and to ensure the appropriate and legal expenditure of public funds. The audits noted above are in varying stages of completion and resolution. It is the practice of the Department to cooperate fully in these audits, review findings carefully, and work closely with local agencies and the OIG to resolve findings as expeditiously as possible.

It is our general observation that many of the findings of disallowed and questionable expenditures identified by the OIG are often the result of inadequate record keeping and incomplete documentation of program operations. As the work of resolving audit findings progresses, the scale of unresolved findings and disallowed costs is reduced significantly. It is important to note that in the audits included in this report there is no suggestion of fraud.

Special Operational Survey of Rehabilitation Activities in the Community Development Block Grant Program

The Report describes a special study, as yet not completed, which identifies possible deficiencies in the eligibility of recipients of CDBG assistance, and in the quality and cost of rehabilitation work assisted by

CDRG funds. We are aware that the rapid expansion of rehabilitation activities in CDBG programs has produced some of the deficiencies noted in the Report. We are working with HUD field staff and CDBG grantees in efforts to minimize the instances of inadequate physical performance and insufficient administrative controls. Steps taken include additional training programs for CPD staff and issuance of a comprehensive handbook, covering rehabilitation activities, which established standards and direction for the monitoring of Community Development Programs.

Review of Accounting for Program Funds

The Financial Audit of the Rehabilitation Loan Fund described in the Report was requested by the Department as part of a broader effort to improve the overall management of the rehabilitation loan program, with particular emphasis on servicing and recovering defaulted loans. Based on that report, and other deficiencies noted by the Department in its own review of program documents, the Department has taken a number of steps to correct the problems identified. These include the issuance of program regulations and establishment of a system for evaluating local public authority performance under which poor performers will be penalized by reduction of any Section 312 program funding they may be receiving. Changes are also being made in the Department's accounting systems to accommodate the needs of the Section 312 program. Finally, we believe that the Department has adequate controls over the receipt and deposit of loan payments. We constantly monitor our remittance processing to ensure early identification of deficiencies.

Concerning the timing and appropriateness of the Department's recording obligations for assisted housing at the point of program fund reservations, the issue has been discussed at length with the appropriate Congressional committees and in numerous consultations with the General Accounting Office. Although we disagree with the GAO's position regarding the preferred method of reporting and recording of obligations, we have repeatedly assured the GAO that we would take any measures needed to meet the legal requirements for recording obligations of the Department.

Inadequate Monitoring of Program Participants - Travel Funds

We share the concern that recent cuts in HUD travel funds may adversely affect program management and monitoring. As a result of the low funding level for travel, we have had to reexamine many program operations with a view to curtailing, delaying or altogether cancelling certain activities until funds do become available.

Follow-up on Previous Recommendations on Section 8 Leased Housing Program

The Report reveals that the Department has taken major steps during the last six-month period to improve the administration of the Section 8 Leased Housing Program. Major recommendations of the Inspector General which are planned or already implemented include: 1) improved monitoring of public housing agencies, 2) training on the application of Housing Quality Standards, and 3) issuance of an Administrative Guide for public housing agencies to help them improve administration of the program.

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from participating in the Department's programs. During the current semiannual reporting period, we recommended that a CPA firm be debarred due to its failure to provide HUD with acceptable and timely audit reports. In addition, we referred the matter to the AICPA, the State regulatory authority, and the State accounting board. In March 1980, HUD notified the CPA that, to protect the public interest, consideration was being given to debarring the firm from further participation in HUD programs for a period of five years. Debarment proceedings were initiated.

During the prior semiannual reporting period, another CPA firm was similarly referred to the AICPA. Further, we recommended that the Department debar this firm from future participation in HUD programs. During the current reporting period, the CPA firm was notified that consideration was being given to debarring the firm for a period of two years.

XII. OIG-COMPLETED AUDIT REPORTS ISSUED DURING THE CURRENT REPORTING PERIOD

Section 5(a)(6) of the Inspector General Act of 1978 provides for a listing of each audit report completed by the OIG during the reporting period.

During the current semiannual reporting period October 1, 1979 to March 31, 1980, we issued 53 internal audit/survey reports and 333 external audit and accounting system evaluation reports. These reports are listed below.

10-1-79
3-31-80

INTERNAL AUDIT AND SURVEY REPORTS

DESCRIPTION OF AUDIT

ISSUING OFFICE

HOUSING (Total 21)

Single Family Appraisers Survey	Region III ✓
Loan Management Branch - Field	Region VI
Diversions of Insured Multifamily Project Funds	Region IV ✓
Diversions of Insured Multifamily Project Funds - Newark AO	Region II ✓
Diversions of Insured Multifamily Project Funds - New York AO	Region II ✓
Contracting Activities of the Property Disposition Branch	Region V ✓
Mortgagee Approval Division, Office of Mortgagee Activities	Headquarters ✓
Repair Program for Acquired Single Family Properties Administered by AMBs (Pilot)	Region IV ✓
Assignment of Defaulted Mortgages to the Secretary	Region I ✓
Assignment of Defaulted Mortgages to the Secretary	Region IV ✓
Assignment of Defaulted Mortgages to the Secretary - Chicago	Region V ✓
Assignment of Defaulted Mortgages to the Secretary - Milwaukee	Region V ✓
Tax Exempt Bond Financing for Section 8 Projects - Survey	Region VI
Review of Loan Management Branch in the Field Offices	Region VI
Determination of Land Values and Market Rents	Region I
Previous Participation and Clearance	Headquarters ✓
Establishment of Fair Market Rents for Section 8 (New and Substantial Rehabilitation)	Headquarters ✓
Timeliness of Foreclosure of Multifamily Project	Headquarters ✓
PHA Accounting and Financial Reporting System	Headquarters
Multifamily Project Operations Prior to Final Endorsement	Headquarters
Servicing Delinquent Section 312 and Title I Loans	Headquarters

COMMUNITY PLANNING AND DEVELOPMENT (Total 5)

Monitoring CDBG Recipients Use of Letter-of-Credit	Region IV ✓
Social Service Expenditures in the CDBG Program	Region IV ✓
Compliance of Neighborhood Strategy Area Requirements, CDBG (Entitlement Cities) - Survey	Region VIII
Monitoring CDBG Recipients Use of Letter-of-Credit	Region II ✓
Review of UDAG Application Processing	Headquarters

DESCRIPTION OF AUDITISSUING OFFICEADMINISTRATION (Total 8)

Biweekly Payroll Reconciliation Procedures for the
Terminally Operated Personnel/Payroll System (TOPPS)
Selected Aspects of Personnel Management
Processing and Control of Payments for Commercial
Vehicle Usage
Usage of Telephone Equipment
Cash Controls - Fresno Service Office
Imprest Fund Audit - Spokane Service Office
Survey of Overages and Shortages of Proceeds from
Sale of Acquired Properties
Report on Review of HUD's Management of Personal Property
Survey of Government Technical Representative Post Award
Contract Performance

Headquarters ✓
Region II ✓
Region III ✓
Region III ✓
Region IX ✓
Region X
Region X
Headquarters ✓
Headquarters

NEIGHBORHOODS, VOLUNTARY ASSOCIATIONS,
AND CONSUMER PROTECTION (Total 2)

Review of Consumer Complaint Handling System
Follow-up Review on the Report of Mobile Home
Certification Process

Headquarters
Headquarters

NEW COMMUNITIES (Total 1)

Review of Jonathan Development Corporation

Headquarters

DEPARTMENT-WIDE ASSISTANCE (Total 1)

Field Office Control and Use of IPA Reports Not
Reviewed/Accepted by the RIGA 39

Region II ✓

FRAUD CONTROL AND DETECTION (Total 15)

Operational Survey - Charleston Service Office

Region III

Administrative Deficiencies Disclosed In Operational Survey

- Birmingham Area Office

Region IV

Special Operational Survey of CDBG
Rehabilitation Activities

- Boston Area Office
- Hartford Area Office
- Louisville Area Office
- Columbus Area Office
- Indianapolis Area Office
- Minneapolis/St. Paul Area Office
- Detroit Area Office
- Chicago Area Office
- Milwaukee Area Office
- Denver Area Office
- San Francisco Area Office
- Seattle Area Office
- Portland Area Office

Region I ✓
Region I ✓
Region IV
Region V
Region V
Region V
Region V
Region V
Region V
Region VIII
Region IX ✓
Region X ✓
Region X ✓

GRAND TOTAL - INTERNAL AUDIT AND SURVEY REPORTS - 53

EXTERNAL AUDIT AND ACCOUNTING SYSTEM EVALUATION REPORTS

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>HOUSING (Total (103))</u>		
Enoch Star Res. Hsg. Dev. Fund Co., Inc.	Brooklyn, NY	10/23/79
Kokomo Manor	Kokomo, IN	11/23/79
Royal Arms Apartments	Cedar Hill, TX	11/21/79
Reservoir Towers	Brighton, MA	01/21/80
The Jewish Home Tower, Inc.	Atlanta, GA	01/17/80
Jacksonville Townhouse (Semcit-Jax Co., Ltd.)	Jacksonville, FL Elizabeth, NJ Washington, DC	02/15/80
Hilltop Apartments	Denver, CO	02/19/80
Meadowood Apartments	Jasper, IN	03/26/80
Clark Fork Manor	Missoula, MT	03/28/80
Pioneer Villa Associates	Seattle, WA	12/12/79
Fairview Manor Park	Millville, NJ	10/19/79
King Garden Apartments	Mansfield, OH	10/09/79
Chateau Bien Apartments	Deer Park, TX	10/22/79
Bagley, W.D. & M.A. Sec. 221(d) (3) Insured Multi- family Projects	Cheyenne, WY	10/17/79
Bluffs Manor Apartments		
Rocky Mtn. Sr. Citizens Home Sheridan Manor		
Crown Mountain Apartments	St. Thomas, VI	11/16/79
Bruce Manor, Inc.	Baltimore, MD	11/01/79
Gifford Gardens	Gifford, FL	11/07/79
Edgehill Village Apartments	Nashville, TN	11/14/79
U.T.D. Towers, Inc.	Miami, FL	11/16/79
Second Baptist Arms	San Antonio, TX	11/16/79
YARCO Realty Co.	Kansas City, MO	11/16/79
Laclede Town Projects	St. Louis, MO	11/27/79
Villa San Carlos, Inc.	Santa Cruz, CA	11/19/79
South Sound Villa	Lacey, WA	11/07/79
Mott Haven IV	Bronx, NY	12/28/79
Regency Park Towers	Philadelphia, PA	12/26/79
Townview Towers, I, Ltd.	Knoxville, TN	12/07/79
Magnolia Health Center	New Orleans, LA	12/11/79
Van Ness Terrace (Sec. 221(d) (3) BMIR	Los Angeles, CA	12/18/79
Empire Kenyon Apartments	Seattle, WA	12/05/79
Elumwood Apartments	Cle Elum, WA	12/28/79
Sharon Housing Development Fund Company	Bronx, NY	01/14/80
Thelma Arms, Inc.		
Royal Adah Arms	San Francisco, CA	01/09/80
Roseland Apartments, Inc.	Charlotte, NC	02/07/80
Fassett-Olmstead Apartments (F&O Realty)	Columbus, OH	02/13/80
Cheyenne Square Apartments	Las Vegas, NV	02/13/80
Briarcliff Haven Nursing Home, Ltd.	Atlanta, GA	03/14/80
El Santander Apartments	Brownsville, TX	03/31/80
Vernon Manor Apartments	Tulsa, OK	03/28/80

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>HOUSING (Continued)</u>		
Morning Star Village	Tulsa, OK	03/28/80
Cloverleaf Apartments	Kansas City, MO	03/12/80
East Village Apartments	Denver, CO	03/25/80
Foundation Capitol Corp.	Los Angeles, CA	10/01/79
Eastland Servicing, Inc.	Covina, CA	10/26/79
James T. Barnes Mortgage Co.	Detroit, MI	11/07/79
First Federal Savings & Loan Association	Albert Lea, MN	11/05/79
Leader Federal Savings & Loan	Memphis, TN	11/08/79
Guaranty Loan and Real Estate	West Memphis, AR	11/30/79
United Mortgage Co.	Denver, CO	11/14/79
Mission Hill Mortgage Corp.	Tustin, CA	11/26/79
Legal Finance Co.	San Juan, PR	12/28/79
Pittsburgh Home Savings & Loan	Pittsburgh, PA	12/07/79
San Antonio Savings Association	San Antonio, TX	12/05/79
Residential Mtge. Bankers Corp.	Hato Rey, PR	01/25/80
Fulton & Goss, Inc.	Cleveland, OH	01/31/80
Samuel T. Isaac & Assoc.	Lexington, KY	01/31/80
Carl I. Brown & Assoc. & Co.	Prairie Village, KS	01/16/80
Solid State Funding Corp.	Hicksville, NY	02/15/80
Hacienda Federal Savings and Loan	Oxnard, CA	08/29/79*
Mission Bay Mortgage Co.	San Diego, CA	09/27/79*
Approved Mortgage Co.	La Mesa, CA	12/31/79*
Oklahoma Mortgage Co.	Oklahoma City, OK	03/14/80
Pasco County Housing Authority	Dade City, FL	03/26/80
Housing Authority of the City of Trumann	Trumann, AR	03/11/80
Green Mansions Inc./Lincoln Apartments	Riverside, CA	10/26/79
Property Management Associates	Palo Alto, CA	11/28/79
Light Tree Apartments	Capitola, CA	11/28/79
Brockton Housing Authority	Brockton, MA	12/21/79
Beaufort Housing Authority (IOP)	Beaufort, SC	12/18/79
Minot Housing Authority	Minot, ND	12/11/79
Crow Creek Housing Auth.	Ft. Thompson, SD	01/08/80
Philadelphia Housing Auth. Accounting and Finance Reporting System	Philadelphia, PA	02/13/80
City of Weslaco	Weslaco, TX	02/26/80
Rainbow Terrace Apartments (Techni-Co-op, Inc.)	Cleveland, OH	10/22/79
Progress Realty Co.	Pittsburgh, PA	11/21/79
Joseph F. P. Realty	New York, NY	12/28/79
Squire Realty	Camden, NJ	12/28/79
Stallion Realty Co., Inc.	Columbus, OH	12/21/79
J. L. Malone Realty	Cleveland, OH	01/10/80
Marwood Apts (MARRS Management Co.)	Detroit, MI	02/14/80
Chapel Kensington Apartments (Techni- Coop, Project Manager, Stamford, Connecticut)	New Haven, CN	03/11/80

* Transmitted from Mortgagee Review Board 2/15/80.

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>HOUSING (Continued)</u>		
B&C Management Company (Russell- Woods Cooperative)	Detroit, MI	03/26/80
Faivre, Inc., Realtors	Chicago, IL	03/20/80
Wattswood Relocation Project Managed by: S&J Properties	Los Angeles, CA	03/24/80
Boston Five Cents Savings Bank	Boston, MA	11/26/79
BMFC Incorporated	Boston, MA	11/26/79
Freedom Federal Savings & Loan Association	Worcester, MA	11/26/79
Suburban Coastal Corp.	Wayne, NJ	10/31/79
United Mortgage Corp.	Rio Piedras, PR	11/26/79
First Atlantic Corp.	Charlotte, NC	11/26/79
Western Securities Co.	Omaha, NE	10/31/79
United Mortgage Corp.	Denver, CO	10/31/79
ICM Mortgage Corp.	Aurora, CO	11/26/79
Citizen Federal Savings & Loan Association	San Francisco, CA	11/06/79
Wells Fargo Mortgage Co.	Santa Rosa, CA	11/06/79
Arden Mortgage Services Corp.	Lafayette, CA	11/06/79
Maywood Senior Citizens Housing Corporation	Maywood, NJ	03/27/80
Madison Scattered Site Housing Project	Madison, NJ	03/24/80
Fairway Apartments	Fairburn, GA	03/27/80
Cameo Gardens	Willimantic, CT	03/27/80
Ujima Village	Los Angeles, CA	03/28/80
Cooperative Services, Inc.	Trenton, MI	03/26/80
City of Salem, Ohio	Salem, OH	03/28/80

COMMUNITY PLANNING AND DEVELOPMENT (Total 169)

City of New York	New York, NY	10/31/79
Municipality of Guaynabo	Guaynabo, PR	10/11/79
City of Ponce	Ponce, PR	10/09/79
Washington County	Washington, PA	10/10/79
City of Kings Mountain	Kings Mountain, NC	10/05/79
Lake City	Lake City, SC	10/19/79
City of Lebanon	Lebanon, TN	10/30/79
Floyd County	New Albany, IN	10/16/79
City of Monroe	Monroe, LA	10/31/79
City of Paterson	Paterson, NJ	11/09/79
Municipality of San Juan	San Juan, PR	11/30/79
Turtle Creek	Turtle Creek, PA	11/09/79
Borough of Port Allegany	Pittsburgh, PA	11/23/79
City of Greenville	Greenville, MS	11/19/79
City of Hammond	Hammond, IN	11/27/79
City of Pomona	Pomona, CA	11/15/79
City of Chelsea	Chelsea, MA	12/10/79
City of Saratoga Springs	Saratoga Springs, NY	12/13/79
City of South Bend	South Bend, IN	12/03/79
Guthrie County	Iowa	12/14/79
Town of Salem	Salem, NH	01/14/80
Scranton CDBG Downtown Revitalization	Scranton, PA	01/25/80
City of Pompano Beach	Pompano Beach, FL	01/24/80
City of Hartselle	Hartselle, AL	01/08/80

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>COMMUNITY PLANNING AND DEVELOPMENT (Continued)</u>		
Municipality of Yauco	Yauco, PR	03/18/80
Washington County	Abingdon, VA	03/20/80
City of Memphis	Memphis, TN	03/04/80
Madison County	Edwardsville, IL	03/31/80
City of Hutchinson	Hutchinson, KS	03/28/80
City of Littleton	Littleton, CO	03/04/80
Village of Tivoli	Tivoli, NY	10/10/79
Cherokee County	Gaffney, SC	10/11/79
Northeast Piedmont Council of Government Subgrantee of State of North Carolina	Winston-Salem, NC	10/23/79
City of Inman	Inman, SC	10/17/79
City of Princeton	Princeton, KY	10/29/79
City of Mayersville	Mayersville, MS	10/17/79
City of Morton	Morton, MS	10/17/79
City of Shaw	Shaw, MS	10/17/79
City of Ruleville	Ruleville, MS	10/23/79
City of Falcon	Falcon, MS	10/23/79
City of Okolona	Okolona, MS	10/26/79
City of Friars Point	Friars Point, MS	10/27/79
Calhoun City	Calhoun City, MS	10/23/79
City of Booneville	Booneville, MS	10/27/79
City of East St. Louis	East St. Louis, IL	10/11/79
Leelanau Indians, Inc.	Sutton Bay, MI	10/19/79
Presque Isle County	Rogers City, MI	10/18/79
County of Osceda	Mio, MI	10/22/79
County of Otsego	Gaylord, MI	10/23/79
Tiegue Indian Reservation	El Paso, TX	10/04/79
County of Pope	Pope, AR	10/05/79
County of Newton	Newton, AR	10/05/79
County of Craighead	Craighead, AR	10/22/79
County of Van Buren	Van Buren, AR	10/22/79
City of Atkins	Atkins, AR	10/22/79
Town of Bethlehem	Bethlehem, CT	11/07/79
Town of Colchester	Colchester, CT	11/26/79
Borough of Clayton	Clayton, NJ	11/08/79
Franklin Township	Somerset, NJ	11/15/79
City of Walden	Walden, NY	11/16/79
Warren County	Warren County, NJ	11/16/79
City of Woodbury	Woodbury, NJ	11/20/79
City of Morganfield	Morganfield, KY	11/01/79
City of Clinton	Clinton, KY	11/13/79
City of Murray	Murray, KY	11/13/79
Town of Eatonville	Eatonville, FL	11/08/79
City of Elizabethtown	Elizabethtown, KY	11/20/79
Cumberland County	Burkesville, KY	11/19/79
City of Somerset	Somerset, KY	11/19/79
Jessamine County	Nicholasville, KY	11/19/79
City of Ferguson	Ferguson, KY	11/20/79
Cave City	Cave City, KY	11/21/79
City of Live Oak	Live Oak, FL	11/20/79
City of Flemingsburg	Flemingsburg, KY	11/29/79
City of Union Springs	Union Springs, AL	11/28/79
Choctaw County	Butler, AL	11/28/79
City of Enterprise	Enterprise, AL	11/28/79
City of Collins	Collins, MS	11/29/79
Town of Gunnison	Gunnison, MS	11/29/79
City of England	England, AR	11/02/79

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>COMMUNITY PLANNING AND DEVELOPMENT (Continued)</u>		
County of Creek	Creek, OK	11/23/79
City of Toppenish	Toppenish, WA	11/30/79
Town of Stonington	Stonington, CT	12/03/79
Town of Plainville	Plainville, CT	12/04/79
Town of North Haven	North Haven, CT	12/04/79
Village of Millerton	Millerton, NY	12/11/79
Town of Hackettstown	Hackettstown, NJ	12/13/79
Township of Pennsauken	Pennsauken, NJ	12/13/79
Township of Middle	Cape May, NJ	12/13/79
County of Sullivan	Monticello, NY	12/13/79
Fulton County	McConnellsburg, PA	12/20/79
City of Richland	Richland, GA	12/03/79
City of Reynolds	Reynolds, GA	12/04/79
City of Stuart	Stuart, FL	12/03/79
City of Buena Vista	Buena Vista, GA	12/06/79
City of Punta Gordo	Punta Gordo, FL	12/03/79
Collier County	Naples, FL	12/03/79
City of Grayson	Grayson, KY	12/07/79
City of Corbin	Corbin, KY	12/07/79
Louder County	Valdosta, GA	12/12/79
City of Montezuma	Montezuma, GA	12/11/79
City of Macclenny	Macclenny, FL	12/07/79
City of Canton	Canton, GA	12/26/79
City of Marked Tree	Marked Tree, AR	12/04/79
City of Atkins	Atkins, AR	12/04/79
City of Stuttgart	Stuttgart, AR	12/11/79
City of Idabel	Idabel, OK	12/28/79
City of Poulsbo	Poulsbo, WA	12/27/79
City of Gloucester	Gloucester City, NJ	01/08/80
Hunterdon County	Flemington, NJ	01/10/80
City of Glasgow	Glasgow, KY	01/16/80
City of Cynthiana	Cynthiana, KY	01/17/80
Cheyenne-Arapaho Tribes of Oklahoma	Concho, OK	01/18/80
Suquamish Indian Tribe	Suquamish, WA	01/30/80
City of Carthage	Carthage, MS	02/29/80
Warren County	Vicksburg, MS	02/29/80
Peoria Indians of Oklahoma	Miami, OK	02/07/80
Modoc Indians of Oklahoma	Miami, OK	02/07/80
City of Frisco	Frisco, TX	02/14/80
County of McCurtain	McCurtain, OK	02/25/80
City of Hardy	Hardy, AK	02/28/80
Housing Authority of the City of East Orange (R-42)	East Orange, NJ	10/10/79
Corning URA	Corning, NY	10/10/80
Town of Southhold	Southhold, NY	03/06/80
Borough of Pine Hill	Pine Hill, NY	03/07/80
Township of Lawrence	Lawrenceville, NJ	03/07/80
Borough of Sussex	Sussex, NJ	03/07/80
Borough of Paulsboro	Paulsboro, NJ	03/07/80
City of Columbia	Columbia, MS	03/05/80
City of Newton	Newton, MS	03/27/80
City of Philadelphia	Philadelphia, MS	03/27/80
Village of Woodlawn	Woodlawn, OH	03/20/80
Village of Hamersville	Hamersville, OH	03/21/80
Village of Georgetown	Georgetown, OH	03/21/80
City of Bronte	Bronte, TX	03/07/80

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>COMMUNITY PLANNING AND DEVELOPMENT (Continued)</u>		
Town of Glenrock	Glenrock, WY	03/10/80
City of Sheridan	Sheridan, CO	03/10/80
Costilla County	San Luis, CO	03/13/80
Town of Blanca	Blanca, CO	03/13/80
McHenry County	Towner, ND	03/25/80
City of Hankinson	Hankinson, ND	03/25/80
City of Spearfish	Spearfish, SD	03/25/80
Town of St. Ignatius	St. Ignatius, MT	03/25/80
H.A. of the City of East Orange (R-154)	East Orange, NJ	11/23/79
Utica URA (R-141)	Utica, NY	11/23/79
Utica URA (R-89)	Utica, NY	11/29/79
Utica URA (NY-9-1)	Utica, NY	11/30/79
Section 312 Rehabilitation Loan Program, Land Clearance for Redevelopment Authority	Kansas City, MO	11/08/79
City of Seattle	Seattle, WA	12/11/79
City of Newark (R-123)	Newark, NJ	01/14/80
Housing Authority of the City of Newark (R-50)	Newark, NJ	02/20/80
Housing Authority of the City of Newark (R-32)	Newark, NJ	02/28/80
City of New York Department of Housing Preservation and Dev.	New York, NY	02/28/80
City of Greensboro & Greensboro Housing Authority	Greensboro, NC	11/08/79
Lower Pioneer Valley Regional Planning Commission	West Springfield, MA	10/23/79
Kern County Council of Governments	Bakersfield, CA	11/14/79
Consolidated Local Government Wide CAP & 6 Dept. Indirect Cost Proposals for City of Austin	Austin, TX	10/12/79
City of Buffalo	Buffalo, NY	11/16/79
City of Yonkers	Yonkers, NY	12/13/79
Indirect Cost Proposals for the Human Services Department of the City of Austin, Texas for FYs 1978, 1979 and 1980	Austin, TX	12/05/79
City of Hopkins	Hopkins, MN	01/22/80
City of McAllen	McAllen, TX	01/10/80
Ottumwa	Ottumwa, IA	01/14/80
City of Aurora	Aurora, CO	01/11/80
Municipality of Arecibo	Arecibo, PR	02/26/80
City of Bedford	Bedford, IN	02/14/80
City of Trumann	Trumann, AK	02/29/80
City of Henryetta	Henryetta, OK	02/01/80
City of Durant	Durant, OK	02/28/80
<u>ADMINISTRATION (Total 55)</u>		
David Litter Laboratories, Inc.	New York, NY	10/04/79
National Center for Economic Alternatives	Washington, DC	10/04/79
Wiley & Wilson, Inc.	Lynchburg, VA	10/18/79

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>ADMINISTRATION (Continued)</u>		
Detroit Housing Commission	Detroit, MI	11/26/79
Gingery Associates, Inc.	Englewood, CO	11/08/79
Maryland Department Economy & CD	Annapolis, MD	12/28/79
Fall River Housing Auth.	Fall River, MA	01/28/80
Forward Management Assoc.	New York, NY	01/15/80
Housing Assistance Council, Inc.	Washington, DC	01/11/80
University Research Corp.	Washington, DC	01/14/80
Neighborhood Housing Svcs. of Baltimore, Inc.	Baltimore, MD	01/25/80
Public Systems, Inc.	Huntsville, AL	01/14/80
Johns-Manville Sales Corp.	Denver, CO	02/12/80
University of Maryland	College Park, MD	03/26/80
City of Anaheim	Anaheim, CA	02/12/80
Hamilton Engineering Assoc. Inc.	Nashua, NH	10/11/79
Moore Survey and Mapping Corp. (Sub to HEA)	Shrewsbury, MA	10/11/79
Yunque Development Corp.	New York, NY	10/15/79
National Urban League, Inc.	New York, NY	10/16/79
Project for Public Spaces, Inc.	New York, NY	10/19/79
Safety Management Inst.	Bethesda, MD	10/11/79
Safety Management Inst.	Bethesda, MD	10/04/79
Ophelacron Corp. (Sub to Martin and Marietta)	Reston, VA	10/11/79
Computer Data Systems (Sub to Martin Marietta)	Bethesda, MD	10/11/79
Martin Marietta Data Systems	Bethesda, MD	10/11/79
Genasys Corp.	Rockville, MD	10/16/79
National Center for Housing Management	Washington, DC	10/22/79
Dennis Eisen & Associates (Sub to National Urban League)	Rockville, MD	10/24/79
Metro Study Corp. (Sub to National Urban League)	Washington, DC	10/24/79
Md. Dept. of Natural Resources	Annapolis, MD	10/24/79
National Paralegal Inst.	Washington, DC	10/29/79
Turner, Collie & Braden, Inc.	Houston, TX	10/11/79
Banner Associates	Laramie, WY	10/16/79
Law Engineering Testing Co.	Marietta, GA	10/10/79
Delaware River Basin Commission	W. Trenton, NJ	11/08/79
National Community Develop- ment Association	Washington, DC	11/27/79
National Academy of Code Administration	McLean, VA	11/29/79
Bron Cleveland & Associates, Inc.	Atlanta, GA	11/06/79
Miller, Stevensen & Steinichen, Inc.	Atlanta, GA	11/16/79
Computer Based Systems, Inc.	Falls Church, VA	12/28/79
Advisory Report on Sub Contract Progress Billings and Termination Claims Sub- mitted by E.H. White & Co., Inc. Claims	San Francisco, CA	12/07/79
Neighborhood Housing Services of Baltimore, Inc.	Baltimore, MD	02/05/80
Peat, Marwick, Mitchell & Co.	Washington, DC	02/28/80
Wiley & Wilson	Lynchburg, VA	10/18/79
National Neighbors, Inc.	Washington, DC	03/07/80

<u>AUDITEE</u>	<u>LOCATION</u>	<u>DATE REPORT ISSUED</u>
<u>ADMINISTRATION (Continued)</u>		
Science Management Corp.	Washington, DC	03/18/80
Kendrick & Company	Washington, DC	03/19/80
National Conference of States on Building Codes	McLean, VA	10/19/79
District of Columbia Government	Washington, DC	10/19/79
Law Engineering Testing Co.	Marietta, GA	10/22/79
Contract Research Corp.	Belmont, MA	11/15/79
R. Shriver Associates	Parsippany, NJ	11/06/79
Center for Systems & Program Development Inc.	Washington, DC	11/29/79
Interstate Land Dev. Co., Inc.	St. Charles, MD	11/30/79
Gordon Associates, Inc.	Washington, DC	11/23/79
<u>FEDERAL DISASTER ASSISTANCE (Total 6)</u>		
Harford County	Bel Air, MD	10/24/79
Ohio Board of Regents (for) Central State University	Wilberforce, OH	10/24/79
Elk River Watershed District #47	Howard, KS	10/17/79
Dept. of Environmental Resources OEP-340-DER-1 Partial Claim	Pennsylvania	11/19/79
Dept. of Environmental Resources OEP-340-DER-Claim 14	Pennsylvania	11/19/79
Douglas County	Nebraska	11/08/79

GRAND TOTAL - EXTERNAL AUDIT AND ACCOUNTING
SYSTEM EVALUATION REPORTS - 333

AUDIT REPORTS APPLICABLE TO PRIOR REPORTING PERIOD*

<u>DESCRIPTION OF AUDIT</u>	<u>ISSUING OFFICE</u>
Requisition of Funds and Voucher Processing for Section 8 and 23 Programs	Headquarters
Report on Internal Audit of the Field Office Reporting and Management Systems (FORMS)	Headquarters
Voluntary Compliance Activity	Headquarters
Review of Inventory of Capitalized Personal Property	Headquarters
Reserve for Replacement Accounts of Multifamily Projects	Headquarters
Costs Incurred and Settlement of Funds Under the National Flood Insurance Association Contract with HUD	Headquarters
Management Agents Use of Identity-of-Interest Companies and Central Service Facilities for Multifamily Project Services	Headquarters
Audit of Imprest Fund-Northwest Strategic Storage Center	Region VIII
Overview of Physical Inventories Conducted at all Region II Field Offices	Region II
Payment of Water Bills - Detroit Area Office	Region V

* Due to modifications to our administrative reporting system, these internal audit/survey reports were inadvertently omitted from our prior semiannual report to Congress.



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20410

APPENDIX 1

March 1980

INSPECTOR GENERAL BULLETIN NO. 80-ZF-12

FY 1980 TRAVEL FUNDS

1. PURPOSE. The purpose of this Bulletin is to advise all AIGs and RIGs of the effect the recent travel cut will have on OIG operations for the remainder of FY 1980 and to recommend various ways to improve the management of travel funds.
2. BACKGROUND. Congress has mandated an overall reduction in obligations for travel for FY 1980. As a result, OIG's travel budget for FY 1980 is about \$32 thousand less than that required for FY 1979 operations. The HUD Budget Office has advised that no additional funds for travel can be provided to OIG for the remainder of FY 1980. In the meantime, the OIG has undertaken several sensitive assignments which have further depleted its travel funds. Therefore, OIG must plan its workload very carefully for the remainder of the fiscal year in order to maximize the work to be accomplished and to realize the most judicious use of its travel funds.
3. POLICY ON MANAGING TRAVEL FUNDS. AIGs will be given a fixed amount of travel funds to carry out their operations. Based on the identification of the priority work in each Region, RIGs will be given an allocation of travel funds. It is the responsibility of each AIG and RIG to stay within the limits of the travel funds allocated. This requires the judicious use of travel funds.
 - a. OIG-Wide Travel Restrictions. To keep our expenses within allowable limits, the following restrictions will take effect:
 - 1) Meetings, conferences and other outside activities not directly related to OIG work assignments will be discontinued where per diem travel is involved, unless specifically approved by the appropriate AIG.
 - 2) Training outside HUD where per diem is involved will be discontinued, unless specifically approved by the appropriate AIG.
 - 3) Detailing of Regional staff to Washington will be discontinued whenever possible.
 - 4) Management visits to Regional Offices by Headquarters staffs will be discontinued.
 - 5) Travel which meets the criteria of Special Purpose Travel (see OIGM-Chapter 1110, page 10) must be approved by the Under Secretary. Specifically, attendance at such events must be cleared by the Under Secretary prior to the acceptance of an invitation or commitment to attend.

APPENDIX 1

Each AIG and RIG must be acutely aware of travel costs involved with their assignments and make every effort to reduce travel costs wherever possible.

b. Office of Audit Travel Restrictions. In addition to the above, travel restrictions which apply specifically to the Office of Audit include:

- 1) Each RIGA and the AIGA will not schedule more than one employee to attend an audit seminar.
- 2) Audits requiring extensive travel or travel to high cost areas will be carefully evaluated to see if less remote locations or other alternatives are available.
- 3) RIGA visits to audit locations will be discontinued.
- 4) ARIGA visits to audit locations should be consolidated and all audits being conducted in geographic proximity should be visited on single trips.

To prevent major disruptions of audit work during the last quarter of the fiscal year due to a lack of travel funds, the AIGA requires that each RIGA prepare 3-month estimates at the end of each month. For example, at the end of March, March actual expenses and April, May and June estimates will be provided to the AIGA. At the end of April, April actual expenses, revised May and June estimates, and an estimate for July will be sent to the AIGA. These reports are to be provided to Otis Luttrell, Chief, Audit Planning and Budgeting by the fifth calendar day of each month.

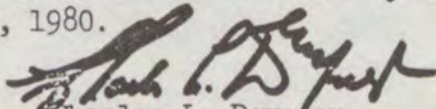
c. Office of Investigation Travel Restrictions. Due to the nature of investigative assignments and the various locations of witnesses which pertain to a given investigation, investigators will continue to work as many cases as feasible which are within their travel itinerary.

d. Office of Fraud Control and Management Operations Travel Restrictions. Specifically:

- 1) No inspections of RIG operations will be made unless approved by the IG.
- 2) Travel in conjunction with projects undertaken by the Committee on Fraud, Waste and Mismanagement must be approved in advance by the IG.

The achievement of the goals related to the above travel restrictions will be considered in rating and evaluating regional office performance.

4. EFFECTIVE DATE. This Bulletin is effective immediately and will remain in effect through September 30, 1980.


Charles L. Dempsey
Inspector General

Distribution: "A"



79-128

October 18, 1979

Staff Bulletin

IMPLEMENTATION OF FRAUD INFORMATION BULLETINS

The purpose of this Staff Bulletin is to introduce and describe a new series of bulletins to be issued by the Office of Inspector General, Office of Fraud Control and Management Operations.

Effective May 20, 1979, the Office of Inspector General was reorganized to more fully carry out the legislative provisions of the Inspector General Act of 1978. As part of the reorganization, a new office called the Office of Fraud Control and Management Operations (FCMO) was established to address fraud, waste, and mismanagement in the Department. One of FCMO's key assigned responsibilities is to increase HUD employees' awareness in the areas of fraud prevention and detection. In this regard, FCMO is initiating a series of fraud information bulletins which will be issued periodically to HUD auditors, investigators, and program personnel that have specific responsibilities in the subject program.

The bulletins issued in this series are not intended to replace any current guides or procedures used by various program evaluators. Rather, they are being distributed to alert HUD employees to the types of schemes some program participants use to divert HUD program funds for their personal gain.

All HUD employees have a responsibility to protect the integrity of our programs. The fraud information bulletins will attempt to increase awareness of the potential for fraud and waste and to provide assistance to various HUD disciplines in preventing and detecting its occurrence.

The initial Fraud Information Bulletin is expected to be issued in the near future and will cover the Section 8 program. Additional bulletins will be distributed periodically thereafter. Any HUD employee can make suggestions or comments on future issuances by contacting staff members of OIG, Fraud Control Division, Room 8280 (755-6383).

DISTRIBUTION: W-G, F-GORIGINATOR: John H. Greer
Ext. 56383



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Fraud Information Bulletin

80-1

"Eliminating Waste, Fraud and Error Should be as Important to You As Your Program Objectives." --President Carter, December 13, 1978

Section 8--Administration

Purpose

As outlined in Staff Bulletin 79-128, Fraud Information Bulletins will be issued to HUD auditors, investigators, and program personnel who have specific responsibilities in a particular program. As a result of program audits, investigations, and other reviews of the Section 8 program, we have prepared this first bulletin to assist applicable HUD personnel in understanding and recognizing various schemes, abuses, and fraud indicators.

Although the majority of people participating in the program or involved in its administration comply with all rules and regulations, we are issuing this bulletin to assist program reviewers in identifying those who would abuse the program.

The ability to recognize certain potential fraud indicators during reviews has a deterrent effect on fraud, and thereby enhances the integrity of the program.

While the information contained in this bulletin on the Section 8 program is not intended to replace any guides or monitoring procedures currently in effect, it should serve as a useful tool in reviewing Section 8 program activities.

Schemes shown represent a composite of allegations referred to the Office of Inspector General or the FBI. The examples of fraud and abuse schemes presented in this bulletin are based on information developed by or available to the Office of Inspector General. These examples are presented only for purposes of illustration and, as such, have been changed to prevent the disclosure of information which might (a) be identifiable with any person or (b) allow for any type of

unwarranted invasion of privacy. Any similarities with actual persons, places or organizations are unintentional. The schemes discussed herein are not all inclusive, and HUD employees should be alert for variations or new schemes not presented in this bulletin. Other similar HUD rent subsidy programs such as Section 236, Rent Supplement, Below Market Interest Rate, etc., may experience related problems.

Background

The Section 8 Housing Assistance Payments program was designed to aid lower income families obtain modest but standard housing in the private sector. This is accomplished by providing housing assistance payments (HAPs) on behalf of qualified families. The payments make up the difference between the HUD approved rent for the unit and the amount the family is required to pay. Rental units in the Existing program must meet HUD established Housing Quality Standards that ensure the family receives decent, safe, and sanitary housing.

The Section 8 program is expected to be the major assisted HUD housing program during the foreseeable future. It has already grown to more than 840,000 units under contract for terms of 5-40 years with potential payments of over 2 billion dollars.

Applicability

Field office staff conducting routine reviews must determine the degree to which program participants comply with applicable administrative requirements. These include, but are not limited to, such areas as tenant eligibility and entitlement for assistance, owner compliance with payment requirements, and administrator adherence to program rules. Lack of proper administrative procedures or compliance with them makes the program more susceptible to fraud. Although field office reviewers must concentrate on administrative compliance, they should also be alert for fraud. In some cases, additional assessment of the situations, such as the extended monitoring procedures suggested herein, may be needed to give some credence to indications of abuse. When these indications of potential fraud and abuse are found by field office reviewers, they should be referred to the Office of Inspector General in accordance with the procedures contained in HUD Handbook 2000.3A.

The fraud indicators listed herein should also be helpful to OIG personnel as supplemental audit or investigative steps.

Schemes and Fraud Indicators

Ways to abuse the Section 8 program generally fall into three categories: (1) misrepresentations of eligibility data by either tenants or Section 8 administrators; (2) false billings to HUD and overcharges to tenants by owners; and (3) collusion/bribery. Following are details of these three major categories and examples of schemes and fraud indicators for each.

Misrepresentations of Eligibility Data--Tenants

The most frequent abuses reported to date involve applications for initial or continued occupancy that contain erroneous or false information to obtain eligibility approval or to inflate HAPs. Tenants intentionally misrepresent and certify various elements of application data by:

- . understating salaries
- . omitting other sources of income
- . misrepresenting family size or composition
- . overstating certain expenses

Consequently, Section 8 funds have been misused because rents are paid for tenants who are either entirely ineligible or not entitled to the full amounts which are paid on their behalf.

Scheme Examples--Misrepresentations by Tenants

- . On an initial application, no income was reported for the husband. However, a subsequent year's recertification listed income for him. The husband's employment verification showed that he had been employed at the time of the initial application and the family had not been eligible for participation in the program.
- . In four instances at a PHA, it was determined that tenants had falsified W-2 forms submitted as proof of income. The actual income figures made the tenants ineligible.

Fraud Indicators--Misrepresentations by Tenants

Because of the variety of ways tenants may falsify data, detection of tenant fraud and abuse may require some special effort. Reverification of data on selected cases by phone or letter would test for potential abuses in such red flag areas where:

- . PHA or management agent personnel do not independently verify applicants' income and deductions.
- . Income is lost just prior to recertification, where wages never increase, or where income or deductions appear abnormal.
- . There are alterations on documents and inconsistencies in documentation; i.e., employment dates, income amounts, family composition, or deductions differ from the data of previous years.
- . PHA or project management personnel suspect tenants of misrepresenting information.
- . Tenant family members or neighbors during a unit inspection provide information, or the reviewer observes items, that differ from case file data.

Misrepresentations of Eligibility Data--Section 8 Administrators

Eligibility misrepresentations also have occurred in other ways. PHA or management personnel responsible for reviewing and approving tenant applications have altered tenant data, either with or without tenant knowledge, to misuse Section 8 HAPs. Generally, these situations have involved conflicts of interest which benefited friends, relatives, fellow employees, or the administrators themselves.

Scheme Examples--Misrepresentations by Section 8 Administrators

- . A review of several tenant files disclosed that child care deductions were not being verified. Tenant interviews disclosed that no such expenses were incurred or that actual costs were substantially less. The tenants also indicated they had no knowledge of such deductions on their applications. Later, it was determined that the applications had been altered on instructions from the project manager.
- . A PHA supervisor was indicted when it was determined he had prepared fictitious and false applications and submitted fraudulent payment vouchers to receive Section 8 subsidies. Reviewers noted apparent forgeries of tenants' signatures and discrepancies between income listed on employment verifications and that shown on the application forms.
- . During a random test check, alterations on income verifications had been noted. Further testing, including telephone checks with employers, showed that 13 additional tenants, who were friends of the resident manager, received inflated HAPs which were justified with altered income verifications.

Fraud Indicators--Misrepresentations by Section 8 Administrators

Talking with tenants or others to confirm questioned cases can provide positive indications of abuse, if it exists. Major red flags to be alert for are where there are:

- . Patterns of similar treatment on a group of files, i.e., similar deductions, similar income, or apparent documentation alterations or omissions (such as cross-outs, write overs on original data, use of liquid paper, lack of employment verifications, etc.).
- . Patterns of some tenants not signing application forms or where the signature appears to be forged (when compared to other documents in file or where signatures appear to be similar in several different files).
- . Application/recertification forms which contain information or amounts different from that on the verifications received from employers or other sources.
- . PHA or management agent personnel who are tenants or owners (as applicable) in the program. Generally, a scan of tenant and owner listings will disclose this possible abuse. Also, OIG staff may wish to compare addresses of key administrators to property address listings (if feasible) and review cancelled checks to assure they are made out to the proper payee and that there are no double endorsements.

False Billings and Tenant Overcharges

Owners/managers and landlords have used false billings or tenant overcharge schemes to divert Section 8 program funds for their personal gain. The most common schemes involve billing for units which were actually vacant, occupied by ineligible tenants, substandard, or occupied by tenants receiving other rent subsidies.

In addition, situations have been discovered where owners have required tenants to make side payments to the owner as a condition for initial or continued occupancy. These side payments may take the form of secret secondary leases, fictitious services or utility charges, or may just be outright demands for additional payment.

Scheme Examples--False Billings and Overcharges

- . A resident manager conspired with the assistant manager and a personal friend to charge and collect rent over that required by the program guidelines. Tenants paid higher rents than required with cash or open payee money orders which in turn were deposited in a supposed project bank account. The account was actually controlled by the three conspirators who prepared lower payments for deposit to a real project account. The resident manager pled guilty

to conspiracy, false statement, and concealment in connection with a 27 count indictment by a Grand Jury. The assistant resident manager and the friend were tried and found guilty of conspiracy, aiding and abetting, and false statements/concealments.

- . Tenants were making monthly payments of \$107 to the owner for their portion of the rent, although the executed lease provided for only \$37 per month. The \$70 per month difference was required by the owner as a condition for continued occupancy and Section 8 assistance.
- . A PHA's owner correspondence file disclosed that an owner had been accepting Section 8 subsidies on vacant units for long periods of time. This matter had been referred to and followed up by the city's legal department but no corrective action had been taken. HUD officials had not been made aware of the situation.

Fraud Indicators--False Billings and Overcharges

Determining red flag areas for these schemes generally requires additional reviews such as an analysis of billing data, site inspections, or interviews with tenants. Because these abuses generally are not apparent during normal monitoring, additional work need not be done unless there is reason to believe some scheme is occurring. Schemes (and additional work which can be used to uncover indications of fraud) are:

- . Where billings from projects include vacant units or improper adjustments for moveouts. A comparison of the names/units on the billing to the project's cash receipts or tenant accounts would show if tenants' portions of the rent were being received for the billing period. If convenient, discussions with tenants in adjacent units may disclose if a unit has been vacant or has improper occupants.
- . Where projects are receiving duplicate payments from other subsidy programs. A comparison of names/units on the Section 8 billing to those on the other subsidy billings would show duplicate payments if they exist.
- . Where Section 8 tenants are charged a higher rent than nonsubsidized tenants in the same project. An interview with tenants in the project or the resident manager would disclose differences in rental rates.
- . Where tenants are assessed side payments. A confirmation can be made with the tenant for his portion of the rent. Determining whether the tenant has cancelled checks, money orders, etc., and whether he/she knows of others assessed side payments, aids in developing a referral.

Collusion/Bribery

Personnel having responsibilities for approving actions resulting in the expenditure of substantial Section 8 program funds have conspired with program participants to circumvent program regulations and controls. Generally, these situations involve the sharing of funds obtained through the schemes previously discussed.

Scheme Examples--Collusion/Bribery

- . A PHA staff member approved rent increases of 84 percent for one owner with numerous Section 8 units, although 10 percent was the maximum that could be allowed without HUD approval. Later, it was learned that the staff member resided in one of the owner's apartments rent free.
- . A HUD employee responsible for monitoring a set-aside project was a close friend of the owner. Consequently, the employee aided the owner by disregarding adjustments that should have been made to reduce the monthly Section 8 billings.
- . During interviews of several PHA staff members, it was learned that one owner offered commissions to the PHA staff for every Section 8 tenant the staff placed in his units.
- . During a site inspection, it was noted that a unit for which a subsidy was being paid was unoccupied. Interviews disclosed that the Section 8 tenant never lived there and that the owner of record in the PHA files was not the real owner of the unit. Later, it was discovered that the PHA Section 8 administrator had conspired with the listed owner to receive illegal HAPs.

Fraud Indicators--Collusion/Bribery

The willful disregard for, or circumvention of, program rules and controls represented by collusion and bribery is difficult to detect under normal operating conditions. Most cases come to light based on "tip offs" and generally require specially trained personnel to investigate such irregularities. However, during reviews of the Section 8 program, certain red flags should be kept in mind for possible referral. These are where there are:

- . Indications of favoritism to certain owner(s) by PHA staff member(s).
- . Situations in which it appears staff member(s) live well beyond their means.

APPENDIX 3

- . PHAs and projects that have no supervisory reviews or are handled by a small staff. (The opportunities for fraud are increased.)
- . Tenants, owners, or others who make comments regarding deals or schemes by PHA or project staff. (Specifics should be obtained for referral.)

* * * * *

HUD Handbook 2000.3A has made it the responsibility of each employee to report promptly any indications of fraud, waste, or mismanagement to his/her supervisors or directly to the Office of Inspector General in Headquarters or the Field. As an extension of that procedure and to facilitate communication, a telephone hotline is available: FTS. 472-4200.

Comments on additional schemes, fraud indicators, or other pertinent information regarding this bulletin should be directed to the Director, Fraud Control Division, Office of Inspector General (Room 8280, Phone: 202-755-6383), for use in possible updates.

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