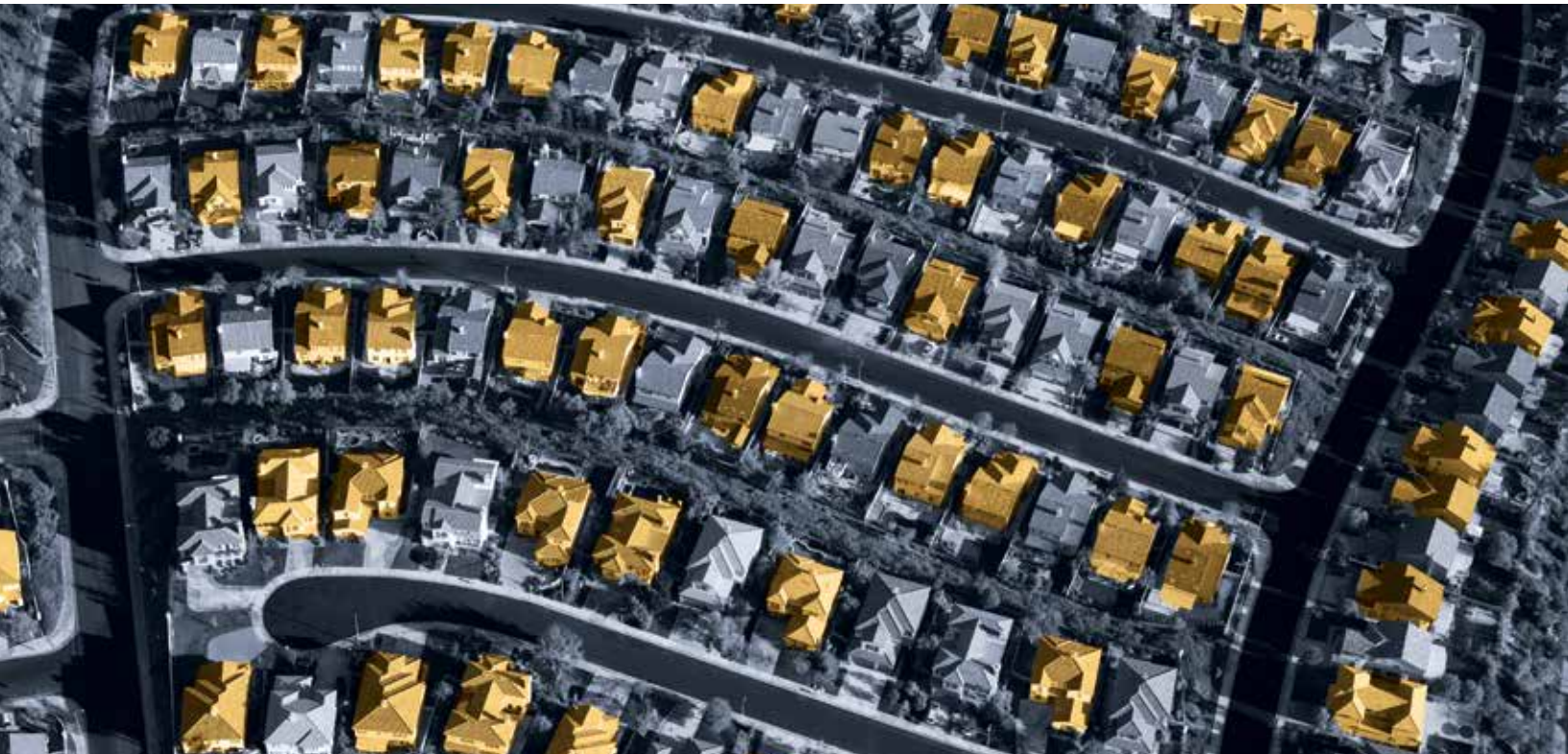


OFFICE OF INSPECTOR GENERAL

# SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2013, to MARCH 31, 2014



## ASSESSING THE COST OF BAD MORTGAGE LOANS



U.S. DEPARTMENT  
OF HOUSING  
AND URBAN  
DEVELOPMENT



# OUR MISSION

**As the Office of Inspector General (OIG)** for the U.S. Department of Housing and Urban Development (HUD), we remain an independent and objective organization, conducting and supervising audits, evaluations, and investigations relating to the Department's programs and operations.

- **We promote** economy, efficiency, and effectiveness in these programs and operations as we also prevent and detect fraud, abuse, and mismanagement.
- **We are committed to** keeping the HUD Secretary, Congress, and our stakeholders fully and currently informed about problems and deficiencies and the necessity for and progress of corrective action.





# OUR VALUES

- 1 Collaboration:** The commitment to work jointly with HUD, Congress, and our stakeholders for the benefit of all citizens.
- 2 Accountability:** The obligation and willingness to accept responsibility and account for our actions.
- 3 Integrity:** The firm adherence to high moral and professional standards, honesty, and fairness in all that we do. Acting with integrity is a core job responsibility for every employee.
- 4 Stewardship:** The careful and responsible management of that which has been entrusted to our care.
- 5 Diversity:** The promotion of high standards of equal employment opportunity for employees and job applicants at all levels so that our workforce is reflective of our country's citizens.



# OUR VISION

- 1 To promote fiscal responsibility and financial accountability in HUD programs and operations,
- 2 To improve the execution of and accountability for grant funds,
- 3 To strengthen the soundness of public and Indian housing programs,
- 4 To protect the integrity of housing insurance and guarantee programs,
- 5 To assist HUD in determining whether it is successful in achieving its goals,
- 6 To look ahead for emerging trends or weaknesses that create risk and program inefficiencies,
- 7 To produce innovative work products that are timely and of high quality,
- 8 To benchmark best practices as a means to guide HUD, and
- 9 To have a significant impact on improving the way HUD does business.



# DIVERSITY AND EQUAL OPPORTUNITY

## **The promotion of high standards of equal employment opportunity**

for employees and job applicants at all levels. HUD OIG reaffirms its commitment to nondiscrimination in the workplace and the recruitment of qualified employees without prejudice regarding their gender, race, religion, color, national origin, sexual orientation, disability, or other classification protected by law. HUD OIG is committed and proactive in the prevention of discrimination and ensuring freedom from retaliation for participating in the equal employment opportunity process in accordance with departmental policies and procedures.

# PROFILE OF PERFORMANCE

Audit profile of performance for the period October 1, 2013, to March 31, 2014

RESULTS	THIS REPORTING PERIOD
Recommendations that funds be put to better use	\$1,130,566,054
Recommended questioned costs	\$125,061,696
Collections from audits	\$33,897,499
Administrative sanctions	6
Subpoenas	54

Investigation profile of performance for the period October 1, 2013, to March 31, 2014

RESULTS	THIS REPORTING PERIOD
Total restitution and judgments	\$48,567,967
Total recoveries and receivables to HUD programs	\$23,892,030
Arrests	149
Indictments and informations	189
Convictions, pleas, and pretrial diversions	267
Civil actions	7
Total administrative sanctions	96
Suspensions	36
Debarments	43
Limited denial of participation	3
Removal from program participation	5
Evictions	6
HUD/HUD OIG personnel actions	3
Systemic implication reports	1
Search warrants	24
Subpoenas	376

DURING THIS REPORTING PERIOD, WE HAD

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MORE THAN **\$1.1 BILLION** IN FUNDS PUT

---

TO BETTER USE, QUESTIONED COSTS OF

---

MORE THAN **\$125 MILLION**, AND NEARLY

---

**\$34 MILLION** IN COLLECTIONS RESULTING

---

FROM **44 AUDIT REPORTS** AND NEARLY

---

**\$24 MILLION** IN RECOVERIES DUE TO OUR

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INVESTIGATIVE EFFORTS.



## IT IS WITH A SENSE OF SINCERE **GRATITUDE AND COMMENDATION** TO OUR STAFF

that I present to you the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) Semiannual Report to Congress for the first half of fiscal year 2014. This report is the culmination of amazing efforts by a dedicated group of auditors, investigators, evaluators, attorneys, and various support staff. I am grateful to be surrounded by a remarkable and talented staff.



During this reporting period, we had more than \$1.1 billion in funds put to better use, questioned costs of more than \$125 million, and nearly \$34 million in collections resulting from 44 audit reports and nearly \$24 million in recoveries due to our investigative efforts. We also had 189 indictments and informations, 267 convictions,

and 149 arrests during this reporting period. These results can only be described as extraordinary work by dedicated public servants who, even in the face of uncertain budgets, rise to levels of effort that make me proud to be their Inspector General. Their efforts have contributed to better accountability of HUD programs and operations, which benefits all Americans.

Our high-profile audit and investigative work continues to target HUD's high-risk areas. In particular, civil fraud investigations continue to be an area of emphasis in addressing fraud against the Federal Housing Administration's (FHA) single-family programs. During the reporting period, I am pleased to report on the results to date of our ongoing reviews of FHA lenders. To help recover FHA's losses, OIG continues to aggressively review lender origination and underwriting practices, working closely with the U.S. Department of Justice, U.S. Attorneys' Offices, and HUD's Office of General Counsel. Of particular note is a settlement reached with JPMorgan Chase totaling \$614 million, of which \$564.4 million directly relates to FHA loans, in which the bank admitted to and accepted responsibility for improperly approving thousands of mortgage loans for government insurance and agreed to implement an enhanced quality control program.

A report on the latest annual audit of HUD's financial statements was issued during this reporting period, which, unfortunately, reflected deterioration in HUD's fiscal stewardship. It was necessary for us to qualify our opinion on HUD's financial statements because of deficient budgetary accounting for HUD's community planning and development programs and because HUD lacked proper accounting to

meet U.S. Treasury cash management requirements. We also reported on four internal control material weaknesses, up from just one the previous year, as well as other significant control deficiencies. The problems are longstanding and stem from HUD's inability to establish a compliant control environment, implement adequate systems, recognize required changes, or identify appropriate accounting principles and policies.

A key area of investigative activity has been grant fraud. To highlight a significant case, after pleading guilty to diverting Federal funds, a developer was sentenced to 87 months imprisonment and 24 months probation and was ordered to pay restitution totaling almost \$21 million to multiple victims. These victims included the City of Harrisburg, PA, and Dauphin County, PA, which incurred more than \$6 million in losses associated with HUD Community Development Block Grant-Section 108 Guaranteed Loans. From 2005 through 2009, the developer raised funds from multiple sources for the construction of the Capital View Commerce Center in Harrisburg. The developer then diverted millions of dollars of those loan funds into investment accounts he controlled and a company he secretly owned, which was purportedly working on the contract. The project was heralded as an opportunity for economic growth for Harrisburg, which at the time of the scheme was experiencing financial difficulties.

Since its creation in 1974, HUD OIG has been a leader in the effort to fight waste, fraud, and abuse in nearly 300 HUD programs, along with its oversight of American Recovery and Reinvestment Act stimulus funding, disaster recovery efforts, and the recent financial crisis. I would once again like to express my appreciation to Congress and the Department for their sustained commitment to addressing the top challenges facing HUD's programs. I also extend my sincere appreciation and admiration to the staff of HUD OIG for its dedication and commitment to our mission and conducting its work in the most outstanding fashion.

A handwritten signature in black ink that reads "David A. Montoya". The signature is fluid and cursive, with a long horizontal stroke at the end.

David A. Montoya | Inspector General



# TRENDING

## **SUPERSTORM SANDY**

The destruction and aftermath of Superstorm Sandy will continue to be a focus and challenge for the U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG). Congress provided \$16 billion in supplemental appropriations through HUD's Community Development Block Grant Disaster Recovery (CDBG-DR) program to help communities recover from the superstorm. To address the enormous task of enforcement and oversight, we have designated the New York and Philadelphia regions (Regions 2 and 3) to perform the bulk of Sandy oversight. Our audit, investigative, and evaluations staff will provide a continuing and comprehensive review of the expenditure of funds and program administration.

HUD OIG has been working jointly with HUD's disaster staff to ensure that the lessons learned from previous disasters will be considered in the approval of the grantees' work plans and HUD's disaster guidance.

During this reporting period, the Office of Investigation opened a total of 36 complaints and investigations. Four training sessions were provided to HUD personnel, grantees, and other law enforcement partners tasked with investigating disaster fraud. Lessons learned from previous disaster programs were highlighted as well as tips on identifying fraud. A total of 17 outreach sessions were conducted with grantees and administrators of Superstorm Sandy funds in the New York and New Jersey areas.

HUD OIG has proactively engaged in oversight of the Hurricane Sandy disaster funds. It has held strategic planning meetings, conducted training sessions, held monthly meetings with HUD's Disaster Recovery officials, conducted auditability surveys, and initiated audits. During this reporting period, the Office of Audit has completed two disaster audits. In addition, the Office of Audit has seven ongoing disaster audits. More specifically, it is performing audits of New Jersey's Tourism Marketing program, homeowner resettlement program, and the Sandy Integrated Recovery Operations and Management System (SIROMS), the automated solution that will allow the State to quickly deploy its CDBG-DR funds, as well as New York's health and hospital payments, homeowner buyout program, and the effectiveness of Vermont's disaster program.

## **CIVIL FRAUD**

Civil fraud investigations continue to be an area of emphasis for HUD OIG, particularly with regard to mortgage fraud. HUD OIG's Joint Civil Fraud Division, a distinct team of forensic auditors and special agents located in various field offices, serves as the central hub in HUD OIG's efforts to investigate fraud and pursue civil actions and administrative sanctions against those that commit fraud against HUD. The Division has been primarily focused on investigating mortgage fraud and its ill effects on HUD's Federal Housing Administration (FHA) loan insurance fund. It should

be noted, that the FHA insurance fund is not the only victim, as numerous failed mortgages negatively affect neighborhoods by creating empty homes and causing declining home prices, and borrowers can be left with mortgages that they cannot readily afford, which frequently creates credit issues that haunt borrowers for years.

Mortgage fraud played a major role in the country's financial troubles, and HUD was directly affected when its FHA insurance fund repeatedly fell victim to the reckless disregard of lenders and other real estate professionals that failed to follow FHA loan origination requirements. Relying on assertions made by FHA-approved and trusted lenders, HUD insured an untold number of mortgage loans that did not meet underwriting requirements. As a result, the FHA fund incurred unprecedented losses on loans that did not meet minimum underwriting requirements.

HUD OIG is active in the national Financial Fraud Enforcement Task Force and, more specifically, it's Mortgage Fraud Working Group. FHA mortgage fraud investigations begun under the task force's efforts places HUD OIG in close working relationships with the U.S. Department of Justice, U.S. Attorney's Offices, and HUD's Office of General Counsel to investigate and convey civil cases. These partnerships recently yielded a \$614 million civil settlement in which JPMorgan Chase took responsibility for not following Federal loan origination requirements on thousands of federally insured loans. Nearly \$565 million

of the total settlement related specifically to the FHA program, and the FHA insurance fund will significantly benefit from a portion of the settlement.<sup>1</sup> HUD OIG continues to work closely with these same Federal partners to pursue civil cases against additional lenders for the fraudulent underwriting of FHA-insured mortgages and against real estate professionals and borrowers that committed fraud in pursuit of FHA-insured mortgages.

While mortgage fraud is a current focus of the Joint Civil Fraud Division, the Division continues to expand its focus to conduct and coordinate more investigative work in HUD's other program areas, to include community planning and development, public housing, and multifamily housing.

## JOINT INITIATIVES

As part of its strategic plan this year, OIG identified nine initiatives that are being worked jointly between our Offices of Audit and Investigation. These initiatives were selected as they are some of the most troublesome problems that OIG repeatedly finds in its work. Therefore, the joint working groups are looking for root causes. This initiative is also focused on bringing together diverse skill sets from the Offices of Audit and Investigation, in hopes of developing new approaches to these longstanding issues.

The initiatives are

- FHA appraisals and high-risk appraisers,
- Strengthening HUD's real estate-owned program,
- Community planning and development program oversight and grantee performance,
- Review of lender oversight,
- Operation Home Rules – Englewood Joint Initiative,
- Community planning and development subrecipients and developers,
- Multifamily housing programs,
- Preforeclosure sales, and
- Joint Public and Indian Housing Initiative.

<sup>1</sup> Although the JPMorgan Chase case settled in February 2014, due to pending distributions of the settlement amount, HUD OIG will report in detail on the settlement in the next Semiannual reporting period.

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ONE

## SINGLE-FAMILY PROGRAMS

*The Federal Housing Administration (FHA) single-family programs provide mortgage insurance to mortgage lenders that, in turn, provide financing to enable individuals and families to purchase, rehabilitate, or construct homes. Some of the highlights from this semiannual period are noted below.*

**AUDIT****STRATEGIC INITIATIVE 1: CONTRIBUTE TO THE REDUCTION OF FRAUD IN SINGLE-FAMILY INSURANCE PROGRAMS**

Key program results		Questioned costs	Funds put to better use
Audit	2 audits	-	-

**REVIEW OF HUD'S LOSS MITIGATION PROGRAM**

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), audited the Wyoming Community Development Authority in **Casper, WY**, to determine whether the Authority properly administered HUD's Loss Mitigation Program for FHA-insured mortgages.

The Authority properly administered HUD's Loss Mitigation Program for the FHA loans reviewed. OIG made no recommendations, and no further action is necessary. (Audit Report: **2014-DE-1001**)

**INVESTIGATION****PROGRAM RESULTS**

Administrative-civil actions	42
Convictions-pleas-pretrial diversions	116
Financial recoveries	\$8,732,645

### PRISON TIME IN FORECLOSURE RESCUE SCHEME

The owner of foreclosure rescue businesses, US Mortgage Bailout, USMortgageBailout.com, and iLoanAudit, was sentenced in U.S. District Court to 60 months incarceration and 3 years supervised release and ordered to pay restitution in the amount of \$1.4 million following guilty pleas to mail fraud, wire fraud, money laundering, and bankruptcy fraud. The owner ran a multiyear scheme to collect money from thousands of distressed borrowers by promising to provide loan modifications. The companies' Web sites claimed to be "an experienced legal team made up of attorneys and paralegals to handle all of the negotiations with your current lender," which had "helped thousands of homeowners avoid foreclosure" and boasted a 97 percent success rate, when no foreclosure rescue assistance was provided. This investigation was conducted by HUD OIG. (**South Bend, IN**)

### SOVEREIGN CITIZEN INCARCERATED FOR FORECLOSURE RESCUE SCHEME

A member of the sovereign citizen movement was sentenced in U.S. District Court to 30 months incarceration and 5 years probation after pleading guilty to passing fictitious obligations to homeowners in a debt elimination scheme that left homeowners in foreclosure. From February 2009 through June 2012, the sovereign citizen and her father, who was found guilty of 13 felony counts, preyed on struggling homeowners by defrauding them of thousands of dollars and promising to access a "secret" stash of Federal money for use in eliminating their debt, while instructing them to stop payments on their mortgages and other debt. In exchange for eliminating their debt, the homeowners were required to join their sovereign citizen program. This investigation was conducted by HUD OIG and the Internal Revenue Service-Criminal Investigation (IRS-CI). (**Hartford, CT**)

### FORMER MORTGAGE COMPANY MANAGER SENTENCED TO PRISON

A former assistant manager of a mortgage origination company called Madison Funding was sentenced in U.S. District Court to 16 months incarceration for conspiracy, false statements to HUD to obtain FHA insurance, and aiding and abetting. Between October 2006 and at least June 2008, the assistant manager submitted loan applications, which contained false information about the borrowers and were often supported by falsified, forged, and altered documents. Each funded loan generated thousands of dollars in commissions to Madison Funding and its employees. Eight of the properties involved in this scheme were FHA-insured mortgages totaling approximately \$1.1 million, with losses to FHA totaling more than \$111,000. This investigation was conducted by HUD OIG, the Federal Deposit Insurance Corporation OIG, and the Federal Housing Finance Agency (FHFA) OIG. (**Allentown, PA**)

### CONSTRUCTION COMPANY OWNERS SENTENCED IN FLIPPING SCHEME

The owners of two construction companies pled guilty in U.S. District Court to charges of conspiracy and wire fraud and were sentenced to 18 months incarceration and 3 years supervised release and ordered to pay restitution in the amount of more than \$1.2 million, with \$566,684 payable to HUD. Between March 2008 and February 2010, the owners recruited straw buyers to purchase properties at inflated prices and submitted fraudulent bank statements, IRS Forms W-2, pay stubs, and tax returns to lenders in support of loan applications for more than \$837,000 in mortgage loans. This investigation was conducted by HUD OIG, the Federal Bureau of Investigation (FBI), FHFA OIG, and the U.S. Postal Inspection Service. (**Trenton, NJ**)

### LOAN MODIFICATION COMPANY OWNER SENTENCED FOR HAMP FRAUD

The owner of a mortgage loan modification telemarketing business was sentenced in U.S. District Court to 1 month incarceration and 3 years probation and ordered to pay restitution in the amount of \$121,400 to victimized homeowners after pleading guilty to mail fraud and aiding and abetting. Between 2009 and 2011, the owner solicited distressed homeowners, claiming that his telemarketing business was affiliated with HUD and could provide assistance through the Home Affordable Modification Program (HAMP) for a fee. The owner then collected fees from an estimated 124 distressed homeowners but did not attempt to help the homeowners avoid foreclosure. This investigation was conducted by HUD OIG. (**San Diego, CA**)

### REALTORS AND MORTGAGE LOAN OFFICER IMPRISONED FOR FRAUD

Two realtors and a mortgage loan officer were sentenced in U.S. District Court after earlier guilty pleas to conspiracy, wire fraud, and money laundering. The two realtors were sentenced to 48 months and 18 months, respectively, and 3 years supervised release. The mortgage loan officer was sentenced to 36 months incarceration and 3 years supervised release. From 2001 to August 2011, these individuals acquired more than 40 properties and then recruited buyers to purchase the properties at inflated prices. The three acted as the buyers' real estate agents, prepared loan applications with false information for the borrowers, created false documents in support of those applications, and then processed those applications for mortgage loans through the loan officer. Many of those mortgages resulted in foreclosure, and losses to FHA are expected to reach \$3.7 million. This investigation was conducted by HUD OIG, IRS-CI, the FBI, and the Special Inspector General for the Troubled Asset Relief Program. (**Hartford, CT**)

## TWO

PUBLIC AND INDIAN  
HOUSING PROGRAMS

*The U.S. Department of Housing and Urban Development (HUD) provides grants and subsidies to more than 4,100 public housing agencies (PHA) nationwide. Many PHAs administer both public housing and Section 8 programs. HUD also provides assistance directly to PHAs' resident organizations to encourage increased resident management entities and resident skills programs. Programs administered by PHAs are designed to enable low-income families, the elderly, and persons with disabilities to obtain and reside in housing that is safe, decent, sanitary, and in good repair. Some of the highlights from this semiannual period are noted below.*

## AUDIT

**STRATEGIC INITIATIVE 2: CONTRIBUTE TO THE REDUCTION OF ERRONEOUS PAYMENTS IN RENTAL ASSISTANCE**

Key program results		Questioned costs	Funds put to better use
Audit	10 audits	\$95,003,635	\$ 4,548,410

## PUBLIC HOUSING

The HUD Office of Inspector General (OIG) audited HUD's oversight of public and Indian housing program interfund transactions to determine whether HUD (1) had adequate procedures to identify, monitor, and evaluate PHAs with interfunds and (2) took appropriate actions to curtail improper practices when borrowing from restricted HUD programs was found.

HUD officials adequately identified interfund balances, communicated this information to field offices, and adequately evaluated annual contributions contracts and regulatory restrictions on interfunds. However, they did not always take timely and effective action to enforce program fund restrictions by notifying PHAs to reimburse interfunds in a timely manner, maintain proper accounting controls, and avoid recurring interfunds. As a result, there were recurring interfund balances at 161 PHAs involving the use of restricted Section 8 funds for nonprogram purposes. The most serious of these deficiencies were at two PHAs, where more than \$2.2 million in Section 8 program interfund transaction balances continued to exist.

OIG recommended that HUD develop and implement standard procedures to ensure the timely and effective control of PHAs' use and reimbursement of interfunas and ensure the reimbursement of interfunas to the appropriate programs by the two PHAs identified. (Audit Report: **2014-BO-0001**)

HUD OIG audited the Housing Authority of the City of **Bridgeport, CT**, to determine whether Authority officials ensured that expenses charged to Federal programs were eligible, reasonable, and supported.

Authority officials did not always ensure that expenses charged to the Authority's Federal programs were eligible, reasonable, and supported. Specifically, they did not (1) properly charge and support all costs allocated to Federal housing programs, (2) adequately manage maintenance costs, and (3) ensure that employee health care and liability insurance policies were obtained at the most cost-effective price. As a result, ineligible costs of more than \$895,000 were incurred, and more than \$790,000 in charges was unsupported. These improper charges weakened the projects' financial position and left fewer funds for operations. Also, with diminishing budgets and staffing levels, diverting staff from Federal to non-Federal properties could result in degraded maintenance at the Federal properties.

OIG recommended that HUD require Authority officials to (1) repay the ineligible costs and support or repay the unsupported costs charged to the Authority's Federal programs, (2) measure and monitor the maintenance staff's productivity and rotate work schedules to avoid unnecessary overtime costs, (3) develop procedures to competitively obtain insurance, and (4) train staff on asset management rules. (Audit Report: **2014-BO-1001**)

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## SECTION 8 HOUSING CHOICE VOUCHER PROGRAM

HUD OIG audited the Housing Authority of the City of **Paterson, NJ**'s Housing Choice Voucher program to determine whether Authority officials had implemented adequate controls to ensure that the program was administered in accordance with HUD regulations and the Authority's own administrative plan.

The Authority lacked adequate controls to ensure that its program was administered in accordance with regulations. Specifically, it lacked documentation showing that assisted rental units were inspected annually and annual quality control inspections were performed, and some units did not comply with housing quality standards. As a result, housing assistance of nearly \$3.8 million was paid for units without evidence that they complied with housing quality standards. In addition, documentation was inadequate to support that rental subsidy amounts were accurately calculated, all tenants were eligible for subsidies, and applicants were properly selected from the waiting list. Consequently, nearly \$185,000 in questionable housing assistance was disbursed, and HUD lacked assurance that tenants were properly selected from the waiting list.

Further, financial controls were not adequate to ensure that port-in receivables were collected, duplicate housing assistance payments were not made, and uncashed checks disbursed to landlords and tenants were adequately monitored. As a result, Authority officials failed to collect all receivables on behalf of port-in tenants and lacked assurance that housing assistance payments were not made for vacant units and outstanding checks to landlords and tenants were cashed within a reasonable timeframe. In addition, Authority officials did not properly execute a contract or adequately monitor the status of the contractor's performance against the contract provisions. Consequently, the contractor was paid in excess of the small procurement threshold.

OIG recommended that HUD instruct Authority officials to provide documentation to support that assisted units complied with housing quality standards and strengthen controls over the unit inspection, tenant certification, port-in receivables collection, and procurement processes. (Audit Report: **2014-NY-1001**)



HUD OIG reviewed HUD's monitoring and administration of the Family Self-Sufficiency (FSS) program under the Housing Choice Voucher program to determine whether HUD officials sufficiently monitored PHAs' use of the program and evaluated its outcome. OIG also wanted to determine whether HUD ensured that PHAs properly monitored the participants' progress while in the program and upon graduation and documented the program benefit.

Due to the priority of the Housing Choice Voucher program over the FSS program and a lack of resources, HUD officials did not (1) sufficiently monitor PHAs, (2) encourage the use of the FSS program, (3) evaluate its overall outcome, and (4) determine whether PHAs properly monitored the participating families' progress while in the program. In addition, HUD officials did not require PHAs to track participating families after program graduation or document the program benefit in terms of realized cost savings resulting from reduced or eliminated rental assistance.

OIG recommended that HUD develop policies and procedures to periodically verify the timeliness, completeness, and accuracy of key performance data, such as FSS program enrollment, participant progress, escrow accounts, and program exits that PHAs self-report through HUD's Public and Indian Housing Information Center system. In addition, if the fiscal year 2014 program coordinator funding for the Housing Choice Voucher and public housing FSS programs is combined, HUD should consider disbursing the new grant through its Line of Credit Control System, which would require PHAs to request the grant payments and enable HUD officials to manually approve payment requests, if necessary, to prevent the misuse of funds or ensure that required performance reports are submitted. Also, HUD should establish and implement a system to identify best practices and recommendations that would improve the effectiveness of the FSS program. (Audit Memorandum: **2014-NY-0801**)

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## AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

HUD OIG audited HUD's **Boston, MA**, Office of Public Housing to determine whether the Boston Office's oversight of public housing environmental reviews within its jurisdiction ensured that (1) the responsible entities (for example, local municipalities such as a city government) performed the required reviews and (2) HUD did not release funds until all required documents were submitted.

The Boston Office did not provide adequate oversight to three PHAs to ensure that the responsible entities properly completed and documented environmental reviews. Further, it did not maintain sufficient internal control records. As a result, three PHAs spent more than \$85 million, including more than \$39 million in American Recovery and Reinvestment Act of 2009 (ARRA) grant funds, for projects that either did not have required environmental reviews or had environmental reviews that were not adequately supported.

OIG recommended that HUD require the three PHAs to (1) repay HUD, for transmission to the U.S. Treasury, more than \$4.8 million and support or repay more than \$34 million in ARRA funds, (2) support or repay HUD more than \$45 million in Public Housing Capital Fund grant funds, and (3) take available actions against the three PHAs and their responsible entities. (Audit Report: **2014-FW-0001**)

HUD OIG reviewed the public housing programs of the Colfax Housing Authority in **Colfax, LA**, to determine whether the Authority administered its HUD public housing programs in accordance with regulations and guidance.

The Authority did not properly oversee its public housing programs. Specifically, it (1) made disbursements that lacked adequate supporting documentation; (2) made unsubstantiated payments to its employees; (3) issued payroll checks to the previous executive director's wife, a nonemployee; (4) cashed certificates of deposit without sufficient explanations; (5) misused cash received from salvaged equipment; (6) did not follow HUD's and its own procurement requirements; (7) could not account for 22 of 89 appliances

purchased with ARRA funds; (8) did not maintain true and accurate records of its board meetings and resolutions; and (9) did not properly maintain adequate documentation for its housing programs' waiting lists.

OIG recommended that HUD require the Authority to (1) support or repay more than \$1 million to its programs or HUD, as applicable, for questioned costs, including more than \$100,000 in ARRA funds; (2) provide complete, accurate inventory records to identify the appliances purchased with ARRA funds and the number of missing appliances; (3) develop adequate written accounting and disbursement policies and procedures; (4) maintain an adequate contract administration system; and (5) provide HUD-approved training to its board to ensure that the commissioners receive written instructions on their roles and responsibilities. (Audit Memorandum: **2014-FW-1801**)

## INVESTIGATION

### PROGRAM RESULTS

Administrative-civil actions	35
Convictions-pleas-pretrial diversions	104
Financial recoveries	\$4,790,023

### FORMER PHILADELPHIA HOUSING AUTHORITY EMPLOYEE SENTENCED

A former maintenance worker of the Philadelphia Housing Authority was sentenced in U.S. District Court to 13 months incarceration and 3 years probation and ordered to pay restitution in the amount of \$348,900 to the Authority. From 2002 through 2011, the maintenance worker conspired with others to purchase building materials with Authority funds, steal those materials, and then sell them for his own profit. This investigation was conducted by HUD OIG and the Federal Bureau of Investigation (FBI). (**Philadelphia, PA**)

### FORMER HOUSING AUTHORITY DIRECTOR AND HUSBAND SENTENCED

A former executive director of the Taos County, NM, Housing Authority was sentenced in U.S. District Court to 30 months incarceration, and her husband was sentenced to 24 months incarceration for embezzling more than \$800,000 in HUD Section 8 rental subsidy funds. The two were also ordered to pay restitution in the amount of \$786,014, jointly and severally. From 2003 through 2011, the former executive director created fraudulent Section 8 checks, made payable to her husband, and deposited those checks into bank accounts she and her husband controlled. This investigation was conducted by HUD OIG. (**Taos, NM**)

### NARRAGANSETT INDIAN WETUOMUCK HOUSING AUTHORITY OFFICIAL SENTENCED

The former executive director of the Narragansett Indian Wetuomuck Housing Authority was sentenced in U.S. District Court to 1 year and 1 day in prison and ordered to pay restitution in the amount of \$120,000 based on her earlier guilty plea to theft from programs receiving Federal funds. Between October 2008 and June 2009, the executive director embezzled money from the Authority and used it for personal expenses, including gambling and purchases of electronics, cameras, and Christmas decorations. This investigation was conducted by HUD OIG. **(Providence, RI)**

### HOUSING AUTHORITY EMPLOYEE ORDERED TO REPAY \$600,000

A former employee of the Housing Authority of New Orleans was sentenced in U.S. District Court to 5 years probation and ordered to pay restitution in the amount of \$661,094 to the Authority. Between April 2007 and May 2009, the employee conspired with a former Authority procurement officer to create fraudulent purchase orders to steal Authority funds. This investigation was conducted by HUD OIG. **(New Orleans, LA)**

### FORMER HUNTINGTON HOUSING AUTHORITY EMPLOYEE SENTENCED

The former Shelter Plus Care coordinator for the Huntington, WV, Housing Authority was sentenced in U.S. District Court to 12 months and 1 day imprisonment and 36 months probation and ordered to pay \$23,173 in restitution to the Authority. While employed at the Authority, the coordinator diverted payments to a fictitious landlord that she had created and used those funds for her own purposes. This investigation was conducted by HUD OIG and the FBI. **(Huntington, WV)**

### DEVELOPER SENTENCED TO 51 MONTHS IN PRISON FOR EMBEZZLEMENT

A former developer for the Navajo Housing Authority was sentenced in U.S. District Court to 51 months imprisonment and 36 months supervised release following a conviction of two counts of embezzlement from an Indian tribal organization. From 2003 through 2005, the developer submitted grant payment requests to the Fort Defiance Housing Corporation, a subgrantee for the Authority, for specific construction costs and then used more than \$2 million of those grant funds for personal expenses, including gambling and thoroughbred racehorse training. This investigation was conducted by HUD OIG. **(Las Vegas, NV)**

## THREE

## MULTIFAMILY HOUSING PROGRAMS

*In addition to multifamily housing developments with U.S. Department of Housing and Urban Development (HUD)-insured mortgages, HUD owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped. Some of the highlights from this semiannual period are shown below.*

## AUDIT

## STRATEGIC INITIATIVE 2: CONTRIBUTE TO THE REDUCTION OF ERRONEOUS PAYMENTS IN RENTAL ASSISTANCE

Key program results		Questioned costs	Funds put to better use
Audit	4 audits	\$3,046,833	\$21,423,291

## OVERSIGHT OF SECTION 202 MULTIFAMILY HOUSING PROJECT REFINANCES

The HUD Office of Inspector General (OIG) audited HUD's oversight of Section 202 multifamily housing project refinances to determine whether HUD had adequate controls to ensure that Section 202 refinancing was conducted in an effective and efficient manner.

HUD did not have adequate controls to ensure that all Section 202 refinancing resulted in economical and efficient outcomes. Specifically, (1) HUD did not ensure that at least half of the debt service savings that resulted from refinancing was used to benefit tenants or reduce housing assistance payments, (2) consistent accountability for the debt service savings was not always maintained, and (3) some refinancing was processed for projects that had negative debt service savings, which resulted in higher debt service costs than before the refinancing. As a result, millions of dollars in debt service savings may not have been used to benefit tenants or for the reduction of housing assistance payments, HUD funds were not properly accounted for and available, and some refinanced projects ended up costing HUD additional housing assistance payments because of the additional cost for debt service.

OIG recommended that HUD (1) develop and implement consistent nationwide policies for oversight and monitoring of debt service savings, thereby ensuring that more than \$21 million per year is used to benefit tenants or reduce housing assistance payments; (2) direct field offices to account for debt service savings and when possible, require the savings to be used to offset housing assistance payments; and (3) implement procedures to ensure that refinancing complies with the requirement to generate positive debt service savings. (Audit Report: 2014-NY-0001)

## OVERSIGHT OF THE MCKINNEY ACT BOND REFUND PROGRAM

HUD OIG audited certain portions of HUD's multifamily housing programs to determine whether (1) HUD properly enforced requirements that regulated the application of automatic adjustment factors to Section 8 rents for projects that had bond refund savings to prevent excessive rents and (2) adjustments to receivables due to HUD from bond refunds were properly supported.

Violations occurred relative to HUD's calculation of rents using automatic annual adjustment factors for bond-refunded projects and justification and support for writeoffs of receivables due to HUD from bond refunds. Specifically, HUD paid more than \$2.6 million in excessive Section 8 rents due to a pattern of violations. More than \$2.7 million in questionable writeoffs of receivables due to HUD for bond refund savings was also identified. This amount included more than \$2.6 million, which HUD wrote off without proper justification, and more than \$139,000 for which HUD could not locate or provide proper documentation to show whether the writeoff was justified and supported. OIG also identified the release of more than \$143,000 in trust fund balances to entities outside HUD without proper support.

OIG recommended that HUD develop and implement procedures for (1) monitoring the calculation of annual rent increases for Section 8 projects and the remittance of trust fund balances and (2) ensuring that requests for adjustments to bond receivables are in accordance with requirements. In addition, OIG recommended that HUD initiate actions needed to ensure the enforcement of program requirements and the proper resolution of the questioned costs. (Audit Report: **2014-AT-0001**)

## INVESTIGATION

### PROGRAM RESULTS

Administrative-civil actions	18
Convictions-pleas-pretrial diversions	30
Financial recoveries	\$2,154,489

### PROPERTY MANAGER PLEADS GUILTY TO EMBEZZLEMENT

A property manager for a HUD-funded assisted living facility that services elderly and disabled persons pled guilty in U.S. District Court. In 2009, the manager took responsibility for the company's payroll and payment functions and embezzled \$588,121 in HUD program funds by manipulating the payroll systems to give herself unauthorized salary increases and unauthorized mileage reimbursements. The manager also failed to report the extra funds to the Internal Revenue Service (IRS), resulting in a tax loss of \$126,019. This investigation was conducted by HUD OIG and IRS-Criminal Investigation. (**Columbus, OH**)

### PROJECT MANAGER GETS 3 YEARS IN PRISON FOR THEFT

A former multifamily apartment manager was sentenced in U.S. District Court to 41 months incarceration and 36 months probation and ordered to pay \$206,000 in restitution to HUD and \$28,737 to the IRS for her role in a nearly \$400,000 fraud scheme involving several HUD-insured and -subsidized apartment complexes. From 2003 through 2009, the manager processed new subsidies for Section 8 tenants. During the initial reports, the manager reported the tenants' incomes correctly. Over time, as the tenants reported higher incomes,

the HUD subsidy should have decreased, and the tenants' portions of the rents should have increased. The manager told the tenants that their share of the rent had increased but delayed entering the change into HUD's computer system. The manager embezzled the increased amount of the tenants' rent payments. This investigation was conducted by HUD OIG. **(Kansas City, KS)**

#### PRISON TIME FOR PROPERTY MANAGER – CIVIL CASE AGAINST COMPANY

The former assistant property manager of a HUD-subsidized apartment complex was sentenced in U.S. District Court to 54 months incarceration and 3 years probation and ordered to pay \$303,000 in restitution to HUD. From 2005 through 2010, in exchange for cash bribes, the assistant property manager accepted counterfeit citizenship documents from 24 illegal aliens and falsely reported to HUD that the tenants were legally present and eligible to receive Section 8 housing subsidies. The tenants then received \$519,165 in Section 8 housing subsidies they were not eligible to receive. Ten of the tenants were sentenced to time served and ordered to pay \$133,000 in restitution, jointly and severally with the assistant property manager, who also used the identity of another person to obtain \$34,142 in Section 8 housing subsidies for herself. The management company entered into a settlement in a related False Claims Act civil case and agreed to pay HUD \$640,000. This investigation was conducted by HUD OIG. **(Kansas City, KS)**

## FOUR

COMMUNITY PLANNING AND  
DEVELOPMENT PROGRAMS

*The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that provide decent housing, suitable living environments, and expanded economic opportunities for low- and moderate-income persons. The primary means toward this end is the development of partnerships among all levels of government and the private sector. Some of the highlights from this semiannual period are shown below.*

## AUDIT

## STRATEGIC INITIATIVE 3: CONTRIBUTE TO THE STRENGTHENING OF COMMUNITIES

Key program results		Questioned costs	Funds put to better use
Audit	12 audits <sup>2</sup>	\$26,651,401	\$101,476,470

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), audited HUD's oversight of former redevelopment agencies, the Community Development Block Grant (CDBG) program, the HOME Investment Partnerships Program (HOME), and economic development programs.

## OVERSIGHT OF FORMER REDEVELOPMENT AGENCIES

HUD OIG audited HUD's **San Francisco** and **Los Angeles, CA**, CPD field offices' monitoring of CPD-funded assets transferred by former redevelopment agencies to determine whether the field offices monitored grantees' CPD-funded assets transferred by former redevelopment agencies to successor entities to minimize HUD's risk.

The San Francisco and Los Angeles CPD field offices did not (1) monitor grantees' CPD-funded assets transferred by former redevelopment agencies to successor entities to minimize HUD's risk and (2) did not record and maintain accurate and complete lists of grantees' CPD-funded assets or track CPD-funded assets managed by the grantees' former redevelopment agencies during the State's mandated shutdown of the agencies. Therefore, there was no assurance that CPD had a complete and accurate account of CPD-funded assets. As a result, more than \$99 million in CPD funds used to acquire assets by the defunct redevelopment agencies is at risk of being transferred to entities that may not continue to meet HUD's CPD program objectives.

<sup>2</sup> The total CPD audits, questioned costs, and funds put to better use amounts include any disaster recovery (2 audits) type audits conducted in the CPD area. The writeups for these audits may be shown in chapter 5 of this semiannual report.

OIG recommended that HUD (1) develop policies and procedures that allow for more proactive monitoring of grantees' CPD funding and assets, (2) establish a formal listing of assets funded through CPD, and (3) require its grantees to provide adequate documentation supporting the grantees' enforceable rights to CPD-funded assets. (Audit Report: **2014-LA-0001**)

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## COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAMS

HUD OIG audited the City of **Norfolk, VA**'s CDBG program to determine whether the City justified its program activities by ensuring that they were properly supported by adequate documentation and met national objectives as required.

The City could not provide adequate documentation to justify nearly \$2.5 million of more than \$4 million it spent on 12 of 16 activities reviewed. In addition, 14 of the 16 activities were required to meet a national program objective; however, the City could not demonstrate that the activities met or would meet their designated objectives. Of the 14 activities, 10, associated with nearly \$4.1 million in program fund draws, were more than 10 years old. Further, the City was unable to provide documentation within a reasonable timeframe to support more than \$5 million it had drawn for 15 additional activities in the audit sample. As a result, many activities reviewed were extensively delayed, and the City could not demonstrate that a significant amount of the program funds it drew was used to meet designated program objectives, such as benefiting low- and moderate-income persons and eliminating slums or blight.

OIG recommended that HUD require the City to (1) provide documentation or evidence to justify unsupported program costs or repay the costs to its program from non-Federal funds, (2) provide a plan to complete extensively delayed program activities, (3) implement policies to improve its record keeping and ensure that program funds are fully supported by adequate documentation, and (4) implement effective planning policies to ensure that program activities are not subjected to long delays. (Audit Report: **2014-PH-1001**)

HUD OIG audited the **San Juan, PR**, Office of the Commissioner for Municipal Affairs' (OCMA) Puerto Rico State CDBG Section 108 Loan Guarantee program to determine whether OCMA used Section 108 loan proceeds on a project that met a national objective of the CDBG program and fully provided the intended benefits.

OCMA did not ensure that the Municipality of Vieques completed a Section 108 Loan Guarantee project to construct a sports complex. The project was abandoned and not completed, materials and equipment acquired for its construction were unaccounted for, and the intended benefit was not realized. As a result, program objectives were not met, preventing low- and moderate-income persons from receiving the intended benefits. HUD also lacked assurance of the allowability of more than \$10.8 million in State CDBG funds invested in the unfinished project. In addition, in 2006, more than \$37,000 was withdrawn from HUD to repay the Section 108 loan; however, the loan was paid in full in 2003. No evidence was found to support that the proceeds corresponded to a repayment.

OIG recommended that HUD require OCMA to (1) submit a plan for the sports complex project within 30 days without proposing the use of additional HUD funds to implement it, (2) support the eligibility of the State CDBG funds spent for the sports complex, (3) ensure that the Municipality maintains adequate documentation related to the sports complex project, (4) submit supporting documentation showing the eligibility and propriety of more than \$37,000 drawn from HUD, and (5) correct any inaccurate information in HUD's information system related to the sports complex. (Audit Memorandum: **2014-AT-1801**)



## HOME INVESTMENT PARTNERSHIPS PROGRAM

HUD OIG audited the Municipality of **Arecibo, PR**'s HOME program to determine (1) whether dwelling units acquired under its home-ownership program complied with HUD's housing standards and affordability requirements and (2) whether the Municipality disbursed HOME funds within HUD-established timeframes and reported accurate and supported information in HUD's Integrated Disbursement and Information System.

The Municipality did not ensure that home-buyer acquisition-only activities met housing standards and that the principal residency requirement was met for the duration of the period of affordability. In addition, it failed to return more than \$26,000 in unexpended drawdowns to HUD and did not support the eligibility of \$30,000 in program charges. As a result, HUD had no assurance that more than \$1 million disbursed was used solely for eligible purposes and that HOME-funded activities met program objectives and fully provided the intended benefits.

The Municipality failed to reprogram and put to better use more than \$3,900 in unexpended obligations associated with an activity that was terminated, did not report more than \$1,400 in program income, and overstated the commitment amount for two activities by \$919. It reported other inaccurate information concerning HOME-funded activities. As a result, HUD had no assurance that the Municipality met HOME program commitment and disbursement requirements.

OIG recommended that HUD require the Municipality to (1) support that it spent more than \$1 million on eligible activities, (2) remit the unexpended drawdowns, (3) reprogram and put to better use nearly \$5,000 in unexpended and overstated commitments, and (4) develop and implement an internal control plan to ensure that only supported and accurate information is reported to HUD. (Audit Report: **2014-AT-1001**)

## ECONOMIC DEVELOPMENT PROGRAMS

HUD OIG audited the City of **Detroit, MI**'s Neighborhood Stabilization Program-funded demolition activities under the Housing and Economic Recovery Act of 2008 to determine whether the City complied with Federal regulations in its (1) maintenance of accounting records for activities and (2) drawing down of Program funds for activities.

The City did not maintain records that adequately identified the source and application of funds provided for its activities. Further, it inappropriately drew down Program funds (1) when it had fire insurance funds and Program refunds available and (2) for duplicate demolition costs. As a result, nearly \$2.3 million in Program funds was not available for eligible Program costs. Further, the U.S. Treasury paid more than \$76,000 in unnecessary interest on Program funds that the City inappropriately drew down when it should have used available fire insurance funds.

OIG recommended that HUD ensure that the City spent nearly \$2.1 million in fire insurance funds and Program refunds for eligible Program costs. OIG also recommended that HUD require the City to (1) use nearly \$204,000 in fire insurance funds and duplicate Program drawdowns for eligible Program costs, (2) reimburse HUD from non-Federal funds for the unnecessary interest paid by the U.S. Treasury, (3) maintain adequate accounting records for activities, and (4) implement adequate procedures and controls to address the finding cited. (Audit Report: **2014-CH-1002**)

## INVESTIGATION

### PROGRAM RESULTS

Administrative-civil actions	12
Convictions-pleas-pretrial diversions	17
Financial recoveries	\$8,214,873

### FORMER NONPROFIT EMPLOYEE SENTENCED

A former nonprofit employee was sentenced in U.S. District Court to 32 months incarceration and 36 months probation and ordered to pay \$385,242 in restitution after an earlier guilty plea for theft of government funds. While working at a nonprofit organization, which receives supportive housing funds and homelessness prevention funds from HUD, the Federal Emergency Management Agency, and the Michigan State Housing Development Authority, the former employee converted Federal funds for her own personal use. This investigation was conducted by HUD OIG, the U.S. Department of Homeland Security OIG, and the Federal Bureau of Investigation (FBI). **(Detroit, MI)**

### THREE YEARS IN PRISON FOR FORMER NONPROFIT EXECUTIVE DIRECTOR

A former executive director of a now-defunct nonprofit organization in New York was sentenced in U.S. District Court to 3 years imprisonment and 2 years probation and ordered to pay restitution in the amount of \$642,680 to HUD and the New York State Department of Welfare after earlier guilty pleas to conspiracy, theft of Federal funds, and mail fraud. From 2007 through 2011, the executive director falsely certified to HUD that he was operating and managing transitional housing units in Brooklyn, NY. However, he used HUD's Supportive Housing Program funds for his personal use. This investigation was conducted by HUD OIG. **(Orlando, FL)**

### DEVELOPER SENTENCED IN KICKBACK SCHEME

A developer was sentenced in U.S. District Court to 24 months supervised release and ordered to pay \$98,333 in restitution to the New York City Department of Housing Preservation and Development following an earlier guilty plea to theft or bribery concerning federally funded programs. From approximately January 2006 through October 2011, the developer solicited and received kickback payments in return for the award of general contracting work on Department projects. This investigation was conducted by HUD OIG, the U.S. Department of Labor (DOL) OIG, the Internal Revenue Service-Criminal Investigation (IRS-CI), the FBI, and the New York City Department of Investigations. **(Brooklyn, NY)**

### DEVELOPER GETS 7 YEARS IN PRISON FOR \$21 MILLION SCHEME

A developer was sentenced in U.S. District Court to 87 months imprisonment and 24 months probation and was ordered to pay restitution totaling almost \$21 million to multiple victims, including more than \$6 million in HUD CDBG-Section 108 guaranteed loans from the City of Harrisburg, PA, and Dauphin County, PA, after pleading guilty to diverting Federal funds. From 2005 through 2009, the developer raised funds from multiple sources for the construction of the Capital View Commerce Center in Harrisburg. The developer then diverted millions of dollars of those loan funds into investment accounts he controlled and a company he secretly owned, which was purportedly working on the contract. At the time of the scheme, the City of Harrisburg was experiencing financial difficulties. The project was heralded as an opportunity for economic growth for the local economy. This investigation was conducted by HUD OIG, IRS-CI, and the FBI. **(Harrisburg, PA)**

### FORMER COLUMBUS URBAN LEAGUE DIRECTOR INCARCERATED

A former director of an education services corporation was sentenced in U.S. District Court to 42 months incarceration and ordered to pay restitution in the amount of \$85,181 to the corporation and its insurance company following earlier guilty pleas to bank fraud and identity theft. From 2004 to 2010, the director prepared and submitted false invoices for payment to the corporation, which received HUD CDBG funds and American Recovery and Reinvestment Act funds for community outreach and education programs. The staff then prepared checks to pay the invoices, and the checks were deposited by the director into bank accounts under his control. This investigation was conducted by HUD OIG, DOL OIG, and the Columbus Police Department. **(Columbus, OH)**

## FIVE

## DISASTER RECOVERY PROGRAMS

*As a result of the high number of disasters, Congress has regularly provided supplemental appropriations through the U.S. Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) program to help communities recover from natural and man-made disasters. HUD has used the CDBG program because it is a flexible program, which allows CDBG Disaster Recovery (CDBG-DR) grants to address a wide range of challenges. Over the past several years, disaster funding for HUD has exceeded \$36 billion. These active disaster grants nationwide have approximately \$31 billion in obligations and \$25 billion in disbursements. A breakdown is provided as follows:*

- *Of the total \$16 billion (\$15.18 billion after sequester) that was provided for Superstorm Sandy, \$10.4 billion has been allocated for the recovery area, and approximately \$1.7 billion has been obligated with \$1.2 billion disbursed to date.*
- *Of the \$19.6 billion that was provided for Hurricanes Katrina, Rita, and Wilma, \$18.1 billion, or 92 percent of the funds, has been disbursed for the period ending March 31, 2014.*
- *Of the \$6.1 billion that was provided for Hurricanes Ike, Gustav, and Dolly, \$3.1 billion, or 52 percent of the funds, has been disbursed for the period ending March 31, 2014.*
- *Of the \$3.4 billion provided for the "9-11" disaster in New York, \$3.0 billion, or 87 percent, has been disbursed for the period ending March 31, 2014.*
- *Of the \$780 million remaining for all other active disasters, \$304 million, or 39 percent of the funds, has been disbursed for the period ending March 31, 2014.*

*In the wake of Superstorm Sandy, the HUD Office of Inspector General (OIG) received \$10 million from the Sandy Emergency Supplemental appropriation for necessary costs of overseeing and auditing the disaster funds made available. Superstorm Sandy was the deadliest and most destructive hurricane of the 2012 Atlantic hurricane season, as well as the second costliest hurricane in United States history. As a result, Superstorm Sandy was blamed for at least 181 deaths in the United States – including 68 in New York and 71 in New Jersey – and property damages estimated at \$65 billion.*

**STRATEGIC INITIATIVE 3: CONTRIBUTE TO THE STRENGTHENING OF COMMUNITIES****AUDIT**

Key program results		Questioned costs	Funds put to better use
Audit	2 audits <sup>3</sup>	\$2,165,915	\$0

HUD OIG audited the **State of Mississippi's** CDBG-DR program to determine whether the State ensured that (1) appraisers complied with the terms of appraisal agreements and Federal requirements and (2) projects and growth projections were reasonable and adequately supported.

The State did not ensure that its subrecipient, Harrison County Utility Authority, and its appraisers complied with the terms of appraisal agreements for the appraisal of property acquired under the State's Gulf Coast Regional Infrastructure Program. The State could not support more than \$7,000 paid for appraisals that did not meet standards and lacked assurance that land purchased for more than \$2.1 million was appraised at a reasonable price. Further, the State did not fully implement adequate controls and procedures to ensure (1) that the need for and capacity of water and wastewater treatment facilities constructed addressed needs created by Hurricane Katrina or supported economic development and (2) the proper designation and completion of emergency activities. As a result, disaster funding of more than \$653 million was approved to construct 67 facilities that may include some plants, the capacity of which was either too small or excessive, and other plants that may not have been needed. In addition, more than \$9.6 million in disaster funds was approved for a facility based on an emergency requirement when the facility did not meet the definition of an emergency requirement.

OIG recommended that HUD require the State to support the unsupported appraisal fees and property acquisition costs and fully implement procedures and controls to address the findings cited. (Audit Report: **2014-AT-1004**)

HUD OIG audited the City of **Joplin, MO's** CDBG-DR program to determine whether the City complied with CDBG-DR regulations.

The City complied with CDBG-DR regulations. It generally performed contracting activities, obligated and expended its disaster funds, and conducted other initial program actions in accordance with applicable regulations. This was a limited audit since the City had procured only two CDBG-DR-related items, obligated only \$50,000, and expended more than \$20,000 of its \$45.2 million in CDBG-DR funds at the time of the audit. OIG audited 100 percent of the City's obligations and 49 percent of its expenditures.

OIG made no formal recommendations, and no further action is necessary. (Audit Report: **2014-KC-1002**)

<sup>3</sup> The disaster recovery program reviews are community planning and development audits.

## SIX

OTHER SIGNIFICANT AUDITS,  
INVESTIGATIONS, AND EVALUATIONS

## AUDIT

**STRATEGIC INITIATIVE 4:** CONTRIBUTE TO IMPROVING HUD'S EXECUTION OF AND ACCOUNTABILITY FOR FISCAL RESPONSIBILITIES AS A RELEVANT AND PROBLEM-SOLVING ADVISOR TO THE DEPARTMENT

Key program results		Questioned costs	Funds put to better use
Audit	16 Audits	\$148,000	\$1,002,866,852

The U.S. Department of Housing and Urban Development, Office of Inspector General's (HUD OIG) more significant audits are discussed below.

**AUDIT OF HUD'S FISCAL YEAR 2013 AND 2012 FINANCIAL STATEMENTS**

HUD OIG is required to annually audit the consolidated financial statements of HUD in accordance with the Chief Financial Officers Act of 1990 as amended. This report supplements OIG's report on the results of its audit of HUD's principal financial statements for the fiscal years ending September 30, 2013 and 2012 (restated). Also provided are assessments of HUD's internal controls and OIG's findings with respect to HUD's compliance with applicable laws, regulations, and governmentwide policy requirements and provisions of contracts and grant agreements.

In OIG's opinion, HUD's fiscal years 2013 and 2012 (restated) financial statements were fairly presented except for the (1) statement of budgetary resources lines impacted by the accounting for programs from the Office of Community Planning and Development (CPD) and Government National Mortgage Association (Ginnie Mae) and (2) accounting and presentation of balance sheet and statement of net cost lines affected by HUD's implementation of U.S. Treasury cash management requirements in the Office of Public and Indian Housing's Housing Choice Voucher program.

OIG's audit and the reports of the other auditors<sup>4</sup> disclosed a total of 4 material weaknesses, 11 significant deficiencies in internal controls, and 5 instances of noncompliance with applicable laws and regulations.

#### **Material Weaknesses**

- CPD's formula grant accounting did not comply with generally accepted accounting principles (GAAP), resulting in misstatements on the financial statements.
- The Office of Public and Indian Housing's Housing Choice Voucher program cash management process departed from GAAP and U.S. Treasury requirements.
- Financial management systems weaknesses continued to challenge HUD.
- There were weaknesses in HUD's consolidated financial statement preparation and reporting processes.

#### **Significant Deficiencies**

- HUD lacked GAAP-compliant policies for accruals.
- Weaknesses in the reporting of HUD's accounts receivable continued.
- Weaknesses in HUD's administrative control of funds system continued.
- HUD continued to report significant amounts of invalid obligations.
- HUD's financial management governance structure and internal controls over financial reporting were ineffective.
- Weaknesses in HUD's rental housing assistance program monitoring continued.
- Financial and program management controls over the Emergency Homeowners Loan Program were weak.
- HUD's computing environment controls had weaknesses.
- Federal Housing Administration (FHA) undelivered orders should be reviewed annually and deobligated promptly.
- FHA's new system reporting and reconciliation capabilities need improvement.
- Ginnie Mae's master servicer provided inaccurate accounting reports.

#### **Noncompliance**

- HUD did not substantially comply with the Federal Financial Management Improvement Act.
- HUD did not substantially comply with the Anti-Deficiency Act.
- HUD did not comply with the HOME Investment Partnerships Act.
- HUD did not comply with the Federal Information Security Management Act.
- FHA did not comply with the Cranston-Gonzalez National Affordable Housing Act of 1990.

OIG identified \$259 million in excess obligations and recommended that HUD recapture at least \$643.6 million in excess Section 8 funding held in public agencies' net restricted asset accounts. (Audit Report: **2014-FO-0003**)

<sup>4</sup> 2014-FO-0002, Audit Report of the Federal Housing Administration's Financial Statements, issued December 13, 2013, and 2014-FO-0001, Audit Report of the Government National Mortgage Association Financial Statements, issued December 6, 2013

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## AUDIT OF THE FEDERAL HOUSING ADMINISTRATION'S FINANCIAL STATEMENTS FOR FISCAL YEARS 2013 AND 2012

In accordance with the Government Corporation Control Act as amended (31 U.S.C. (United States Code) 9105), HUD OIG engaged CliftonLarsonAllen LLP to audit the fiscal years 2013 and 2012 FHA financial statements. The report contained two significant deficiencies in FHA's internal control and one reportable instance of noncompliance with laws and regulations. It contained 11 new recommendations.

The first of the two significant deficiencies related to a review of FHA's undelivered orders, which found (1) inactive obligations, (2) disbursements in excess of obligated amounts, and (3) deobligations of inactive contracts not recognized in the Single Family Asset Management System. While the FHA Comptroller's Office requests followed up on open obligations, OIG did not identify any FHA policies and procedures that would implement HUD's annual review of undelivered orders and obligations. If undelivered orders are not reviewed on a timely basis, unobligated balances carried forward could be misstated. In addition, inadequate controls could lead to Anti-Deficiency Act violations and disbursements without proper approval, and evidence of payments may lead to waste and abuse of resources.

The second significant deficiency related to data integrity issues as a result of FHA's transition to a new system (Home Equity Reverse Mortgage Information Technology (HERMIT)) for managing insured and assigned home equity conversion mortgage loans. There were discrepancies between the reports generated from the new system and reports from the general ledger and other source systems that could not be adequately explained during the reconciliation process. These differences raised concerns about the completeness and accuracy of the data in the HERMIT system and about the movement of data among other FHA systems and the general ledger. Further, they indicated a weakness in internal controls. Due to the unexplainable differences, OIG was unable to determine whether the discrepancies were caused by timing differences among files or reports, interface issues among systems, conversion problems with HERMIT data, or any combination of these causes. The reported law and regulation noncompliance was due to FHA's failure to comply with the Cranston-Gonzales National Affordable Housing Act of 1990 requirement that FHA's Mutual Mortgage Insurance (MMI) Fund maintain a minimum level of capital sufficient to withstand a moderate recession. This capital requirement, termed the "capital ratio," is defined as capital resources (assets minus current liabilities), less the liability for future claim costs (net of future premiums and recoveries), divided by the value of amortized insurance-in-force. The Act requires FHA to maintain a minimum capital ratio of 2 percent and conduct an annual independent actuarial study to, among other things, calculate this ratio. The Housing and Economic Recovery Act of 2008 requires that the HUD Secretary submit a report annually to Congress describing the results of the study, assess the financial status of the MMI Fund, recommend program adjustments, and evaluate the quality control procedures and accuracy of information used in the process of underwriting loans guaranteed by the MMI Fund. As of the date of the audit, this report for fiscal year 2013 had not been submitted to Congress, but preliminary FHA data indicated that this ratio remained below the required 2 percent throughout fiscal year 2013. (Audit Report: **2014-FO-0002**)

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## AUDIT OF THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION FISCAL YEARS 2013 AND 2012 FINANCIAL STATEMENTS

In accordance with the Government Corporation Control Act as amended (31 U.S.C. 9105), HUD OIG engaged the independent certified public accounting firm of CliftonLarsonAllen LLP to audit Ginnie Mae's fiscal years 2013 and 2012 financial statements. The report contains one significant deficiency in internal control over financial reporting.

Ginnie Mae's significant deficiency relates to contractor-prepared monthly loan-level accounting reports that contain inaccurate information. Ginnie Mae first noted, in fiscal year 2012, discrepancies within different elements of the accounting reports. It also noted that loans, which were being transferred to FHA as a claim, were still being reported to Ginnie Mae as open on the accounting reports. These reports were used by Ginnie Mae and are an integral part of its financial reporting process. The monthly accounting reports were inaccurate because the contractor did not have effective integrated systems to accumulate data necessary to generate monthly accounting reports accurately and reliably for Ginnie Mae. (Audit Report: **2014-FO-0001**)

## INVESTIGATION

### FORMER HUD EMPLOYEE IMPRISONED FOR STALKING AND THREATS

A former HUD employee was sentenced in Rancho Cucamonga Superior Court to 3 years for stalking, threats, and computer fraud. From 2010 through 2012, the former employee telephonically stalked at least nine individuals, four of whom were HUD employees, sending them threatening and obscene text messages. During that time, the former employee also used a thumb drive to access a HUD employee's computer to record her typing and gain access to her information. This investigation was conducted by HUD OIG and the Los Angeles District Attorney's Office. (**Rancho Cucamonga, CA**)

## EVALUATIONS

### INFORMATION TECHNOLOGY SECURITY PROGRAM

HUD's information technology (IT) systems contain sensitive information that is central to its mission and is used to administer its programs. OIG is required to annually evaluate HUD's information security program. During this semiannual period, OIG completed its fiscal year 2013 Federal Information Security Management Act (FISMA) evaluation and annual report to the Office of Management and Budget. OIG found that many areas in HUD's information security program did not comply with FISMA, and HUD had not established or implemented a risk-based program that allowed it to effectively manage its information and IT security risks. HUD lacked several foundational components that are essential for an effective Federal agency IT security program. Specifically, HUD



is required to report on 109 metrics, established by the U.S. Department of Homeland Security, which span 11 IT program areas. OIG determined that HUD had not satisfied 75 percent of those metrics and improvements were needed in all program areas. HUD's system inventory and system authorization boundaries were not fully documented, and all systems did not have a valid authority to operate. The governance structure for HUD's IT security program was underdeveloped and had experienced ongoing staff turnover in key leadership positions. HUD has a major management challenge ahead as it moves forward in establishing a compliant and effective program. During fiscal year 2013, OIG made 62 recommendations for improving HUD's information security program.



## INVESTIGATION OF HUD LOBBYING ACTIVITIES

On February 26, 2014, Inspector General Montoya testified before the U.S. House of Representatives, Committee on Financial Services, Subcommittee on Oversight and Investigations. The hearing was entitled “Inspector General Report: Allegations of Improper Lobbying and Obstruction at the Department of Housing and Urban Development.”

The hearing was a result of a request from the subcommittee regarding an email communication sent by former HUD Deputy Secretary Maurice Jones on July 31, 2013. The email called on recipients to contact specific U.S. senators and encourage them to vote in favor of procedural motions to advance consideration of legislation making appropriations for fiscal year 2014 for the U.S. Department of Transportation, HUD, and related agencies. The email also urged recipients to oppose certain amendments and suggested that they encourage named senators to support final passage of the bill.

The subcommittee’s correspondence suggested that the directness and specificity of the email appeared to violate well-established Federal restrictions on lobbying by Federal agencies and, based on the apparent violations of Federal law, requested that OIG thoroughly investigate the matter and advise the subcommittee. The following is an excerpt of Inspector General Montoya’s oral testimony:

Our subsequent investigation disclosed that the decision to send the July 31<sup>st</sup> email was based on having the HUD Secretary or Deputy Secretary engage in a more “aggressive lobbying effort” [sic] relative to legislation or an appropriation. The catalyst for this new posture was then General Deputy Assistant Secretary for Congressional and Intergovernmental Relations, Elliot Minberg. We determined this email was a grassroots lobbying campaign on a matter that was pending before Congress.

At the time the July 31<sup>st</sup> email was drafted and sent, HUD’s internal policies regarding lobbying were longstanding and designed to create not only the appearance of ethical behavior, but to include actual guidelines to ensure ethical behavior by all employees of the Department, including presidentially appointed, Senate-confirmed officials. In spite of clear departmental policies, which were rooted in statutory provisions, our investigation disclosed that the interest for HUD to be “more aggressive” in its lobbying activities overrode their adherence to their own longstanding policies.

While our investigation did not result in criminal or civil prosecution, it did discern an institutional failure to follow HUD’s existing internal policies. At a certain level, HUD’s actions leave the impression of impropriety and ethical lapses. The Department should have more fully scrutinized the decision to

send the email, as well as its content and its list of recipients. This inattention was particularly evident when one examines the types of organizations represented on the list of email recipients, which included 46 HUD employees. While our investigation determined that including 46 HUD employees was inadvertent on the part of the Deputy Secretary, the lack of due diligence by those preparing the email may have caused the Deputy Secretary to commit a prohibited personnel practice and to violate Federal law prohibiting an official from coercing a Federal employee's political activities.

Equally troubling was the fact that the email was sent to individuals at organizations that receive HUD funding. Such organizations are generally prohibited from using Federal funds to carry out certain lobbying activities. In fact, one of the recipients, a large public housing authority, had recently been found by my office to have violated Federal requirements by using Federal funds to carry out lobbying activities.

Of significant concern to me and one thing that I will not tolerate as Inspector General and a Federal law enforcement official was interference with our investigation. Specifically, Minberg not only interrupted and inserted himself into an ongoing witness interview, he threatened to terminate it, threatened not to allow the witness to provide documentation as requested by investigators, and contacted witnesses prior to our interview of them to, in my opinion, "create the story." Finally and most troubling, was his threat to have my investigators charged merely for doing their duty in an attempt, as I see it, to intimidate them into not proceeding further.

This series of events illustrates what may happen when senior government officials veer from the concept of ethical behavior and act in a manner that is ultimately not in the Department's best interest. There were breakdowns in communication and in responsibility, and the conduct of several individuals resulted in the Deputy Secretary being misled, embarrassed, and ill served. In particular, Minberg's obligation to exercise sound ethical judgment and avoid violating well-established HUD policy was mitigated by his eagerness in being "more aggressive" with regard to lobbying.

As of this semiannual reporting period, HUD had not reported any administrative action taken against any individual involved in this matter.

## SEVEN

LEGISLATION, REGULATION,  
AND OTHER DIRECTIVES

*Reviewing and making recommendations on legislation, regulations, and policy issues is a critical part of the Office of Inspector General's (OIG) responsibilities under the Inspector General Act. During this 6-month reporting period, OIG has committed approximately 373 hours to reviewing 84 issuances. The draft directives consisted of 34 notices, 15 mortgagee letters, and 35 other directives. OIG provided comments on 35 of the issuances (42 percent) and provided no nonconcurrences. A summary of selected reviews for this 6-month period is below.*

**NOTICES, POLICY ISSUANCES, AND FINAL RULES****SINGLE-FAMILY HOUSING**

**Underwriting standards** - The Federal Housing Administration (FHA) submitted a mortgagee letter for review regarding clarifying policy guidance for revised manual underwriting requirements published in the Final Federal Register Notice, FR 5595-N-01, on December 11, 2013. The mortgagee letter explains maximum qualifying ratios for manually underwritten loans and revises and clarifies the compensating factors that must be cited in order to exceed FHA's standard qualifying ratios for manually underwritten loans. It also explains the new reserve requirements for manually underwritten loans for one- and two-unit properties. OIG expressed continued concerns that a ratio of 40/50 is too high and no amount of compensating factors should be allowed for that risk level. Mortgagee letter 2014-2 was issued January 21, 2014, and is effective for case numbers assigned on or after April 21, 2014.

**Electronic signatures** - FHA submitted a mortgagee letter through the clearance process announcing the acceptance of electronic signatures conducted in accordance with outlined performance standards on documents requiring signatures included in the case binder for mortgage insurance, servicing and loss mitigation documents, FHA insurance claim documentation, and HUD's real estate-owned sales contract and related addenda unless otherwise prohibited by law. Some of the performance standards outlined include that (1) a lender's electronic signature technology must comply with all requirements of the Electronic Signatures in Global and National Commerce Act; (2) a lender must be able to prove that the signer certified that the document is true, accurate, and correct at the time signed; (3) an authentication process is in place to confirm an individual's identity as a party to the transaction; and (4) a process is in place to associate the identity of an individual with his or her signature. Lenders must require a separate action by the signer, evidencing intent to sign, in each location where a signature or initials are to be applied. However, this provision does not apply to documents signed by lender employees or lender contractors provided the lender obtains the consent of the individual for the use of his or her electronic signature. OIG expressed concerns that this may lessen the chance that a review is performed before the lender employee or contractor signs each document. Mortgagee

Letter 2014-3 was issued on January 30, 2014, and its policies were effective immediately.

Qualified mortgage definition - OIG reviewed FHA's final rule on the definition of a qualified mortgage that is insured, guaranteed, or administered by HUD. The final rule became effective on January 10, 2014, and applies to mortgages with a case number assignment on or after that date. The Dodd-Frank Wall Street Reform and Consumer Protection Act required HUD to propose a qualified mortgage definition that is aligned with the "ability-to-repay" criteria set out in the Truth-in-Lending Act as well as HUD's historic mission to promote affordable mortgage financing options for underserved borrowers. HUD's rule is an extension of the existing qualified mortgage rule finalized by the Consumer Financial Protection Bureau in 2013. To meet HUD's definition, mortgage loans must (1) require periodic payments without risky features, (2) have terms not to exceed 30 years, (3) limit upfront points and fees to no more than 3 percent with adjustments to facilitate smaller loans (except for Title I, Title II, Manufactured Housing, Section 184, and Section 184A loans and others), and (4) be insured or guaranteed by FHA or HUD. The rule establishes two types of qualified mortgages that have different protective features for consumers and different legal consequences for lenders. HUD's qualified mortgage classifies a loan as either a rebuttable presumption or safe harbor qualified mortgage depending on the relation of the loan's annual percentage rate to the average prime rate offer, the rate for the average borrower receiving a conventional mortgage.

## COMMUNITY PLANNING AND DEVELOPMENT

Various waivers – OIG reviewed the Notice on Clarifying Guidance, Waivers, and Alternative Requirements for Grantees in Receipt of Community Development Block Grant Disaster Recovery Funds under the Disaster Relief Appropriations Act of 2013 on February 26, 2014. After OIG's review, HUD published a Federal Register notice on March 27, 2014, announcing additional guidance for Hurricane Sandy grantees. This notice granted a waiver to the City of New York to allow it to measure the benefit to low- and moderate-income households in multiunit residential projects by using either the existing Community Development Block Grant (CDBG) requirements or the unit approach. For projects using CDBG Disaster Recovery (CDBG-DR) funds for rehabilitation, reconstruction, or new construction, current requirements state that the low- and moderate-income national objective will not be met unless at least 51 percent of the units are occupied by residents who are income eligible. To further support mixed-income housing in large-scale developments as seen in New York City, the unit approach may be more compatible. The unit approach allows the city to meet the low- and moderate-income national objective on a project when it provides CDBG-DR assistance equal to the cost of the units occupied by low- and moderate-income households.

The notice also granted a waiver to the City of Minot, ND, reducing the required overall benefit provided to low- and moderate-income households from 50 to not less than 23 percent. HUD deemed the waiver necessary for flood buyout and street repair programs in the flood inundation area with a low- and moderate-income population of 45.2 percent. In particular, HUD notes that the City has already prioritized the needs of low- and moderate-income populations with its first allocation; the low- and moderate-income population in the flood inundation area is close enough to 50 percent that it nearly qualifies under the overall benefit waiver in the March 5, 2013, notice; and given that the flood inundation area is likely to flood again, the City has identified getting people out of harm's way as a top priority and this waiver will allow low- and moderate-income families to take advantage of Minot's program for this purpose.

In addition, the State of New York and the City of Joplin, MO, were granted waivers allowing the restriction on payments of rental assistance and utilities to be increased from 3 months to 2 years on behalf of homeless and at-risk households when the payments are part of a homelessness prevention or rapid rehousing program or activity. The waiver allows the requestors to minimize the time households are homeless by providing rehousing and rental assistance.

## OFFICE OF MULTIFAMILY HOUSING

Limited denial of participation - HUD Notice H 2014-5 was issued in March 2014 to establish internal requirements and procedures to initiate proceedings against FHA-insured multifamily borrowers who have failed to meet program requirements. The limited denial of participation process ensures that borrowers that have caused a claim to be made against the insurance fund are prevented from initiating new business with FHA for at least a year. A list of the principles associated with the borrowers is publicly available. With this Notice, HUD intends to increase the use of limited denial of participation actions, thereby reducing the risk of future claims against the fund.

Standard templates - In February 2014, HUD issued Notice H 2014-02 and related Mortgagee Letter 2014-05. These updated standard templates are for the multifamily FHA application submission process. These updates will allow HUD to better expedite the application review process while reducing its risk during the underwriting analysis of the application. Missing or inconsistent data in the nonstandardized former underwriter's narrative often lacked pertinent facts about the proposed multifamily housing project. These inconsistencies or oversights caused inefficiencies. In addition, new underwriting requirements were included in the updates.

## EIGHT AUDIT RESOLUTION

*In the audit resolution process, Office of Inspector General (OIG) and U.S. Department of Housing and Urban Development (HUD) management agree upon needed actions and timeframes for resolving audit recommendations. Through this process, OIG strives to achieve measurable improvements in HUD programs and operations. The overall responsibility for ensuring that the agreed-upon changes are implemented rests with HUD managers. This chapter describes significant management decisions with which OIG disagrees. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996 (FFMIA). In addition to this chapter on audit resolution, see appendix 3, table B, "Significant Audit Reports for Which Final Action Had Not Been Completed Within 12 Months After the Date of the Inspector General's Report."*

### **Audit Reports Issued Before Start of Period With No Management Decision as of March 31, 2014**

#### **HUD LACKED ADEQUATE CONTROLS TO ENSURE THE TIMELY COMMITMENT AND EXPENDITURE OF HOME FUNDS, ISSUE DATE: SEPTEMBER 28, 2009**

HUD OIG audited HUD's HOME Investment Partnerships Program (HOME). The OIG report included a recommendation that the HUD Office of Community Planning and Development (CPD) establish and implement controls to ensure that field offices require participating jurisdictions to close out future HOME activities within a timeframe that will permit reallocation and use of the funds for eligible activities in time to avoid losing them to recapture by the United States Treasury under provisions of Public Law 101-510.

Since the report's issuance, management has issued three proposals on how to address recommendation 1D, with the latest proposal being presented on August 27, 2012. OIG rejected all three management decisions proposed by CPD to address the recommendation because they did not provide for the establishment and implementation of all of the controls that are needed to address the recommendation.

A portion of the recommendations dealt with the first-in, first-out (FIFO) issue, on which OIG submitted a request to the U.S. Government Accountability Office (GAO) for an opinion. OIG received a response to that request on July 17, 2013. While both HUD and OIG agreed to wait on the final request from GAO before responding to the issues noted during the audit for recommendations 3A, 3B, and 3C, no agreement was made in relation to recommendation 1D, which also addressed FIFO issues. This issue was referred to the Acting Assistant Secretary on March 28, 2014, and the decision was pending as of March 31, 2014. (Audit Report: **2009-AT-0001**)

## HUD'S PROPOSED HOME REGULATIONS GENERALLY ADDRESSED SYSTEMIC DEFICIENCIES, BUT FIELD OFFICE MONITORING AND DATA VERIFICATION NEED IMPROVEMENT, ISSUE DATE: FEBRUARY 12, 2013

As OIG reported to Congress, OIG has longstanding concerns regarding administration of the HOME program, and additional oversight is necessary to ensure that grantees comply with HOME program requirements. Congress has also mandated that HUD increase controls over the HOME program and implement OIG's recommendations to improve controls.<sup>5</sup> To help HUD comply with that mandate, OIG completed this audit and determined that if properly implemented, HUD's proposed regulatory changes and controls should adequately address the systemic deficiencies identified in prior HUD OIG audit reports with the exception of (1) the program office's oversight of grantee monitoring and (2) validating the reliability of HOME data. OIG made its recommendations because clarifying the regulations and imposing new requirements on grantees to monitor themselves is only the first step in implementing adequate management controls. However, HUD continues to be nonresponsive to OIG's findings and recommendations.

OIG's objective was to determine whether HUD's proposed regulation<sup>6</sup> changes and controls would mitigate the systemic deficiencies identified in prior OIG audit reports.<sup>7</sup> During OIG's review, it summarized the results of 77 OIG-issued audit reports on HUD's HOME program and identified 10 systemic HOME deficiency areas. OIG determined that if properly implemented, HUD's proposed changes to HOME regulations and controls should mitigate the systemic deficiencies identified in prior HUD OIG audit reports with the exception of (1) the program office's oversight of grantee monitoring and (2) validating the reliability of HOME data.

CPD program officials' oversight of field office monitoring and grantee compliance required improvement because the quality management review process they relied on failed to identify systemic monitoring flaws and officials did not use onsite monitoring data to assess monitoring efforts. As a result, officials could not ensure that monitoring was complete and effective and may have missed opportunities to identify systemic issues requiring corrective action, such as seldom- or never-monitored and longstanding noncompliant grantees.

Although CPD officials had improved controls over HOME data in the Integrated Disbursement and Information System (IDIS), they lacked a complete process for validating the data. They focused their efforts on training, moving the database to a Web-based system, and implementing system controls to improve grantee compliance and data reliability. However, the HOME data were not fully validated, and the reliability of the data as a whole was unknown. With hundreds of grantees and thousands of subgrantees, reliable data are critical in overseeing the program, identifying high-risk grantees to monitor, and responding to public and congressional requests regarding the program.

The OIG report included recommendations that the Acting Assistant Secretary for Community Planning and Development (1) develop and implement procedures to oversee and assess the effectiveness of field offices' monitoring efforts and (2) develop and implement a quality control system to validate the accuracy and reliability of HOME data in IDIS.

HUD CPD did not accept OIG's findings or recommendations that CPD develop and implement procedures to assess the effectiveness and completeness of monitoring efforts (finding 1) and on June 24, 2013, provided management decisions that stated, "No action will be taken." HUD CPD provided management decisions for finding 2 on June 20, 2013, that stated, "No action will be taken," although HUD did agree to add a specific, mandatory question to the HOME Monitoring Exhibits for Homeowner Rehabilitation Projects,

<sup>5</sup> The Consolidated and Further Continuing Appropriations Act of 2012 specifically required the Secretary to (1) take actions necessary to improve data quality, data management, and grantee oversight and accountability for programs administered by CPD and (2) address the problems identified by the Inspector General audit reports since 2006, including ongoing audits.

<sup>6</sup> The final rule was issued July 24, 2013.

<sup>7</sup> The audit scope generally covered the period between January 2006 and January 2012.



Homebuyer Projects, and Rental Projects as part of its management decision for recommendation 2B.

OIG rejected HUD CPD's proposed management decisions on September 6, 2013, because OIG believes that its findings are substantiated and that a "No action will be taken" stance is not acceptable. Congress has tasked OIG and HUD to increase controls over the HOME program. Program officials could not show that monitoring efforts were effective and complete. As a result, the fraud risk for grantees that were seldom or never monitored was not known and may not have been mitigated; systemic deficiencies may not have been tested, identified, and mitigated; findings may not have been resolved in a timely manner; continually noncompliant grantees may not have been identified; and appropriate corrective action may not have been taken to preserve the integrity of the program and conserve HUD resources.

At a minimum, CPD officials' oversight should provide reasonable assurance that known instances of noncompliance are addressed and corrected. Finding 1 was based in part on the fact that CPD officials did not know that the 591 HOME compliance and performance findings reported to Congress had been resolved. OIG reported finding 2 because HUD uses IDIS to monitor compliance and prior OIG audit reports showed that IDIS data were not reliable. Further, during OIG's review, CPD officials did not have auditable and verifiable procedures to show that HOME IDIS data were verified and reliable.

Consequently, program officials' oversight of field office monitoring efforts was insufficient. OIG attributed this condition to reliance on ineffective quality management reviews and the lack of procedures to evaluate monitoring results in the Grants Management Program database.

OIG and HUD CPD continue to disagree over OIG's findings and recommendations. The issues were referred first on December 11, 2013, to the Acting Assistant Secretary for Community Planning and Development, who did not respond, and then on March 28, 2014, to the Acting Deputy Secretary. (Audit Report: **2013-BO-0001**)

#### FOLLOW-UP OF THE INSPECTIONS AND EVALUATIONS DIVISION ON ITS INSPECTION OF THE STATE OF LOUISIANA'S ROAD HOME ELEVATION INCENTIVE PROGRAM HOMEOWNER COMPLIANCE (IED-09-002, MARCH 2010), ISSUE DATE: MARCH 29, 2013

HUD OIG conducted a follow-up review regarding its recommendations made to HUD pertaining to its inspection of the State of Louisiana's Road Home Elevation Incentive program, IED-09-002, issued in March 2010. The objective of the review was to determine whether the State of Louisiana had implemented the four recommendations in OIG's March 2010 report.

OIG agreed to close three of the four recommendations cited in its March 2010 report. For the remaining recommendation regarding the recovery of \$3.8 million awarded to 158 noncompliant homeowners, documentation showed that the State had recovered nearly \$201,000 of the awarded funds. As of August 31, 2012, the State's documentation showed that a total of 24,042 homeowners either were noncompliant, including those who had not elevated their homes; were nonresponsive; or did not provide sufficient supporting documentation. Therefore, the State did not have conclusive evidence that the \$698.5 million in Community Development Block Grant Disaster Recovery (CDBG-DR) program funds had been used to elevate homes. As a result, this recommendation remains open and has been revised based on OIG's follow-up review due to the increased noncompliance among homeowners who received elevation grants.

OIG recommended that HUD CPD require the State to enforce program remedies for noncompliance as stated in grant agreements, starting with the recovery of \$437.3 million in elevation grant funds from the 15,027 homeowners who did not elevate their homes within 3 years of the grant agreement date and the State had not collected any of the funds (recommendation 1A); determine whether the 8,462 homeowners who did not respond to its monitoring survey used the \$245 million in elevation grant funds to elevate their homes or recover these funds from the noncompliant homeowners (recommendation 1B); obtain documentation to validate whether the

553 homeowners who received \$16 million in grant funds elevated their homes or recover these funds from the noncompliant homeowners (recommendation 1C); enforce its grant review and recovery procedures to ensure that homeowners comply with the terms of their elevation grant agreements (recommendation 1D); and reimburse the uncollectible elevation grant funds from non-Federal funds (recommendation 1E).

On June 5, 2013, OIG received a letter from the State of Louisiana's Senate. The letter included Senate Resolution No. 53, which directed the State Office of Community Development to comply with OIG's recommendations.

On July 26, 2013, OIG obtained HUD's CPD management decisions for all five recommendations. HUD's Deputy Assistant Secretary for Grant Programs agreed with OIG recommendations 1A-D, stating that "CPD will continue to ensure program remedies are enforced." Additionally, CPD provided the following recommended proposed actions:

- a) The State will work with HUD on proposed action plan amendments targeted to individuals who have not complied with elevation requirements but who have completed the required rehabilitation of their home.
- b) Within two weeks of the action plan amendment approval/disapproval, the State will launch its final compliance notifications, requiring homeowners to demonstrate compliance within 120 days. Homeowners that fail to meet the compliance deadline will be turned over to the State's Attorney General's Office for collections.
- c) The State will implement a comprehensive grant collections policy inclusive of additional remedies for homeowners unable to repay their full grant amount within the prescribed timelines. The policy offers these homeowners the option to repay the entire amount due, repay with a 10-year promissory note, submit an alternative payment request based on income and relevant circumstances, or identify a settlement amount depending on the homeowner's income (the State is in the process of establishing details for this approach).
- d) Within one year of the date of this management decision, the State must identify all noncompliant households and, excluding those homeowners with Hazard Mitigation Grant Program (HMGP) applications, must reimburse its line of credit from non-Federal funds for the amount associated with non-compliant households.

Regarding recommendation 1E, CPD disagreed but proposed the following recommended action:

- e) CPD will continue to ensure program remedies are enforced. Once the State has exhausted all efforts to recapture elevation grant funds from non-compliant actions homeowners and contractors, the State will have satisfied its due diligence in executing its recapture and recovery procedures. The State will undertake the actions identified in Finding Recommendation 1A to obtain repayment, as applicable, from non-compliant actions.

On the same day (July 26, 2013) OIG received the proposed management decision, CPD's Deputy Assistant Secretary for Special Needs Program responded to the State of Louisiana, concurring with the State's action plan amendments 58, 59, and 60 for CDBG-DR supplemental funding. Specifically, the State's amendment 60 allowed homeowners who received a grant under the Road Home Incentive Elevation Program to demonstrate that they used those funds to either elevate or rehabilitate their home.

OIG disagrees with all five proposed management decisions because it has concerns with CPD's approval of the State's amendment 60.

- OIG takes exception to amendment 60 because the elevation incentive agreement indicated that the funds were intended to assist the homeowners only to elevate their homes. If the funds were not used for that purpose, the funds must be repaid to the State.
- OIG believes CPD's changing the scope of work for the expired elevation incentive agreements, entered into as early as 2006, to now allow homeowners to rehabilitate their homes overrides the intent of the program and is unfair to the homeowners who either elevated their homes or paid back the funds.
- CPD's approval of amendment 60 leaves those homeowners potentially exposed to home destruction again since those homes were not elevated. More importantly, this is more than an issue of homeowners repaying funds. These homes remain vulnerable to future storms, and scarce resources were used for an alternative purpose.
- Finally, OIG is concerned with CPD's completion of the management decision process. On July 26, 2013, OIG received HUD's proposed management decision. The management decision indicated that HUD would work with the State on proposed action plan amendments, giving the impression that it was still working with the State to reach an agreement on what actions should be taken. However, CPD concurred with the amendments on the same day it provided a proposed management decision to OIG. This action demonstrates a lack of good faith between the two organizations. Thus, OIG was left with no choice but to nonconcur on the proposed management decision.

OIG acknowledges CPD's and the State's efforts. However, OIG cannot overlook the expired 3-year compliance period and that the Road Home Elevation Incentive homeowners had not elevated the homes, were nonresponsive, or did not provide sufficient documentation. Therefore, the State did not have conclusive evidence that the \$698.5 million in CDBG-DR funds had been used to elevate homes.

OIG reported in its April 1, 2013, through September 30, 2013, Semiannual Report to Congress that it disagreed with all five of CPD's management decisions because of its concerns with CPD's approval of the State's amendment 60. OIG also previously reported that it had referred the issue to CPD's Acting Assistant Secretary on September 17, 2013. On March 31, 2014, OIG referred the recommendations to HUD's Acting Deputy Secretary because no management decisions had been reached to correct the deficiencies OIG identified. The Acting Deputy Secretary's decision was pending as of March 31, 2014. (Audit Memorandum: **2013-IE-0803**)

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## HUD'S OVERSIGHT OF THE WAGE RESTITUTION AND DEPOSIT ACCOUNT NEEDS IMPROVEMENT, ISSUE DATE: APRIL 16, 2013

HUD OIG audited the Office of Labor Relations deposit account to determine whether (1) controls used to administer and distribute restitution payments were adequate and (2) the correct workers received the restitution payments.

Labor Relations violated the Miscellaneous Receipts Act when it retained liquidated damages, which should have been transferred to the U.S. Treasury. It also indefinitely retained in its deposit account funds categorized as unclaimed funds, unfound depositors, and unfound workers. As a result, more than \$1.3 million in funds was withheld from use by various programs within the Federal Government.

Labor Relations mismanaged project deposit funds; specifically, it did not conduct a recurring reconciliation of the deposit account. It also expended \$20,000 to cover the project payments, which was more than the actual balance for the project deposit. As a result, its deposit account balance did not reconcile with the balance maintained by the Office of the Chief Financial Officer and the U.S. Treasury.

Labor Relations did not (1) pay the Internal Revenue Service (IRS) 2010 taxes withheld from the employee's wage restitution in a timely manner and (2) properly address the employer's share of the taxes. As a result, it delayed paying the IRS more than \$200,000 for the 2010 employee's share of the taxes and could owe the IRS an additional \$40,000 for the employer's share of the taxes.

Labor Relations determined that some workers were deceased or incarcerated, but it paid wage restitution to individuals other than these workers. As a result, it paid nearly \$12,000 to individuals who were not actual workers.

Among other things, OIG recommended that HUD work with the Office of the Chief Information Officer to improve the deposit module's reporting capabilities so that Labor Relations staff is able to report and analyze the deposit account transactions and taxes or replace the system.

On July 31, 2013, OIG obtained HUD's Office of Labor Relations management decisions. HUD's Director of the Office of Departmental Operations and Coordination (ODOC) agrees with OIG's recommendation to improve the deposit module's reporting capabilities. However, Labor Relations stated that the Office of the Chief Information Officer will not provide additional funding to improve the deposit module or replace the system. Specifically, Labor Relations stated, "The Office of the Chief Information Officer (OCIO) has not provided development funds to the LR2000 system in seven (7) years. For the remainder of FY [fiscal year] 2013, the current contract has in fact been de-scoped for maintenance only. However, ODOC has agreed to become part of a new Department-wide Enforcement system that will cover the work for OLR [Office of Labor Relations], the Office of Healthy Homes and Lead Hazard Control, the Office of Fair Housing and Equal Opportunity, and the Office of General Counsel. The new system is to be called HEMS [HUD Enforcement Systems]."

In response to OIG's disagreement referral, issued on September 27, 2013, ODOC's Director stated that "over the past three years that they have endeavored to enhance the LR2000 automated system's functionality and make it compliant with Department's standards." She also acknowledged that the referral accurately reflected the Office of Labor Relations' progress to date and inability to obtain working capital funds to develop a new system or modernize the existing system. She further agreed that the matter should be referred to the Deputy Secretary for a management decision.

OIG disagreed with ODOC's management decision because OIG had not been provided documentation that HEMS will have the capabilities necessary to support all of Labor Relations' activities and functions. OIG is specifically concerned that the implementation of the planned departmentwide enforcement system may not fulfill the needs of Labor Relations as a replacement for LR2000. The five other systems that are being consolidated are all systems that track, monitor, and support departmental investigations to find efficiencies and cost savings. While LR2000 allows Labor Relations to track the deposits made, the system also requires the functionality to generate vouchers for payments to underpaid workers and 941 payments to the IRS, generate IRS Forms W-2 for the workers who receive restitution payments, and interface with electronic payroll review systems as well as Office of the Chief Financial Officer systems. The system should also be configured to allow for reconciliation of the overall deposit account balance as well as reconciliations of individual project balances. LR2000 is a markedly different system from the other departmental enforcement systems, and OIG is not sure that consolidating LR2000 into HEMS will provide Labor Relations with the necessary capabilities for its activities.

On September 27, 2013, OIG referred the recommendation to the Director of the Office of Departmental Operations and Coordination because OIG could not resolve this recommendation. On November 19, 2013, OIG referred the recommendation to HUD's Acting Deputy Secretary because disagreement remains on the actions necessary to correct the deficiencies OIG identified. The Acting Deputy Secretary's decision was pending as of March 31, 2014. (Audit Report: **2013-HA-0001**)

## THE CITY OF WEST PALM BEACH DID NOT ALWAYS PROPERLY ADMINISTER ITS HOME PROGRAM, ISSUE DATE: SEPTEMBER 30, 2013

HUD OIG audited the City of West Palm Beach's HOME program to determine whether the City administered its program in accordance with applicable HUD requirements.

The City did not always administer its HOME program in accordance with applicable HUD requirements. Specifically, it did not properly commit HOME funds or accurately report activity information in IDIS. These conditions occurred because the City did not enforce HUD's 24-month commitment deadline requirement and did not have effective procedures to ensure that it reported current and accurate information in IDIS. This deficiency resulted in nearly \$560,000 in HOME funds not being properly committed because activities were committed after the 24-month deadline, and two activities totaling \$1 million were canceled, but the funds were not made available for other eligible HOME activities.

In addition, the City did not ensure that it charged adequately supported and eligible expenditures to the program. These expenditures were related to project delivery and operating costs. This condition occurred because City staff did not exercise due care in reviewing and supporting the City's expenditures. As a result, the City charged the HOME program more than \$1.2 million in unsupported costs and nearly \$230,000 in ineligible costs.

Among other things, OIG recommended that HUD require the City to (1) recapture nearly \$560,000 in HOME funds that it did not commit by the 24-month statutory deadline (recommendation 1A), (2) recapture more than \$157,000 in remaining HOME funds for activities not committed by the 24-month statutory deadline (recommendation 1B), and (3) reprogram more than \$28,000 in remaining funds and deobligate nearly \$43,000 for funds not expended by the 5-year deadline (recommendation 2C).

HUD disagrees with OIG on recommendations 1A, 1B, and a portion of 2C related to the expenditure deadline. Regarding recommendations 1A and 1B, HUD states that the method used to determine compliance with the statutory HOME 24-month commitment requirement is detailed at 24 CFR (Code of Federal Regulations) 92.500(d)(2). Further explanation of this method is found in HUD Notice CPD 07-06, Commitment, CHDO [community housing development organization] Reservation, and Expenditure Deadline Requirements for the HOME Program (June 1, 2007). While HUD understands that its method of determining compliance was recently found by GAO to be noncompliant with the statutory language found in section 218(g) of Title II of the Cranston-Gonzalez National Affordable Housing Act, as amended, HUD is making regulatory and systematic changes that will allow HOME participating jurisdictions to fully comply with the HOME statutory commitment requirement in the future. At the time the participating jurisdiction committed funds to the activities identified by OIG in finding 1, it was found to be in compliance with the HOME regulation at 24 CFR 92.500(d)(2). HUD cannot hold HOME participating jurisdictions accountable for requirements that are not set forth in regulation or guidance, especially when the participating jurisdiction was determined by HUD to be in compliance with the current regulation and guidance.

Regarding recommendation 2C, HUD agrees that the City must reprogram more than \$28,000 in remaining funds for completed activity 699. However, HUD does not agree that nearly \$43,000 in unexpended funds should be deobligated based on the rationale provided for recommendations 1A and 1B.

OIG rejected HUD CPD's proposed management decisions on March 12, 2014. At this time, HUD has not provided proposed corrective action on HUD OIG Audit Report 2014-FO-0003, recommendations 1A, 1B, 1C, 15A, 15B, and 15C that address how HUD's cumulative method for determining compliance and the FIFO method of accounting for grants violated statutory and generally accepted accounting principles. Any corrective action provided needs to take into account the FIFO effect on past grants and its impact on the funding of the grantees. Thus, OIG cannot accept any management decision that does not take into account the corrective action HUD plans to take to address GAO's<sup>8</sup> and the Office of Management and Budget's (OMB) decision. These issues were referred to the General Deputy Assistant Secretary on March 31, 2014. (Audit Report: **2013-AT-1008**)

<sup>8</sup> GAO issued a legal opinion on HUD HOME program grants – Statutory Commitment Deadline. Opinion number B-322077, issued July 17, 2013.

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## Significantly Revised Management Decisions

Section 5(a)(11) of the Inspector General Act, as amended, requires that OIG report information concerning the reasons for any significantly revised management decisions made during the reporting period. During the current reporting period, there were significantly revised management decisions on five audits.

### BAYTOWN HOUSING AUTHORITY, BAYTOWN, TX, IMPROPERLY ADVANCED, TRANSFERRED, AND ENCUMBERED ITS PUBLIC HOUSING FUNDS, ISSUE DATE: DECEMBER 13, 2005

OIG issued an audit report entitled “Baytown Housing Authority, Baytown, TX, Improperly Advanced, Transferred, and Encumbered Its Public Housing Funds.” For recommendation 1C, the Houston Office of Public Housing agreed with the recommendation that the Authority should repay its public housing program \$200,000 for a certificate of deposit used to encumber HUD funds and repay its low-rent program nearly \$100,000 for a second certificate of deposit unless the Authority could provide evidence that it purchased the certificate from non-HUD funds. In September 2011, Public Housing revised the management decision to having the Authority’s nonprofit transfer land in lieu of cash repayment. OIG concurred with the revised management decision. In 2012, the Authority began constructing new housing on the land, and in 2013, it completed construction and placed the housing under an annual contributions contract with HUD. An appraisal has determined the value of the land and housing to be \$475,000, which was \$175,000 more than the recommendation. The \$475,000 was entered as property recovered in lieu of cash. OIG concurred with the revised costs, and the recommendation was closed on February 12, 2014. (Audit Report **2006-FW-1002**)

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### ANCHOR MORTGAGE CORPORATION, CHICAGO, IL, LOAN ORIGINATION FRAUD – VIOLATIONS OF THE FALSE CLAIMS ACT, ISSUE DATE: SEPTEMBER 30, 2010

HUD OIG conducted a review of FHA loan origination practices of Anchor Mortgage Corporation. Based in part on OIG’s results, the U.S. Attorney’s Office of the Northern District of Illinois sued the lender and its owner under the False Claims Act. In August 2010, the district court concluded that Anchor had provided false information or violated HUD regulations when submitting 11 loans for FHA insurance. The district court entered a judgment of nearly \$2.8 million in damages and penalties against the lender and more than \$226,000 in damages and penalties against its owner. The owner later paid the judgment against him; however, the owner appealed the judgment against Anchor in the U.S. Court of Appeals for the Seventh Circuit. The appeals court reconsidered the assessment of damages under the False Claims Act and reduced the judgment against Anchor to a little more than \$1.4 million.

OIG initially recorded the original judgment against Anchor at nearly \$2.8 million, with HUD’s Office of General Counsel agreement as to the outcome of the case. However, due to the appeals court decision to significantly reduce the judgment to \$1.4 million, OIG and HUD agreed to revise the case outcome through a revised management decision to reflect the final judgment amount imposed against Anchor. OIG concurred with HUD’s March 18, 2014, revised management decision. (Audit Memorandum: **2010-CF-1801**)

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## THE LAFAYETTE PARISH HOUSING AUTHORITY VIOLATED HUD PROCUREMENT REQUIREMENTS AND EXECUTED UNREASONABLE AND UNNECESSARY CONTRACTS, ISSUE DATE: JUNE 22, 2011

HUD OIG issued an audit report relating to the Lafayette Parish Housing Authority's violation of HUD procurement requirements. For recommendation 1K, the New Orleans Office of Public Housing agreed with the recommendation that the Authority should remain under HUD receivership for at least a year or until it can demonstrate to HUD that its procurement and other practices consistently meet Federal requirements. After the HUD receivership was lifted and an executive director was hired, HUD agreed to place the Authority on a zero dollar threshold for at least a year or until it can demonstrate to HUD that its procurement and other practices consistently meet Federal requirements. In September 2012, HUD placed the Authority under HUD receivership, with HUD staff assigned as the receiver, and the Authority hired a chief operating officer. It was the intent that the chief operating officer would benefit from the receiver's presence and ultimately be considered as the potential executive director of the Authority when it was returned to local control. However, resolution had not been reached by September 2012, and HUD requested OIG approval to extend the final action target date until September 30, 2014. OIG denied this request due to a lack of adequate information to justify an extension.

In March of 2013, HUD again requested OIG approval to extend the final action target date until December 31, 2013. At that time, the next board of commissioners could not be appointed by the mayor of Lafayette until a court hearing, scheduled for March 27, 2013, was concluded. The purpose for the hearing was for the court to render a decision on the mayor's appeal to a contempt of court citation against him by the deciding judge. The court's decision was needed to determine whether the mayor would be required to reappoint the removed board members or to appoint new board members. After the court hearing, HUD planned to request that the mayor appoint a new board and require the board to participate in a 3-month training before HUD could make a determination of when the Authority would be released from receivership. OIG agreed to extend the final action target date to December 31, 2013.

By December 24, 2013, HUD's many attempts to get the parish president or mayor to appoint a new board had failed, thereby making it impossible for HUD to return the Authority to local control and meet the December 31, 2013, final action target date. Therefore, on December 27, 2013, HUD proposed to change the management decision to (1) request that HUD's Assistant Secretary or General Deputy Assistant Secretary reach out to the parish president to discuss the urgency of making the appointments and give the parish president 60 days to have the advisory board in place and (2) if the parish president continues to refuse to appoint the advisory board, notify the parish president that HUD may consider taking alternate actions, such as withholding HUD funding, including CDBG and HOME funding, or merging the Authority with another housing authority. HUD also proposed extending the final action target date to December 31, 2014. On December 30, 2013, OIG concurred with the revised management decision and extended the final action target date to December 31, 2014. (Audit Report **2011-AO-0001**)

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## THE MANAGEMENT AND BOARD OF COMMISSIONERS OF THE HOUSING AUTHORITY OF THE CITY OF PORT ARTHUR, TX, FAILED TO EXERCISE THEIR FIDUCIARY RESPONSIBILITIES, ISSUE DATE: JUNE 12, 2012

OIG issued an audit report entitled "The Management and Board of Commissioners of the Housing Authority of the City of Port Arthur, TX, Failed To Exercise Their Fiduciary Responsibilities." For recommendation 4A, OIG recommended that the Director of the Houston Office of Public Housing recapture more than \$469,000 that the Authority drew as replacement reserves from its 2006 and 2007 Capital Fund grants. HUD agreed to

recapture the funds if the Authority did not meet certain deadline dates for the disposition and replacement of the Authority's Carver Terrace project. In March 2014, Public Housing indicated that the Authority had entered into agreements and closed on the mixed financing for the project. HUD submitted a revised management decision indicating that the Authority had met the deadline dates and asked OIG to record more than \$469,000 as nonrecovered. OIG concurred with this revision on March 27, 2014. (Audit Report **2012-FW-1008**)

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### THE HOUSING AUTHORITY OF THE CITY OF EL PASO, TX, DID NOT FOLLOW RECOVERY ACT OBLIGATION REQUIREMENTS OR PROCUREMENT POLICIES, ISSUE DATE: APRIL 12, 2013

OIG issued an audit report relating to the Housing Authority of the City of El Paso, TX, not following procurement policies. For recommendation 2A, the Fort Worth Office of Public Housing disagreed with the recommendation that the Authority should support 11 American Recovery and Reinvestment Act (ARRA) procurements totaling nearly \$5.9 million or repay the amounts to HUD, which would return the funds to the U.S. Treasury. The recommendation was elevated to the Deputy Assistant Secretary for Public Housing and Investments. In August 2013, the Deputy Assistant Secretary indicated that the Authority would submit a request for a waiver of the competitive requirements of 24 CFR Part 85 under the public exigency exception as detailed in Public and Indian Housing Notice 2009-12. If a waiver could not be granted, the funds would be returned to HUD. In December 2013, the Assistant Secretary for Public and Indian Housing granted the Authority a waiver of Federal procurement requirements. HUD stated that exemptions were needed because the Authority did not completely follow ARRA procurement procedures or Public Housing's ARRA notices and the Authority did not document its files to suggest that these were noncompetitive procurements. HUD noted that ARRA's shortened obligation period led to the errors and that it was convinced of the public exigency related to the funding with respect to each of the 11 contracts. Thus, HUD determined that there was good cause to grant 11 exceptions for the Authority's processing of the contracts. Based on these waivers, HUD determined that the contract amounts questioned as unsupported in the recommendation were supported. OIG concurred with the revised management decision on December 23, 2013, that the amounts were supported. (Audit Report **2013-FW-1004**)

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## Significant Management Decision With Which OIG Disagrees

During the reporting period, there was one report in which OIG disagreed with the significant management decision.

### GENERALLY, HUD'S HURRICANE DISASTER RECOVERY PROGRAM ASSISTED THE GULF COAST STATES' RECOVERY; HOWEVER, SOME PROGRAM IMPROVEMENTS ARE NEEDED, ISSUE DATE: MARCH 28, 2013

HUD OIG audited HUD's State CDBG-DR program for hurricanes that hit the Gulf Coast States from August 2005 through September 2008. The audit objective was to assess the program overall. Specifically, OIG wanted to (1) determine what had been accomplished using the funding and the funds remaining to be spent; (2) compare actual versus projected performance; and (3) identify best practices, issues, and lessons to be learned.

The Gulf Coast States had made progress in recovering from the presidentially declared disasters as a result of several hurricanes. Although the States had made progress, based on OIG's prior audits and a review of the program's data, there have been some lessons to be learned regarding deadlines, program guidance, information system technology acquisitions, procurements, and homeowners' insurance. If HUD makes needed changes, it should improve the effectiveness and efficiency of the program.



The audit found that some States did not take sufficient steps to protect the invested Federal funds, which the States used to rebuild or rehabilitate homes. OIG recommended that CPD's Director of the Office of Block Grant Assistance adopt a best practice to address the issue of homeowners' insurance for homes assisted with disaster funds to ensure that Federal funds invested in the homes are protected (recommendation 2H). CPD disagreed with the recommendation, preferring to offer training and technical assistance to grantees regarding different strategies that can be used to improve insurance coverage. CPD also stated that it would continue to highlight examples of how grantees can mitigate the risk of damage from future disasters, including requiring that future grantees elevate properties to higher standards and recommending that grantees identify insurance requirements as part of their program design for any CDBG-DR-funded rebuilding program. Although OIG continues to believe that having CPD establish a best practice concerning homeowners' insurance would better protect the Federal funds invested in rebuilt homes, OIG closed the recommendation as agreeing to disagree. (Audit Report: **2013-FW-0001**)

## Federal Financial Management Improvement Act of 1996

HUD did not substantially comply with FFMIA during fiscal year 2013. HUD made limited progress in bringing its financial management systems into compliance with FFMIA. For this reason, HUD's financial management systems continued to not meet current requirements. HUD's systems were not operated in an integrated fashion and linked electronically to efficiently and effectively provide agencywide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

HUD's financial systems, many of which were developed and implemented before the issue date of current standards, were not designed to provide the range of financial and performance data currently required. HUD has been working to replace its current core financial management system since fiscal year 2003. The previous project, the HUD Integrated Financial Management Improvement Project (HIFMIP), was based on plans to implement a solution to replace two of the applications currently used for core processing. In March 2012, work on HIFMIP was stopped. Project sponsorship was transferred from the Office of the Chief Financial Officer (OCFO) to the Deputy Secretary. The Deputy Secretary and a working group comprised of OCFO, the Office of the Chief Information Officer, and the Office of the Chief Procurement Officer reassessed HUD's options and determined that the planned HIFMIP solution was not a viable option. As a result, the HIFMIP effort was canceled. HUD spent more than \$35 million on the failed HIFMIP project.

In the fall of 2012, HUD determined that it would reevaluate alternatives for meeting HUD's original program objectives. As a result of that decision, the New Core Project was created to move HUD forward to implement a new core financial system. The New Core Project has the same scope as HIFMIP, to replace, at a minimum, the functionality of two of the applications currently used for core processing during the initial phase of the project. On July 30, 2013, HUD signed an interagency agreement with the Bureau of Public Debt (BPD) to obtain full Federal shared services. Full service leverages BPD's financial management, procurement, human resources, and travel applications. BPD will support full transaction processing to operate these systems. HUD concluded that this option provided the most value to HUD by leveraging modern technologies in cloud computing and by reducing implementation risks. In September 2013, HUD began the definition stage of the project to determine what business process changes will be required as a result of the transition.

FFMIA requires OIG to report in its Semiannual Reports to the Congress instances and reasons when an agency has not met the intermediate target dates established in its remediation plan required by FFMIA. At the end of 2013, HUD reported that 5 of the 39 financial management systems were not in substantial compliance with FFMIA. These five systems are (1) Ginnie Mae Financial Accounting System, (2) IDIS, (3) Facilities Integrated Resources Management System (FIRMS), (4) HUD Procurement System (HPS), and (5) Small Purchase System (SPS). OIG reported two additional non-FFMIA-compliant systems (HUD Integrated Acquisition

Management System (HIAMS) and HUD Central and Accounting Processing System (HUDCAPS)). OIG and HUD were in disagreement about HUD's substantial compliance with FFMIA with respect to these systems.

The FIRMS application does not interface with any other HUD system as required for a property management system. Currently, HUD uses a manual process to track and account for the acquisition, depreciation, and disposition of fixed assets. Although steps had been taken and efforts were underway to address the issue in fiscal year 2013, FIRMS was not fully operational in fiscal year 2013. HUD anticipated remediating the FIRMS issue by February 2014. Therefore, FIRMS was not compliant with the requirements of FFMIA for fiscal year 2013.

HUD acquired a new application, HIAMS, to replace HPS and SPS on September 30, 2010. The HIAMS application went live on October 1, 2011. The HIAMS implementation used a phased approach; therefore, HPS and SPS were still operational and used during fiscal year 2012. OIG performed a limited review of the implementation of HIAMS during fiscal year 2012 and found that obligation balances in HIAMS were inaccurate and did not match the balances in HUDCAPS. Because HPS and SPS did not contain the same level of contract data that is required in HIAMS, OCPO developed a data cleanup and transfer process that used a combination of electronic and manual migration of data from the legacy systems to HIAMS. Due to the legacy systems' limitations in capturing subaccount line data, the contracting officials used hardcopy award documents to manually enter the appropriate subaccount line data into the HIAMS application. Discrepancies were identified, and HUD initiated a reconciliation process to correct the data within HIAMS. As a result of the data discrepancies between the HIAMS and HUDCAPS applications, the HIAMS application was not compliant with the requirements of FFMIA for fiscal year 2012.

HUD asserted that the data discrepancies between the HIAMS and HUDCAPS applications were resolved in September 2013. OIG is working to verify this assertion.

During fiscal year 2013, OIG performed a review of HUDCAPS and determined that the application was noncompliant with FFMIA requirements. To be FFMIA compliant, a core financial application or an application performing core financial functions must be compliant with core financial system requirements. The core financial system requirements state that the agency core financial system must contain automated processes to perform payment management functions. HUDCAPS does not import or update vendor data in accordance with requirements and does not meet all accounts payable, invoicing, disbursing, and payment follow-up requirements related to how payments are processed. For instance, HUDCAPS does not record full or partial receipt and acceptance of goods and services by document line item; perform matching options that match invoices to obligations, receiving reports, and acceptance data; and validate invoice period of performance and invoice delivery and performance dates and is not used to calculate the payment amount, including discounts, interest, and penalties. Therefore, HUDCAPS does not meet the core financial system requirements for the payment management function, making it noncompliant with FFMIA. HUD did not declare the HUDCAPS application to be noncompliant with FFMIA.

Although HUD certified 34 individual systems as compliant with Federal financial management systems requirements, HUD did not perform independent reviews of all of its financial management systems in accordance with OMB Circular A-127 in the last 4 years. Instead, HUD relied upon the results of OMB Circular A-123 and Federal Information Security Management Act (FISMA) annual internal control reviews for individual applications. In fiscal year 2013, OIG determined that HUD's information security program had significant deficiencies and many areas of the program were not FISMA compliant. Collectively and in the aggregate, systems deficiencies continued to exist.

## APPENDIX 1

## PEER REVIEW REPORTING

*The Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law No. 111-203), section 989C, requires inspectors general to report the latest peer review results in their semiannual reports to Congress. The purpose in doing so is to enhance transparency within the government. Both the Office of Audit and Office of Investigation are required to undergo a peer review of their individual organizations every 3 years. The purpose of the review is to ensure that the work completed by the respective organizations meets the applicable requirements and standards. The following is a summary of the status of the latest round of peer reviews for the organization.*

## OFFICE OF AUDIT

### PEER REVIEW CONDUCTED ON HUD OIG

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), received a grade of pass (the highest rating) on the peer review report issued by U.S. Department of Education Inspector General on September 28, 2012. There were no recommendations included in the System Review Report. The report stated:

In our opinion, the system of quality control in effect for the year ended March 31, 2012, for the audit organization of the HUD OIG has been suitably designed and complied with to provide the HUD OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. The HUD OIG has received a peer review rating of pass.

### PEER REVIEW CONDUCTED BY HUD OIG ON DOD

HUD OIG conducted an external peer review of U.S. Department of Defense (DoD) OIG, Office of Audit, and issued a final report November 13, 2012. DoD OIG received a peer review rating of pass (with a scope limitation). There are no outstanding recommendations. A copy of the external quality control review report can be viewed at [www.dodig.mil/pubs/reviews.html](http://www.dodig.mil/pubs/reviews.html).

## OFFICE OF INVESTIGATION

### PEER REVIEW CONDUCTED BY HUD OIG ON SSA OIG

HUD OIG conducted an external peer review of the U.S. Social Security Administration (SSA) OIG, Office of Investigation, and issued a final report on August 12, 2013. HUD OIG determined that SSA OIG complied with applicable quality standards.

### PEER REVIEW CONDUCTED ON HUD OIG

The most recent peer review of the Office of Investigation was conducted in 2011 by the U.S. Department of Health and Human Services OIG. The results of the peer review found HUD OIG compliant (the highest rating) with the quality of standards established by the inspector general community and the attorney general guidelines.

## INTERNAL REPORTS

## AUDIT REPORTS

## CHIEF FINANCIAL OFFICER

2014-DP-0001	Information System Control Weaknesses Identified in the Line of Credit Control System, 11/07/2013.
2014-DP-0003	Information System Control Weaknesses Identified in the Housing and Urban Development Central Accounting and Program System, 01/15/2014.
2014-DP-0004	Information System Control Weaknesses Identified in the Financial Data Mart, 03/13/2014.
2014-FO-0003	Additional Details To Supplement Our Report On HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements, 12/16/2013. Better use: \$902,859,352.

## CHIEF PROCUREMENT OFFICER

2014-KC-0001	HUD Awarded an Architectural and Engineering Contract Without Conducting an Adequate Price Analysis and Paid the Contractor Without Adequate Support, 03/04/2014.
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## COMMUNITY PLANNING AND DEVELOPMENT

2014-LA-0001	CPD Did Not Monitor Grantees' CPD-Funded Assets Transferred by Former Redevelopment Agencies To Minimize HUD's Risk, 02/28/2014. Better use: \$99,291,911.
2014-LA-0002	CPD Did Not Monitor NSP Grantees' Payments of Developer Fees to Developers, 03/10/2014.

## GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

2014-FO-0001	Government National Mortgage Association Fiscal Years 2013 and 2012 Financial Statements Audit, 12/06/2013.
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## HOUSING

2014-AT-0001	Violations Increased the Cost of Housing's Administration of Its Bond Refund Program, 03/14/2014. Questioned: \$2,761,593; unsupported: \$139,969; better use: \$279,639.
2014-DP-0002	Application Control Weaknesses Identified in the Asset Disposition and Management System, 01/14/2014.
2014-FO-0002	Federal Housing Administration Fiscal Years 2013 and 2012 Financial Statements Audit, 12/13/2013. Better use: \$100,000,000.

2014-NY-0001	HUD Did Not Provide Effective Oversight of Section 202 Multifamily Project Refinances, 02/19/2014. Better use: \$21,097,996.
<b>PUBLIC AND INDIAN HOUSING</b>	
2014-BO-0001	HUD's Procedures Do Not Always Ensure the Proper Use and Timely Reimbursement of Public Housing Agency Interfund Transaction Balances, 03/21/2014. Questioned: \$2,216,321.
2014-FW-0001	The Boston Office of Public Housing Did Not Provide Adequate Oversight of Environmental Reviews of Three Housing Agencies, Including Reviews Involving Recovery Act Funds, 02/07/2014. Questioned: \$85,642,077; unsupported: \$80,759,094.
<b>AUDIT-RELATED MEMORANDUMS<sup>9</sup></b>	
<b>CHIEF PROCUREMENT OFFICER</b>	
2014-FO-0801	HUD's Semiannual Purchase Card Violation Report, 03/19/2014.
<b>PUBLIC AND INDIAN HOUSING</b>	
2014-NY-0801	HUD's Monitoring and Administration of the Housing Choice Voucher Family Self-Sufficiency Program, 10/30/2013.

## EXTERNAL REPORTS

<b>AUDIT REPORTS</b>	
<b>COMMUNITY PLANNING AND DEVELOPMENT</b>	
2014-AT-1001	The Municipality of Arecibo Did Not Properly Administer Its HOME Program, Arecibo, PR, 12/03/2013. Questioned: \$1,057,491; unsupported: \$1,057,491; better use: \$30,919.
2014-AT-1003	The City of Memphis Did Not Have Effective Controls To Administer Its Housing and Rehabilitation Program Activities, Memphis, TN, 12/30/2013. Questioned: \$401,719; unsupported: \$381,855.
2014-AT-1004	The State of Mississippi Did Not Ensure That Its Subrecipient and Appraisers Complied With Requirements, and It Did Not Fully Implement Adequate Procedures For Its Disaster Infrastructure Program, Jackson, MS, 12/30/2013. Questioned: \$2,165,915; unsupported: \$2,165,915.
2014-CH-1001	The City of Flint Lacked Adequate Controls Over Its HOME Investment Partnerships Program, Flint, MI, 11/15/2013. Questioned: \$303,040; unsupported: \$107,587; better use: \$102,880.

<sup>9</sup> The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government auditing standards, to close out assignments with no findings and recommendations, to respond to requests for information, to report on the results of a survey, or to report the results of civil actions or settlements.

2014-CH-1002	The City of Detroit Lacked Adequate Controls Over Its Neighborhood Stabilization Program-Funded Demolition Activities Under the Housing and Economic Recovery Act of 2008, Detroit, MI, 01/06/2014. Questioned: \$298,635; unsupported: \$18,083; better use: \$2,050,760.
2014-KC-1002	The City of Joplin Complied With CDBG Disaster Recovery Regulations, Joplin, MO, 01/29/2014.
2014-KC-1003	The City of Kansas City Did Not Properly Obligate Its NSP1 Grant Funds and Allowed Its Subrecipient to Enter Into Contracts Without the Required Provisions, Kansas City, MO, 02/05/2014.
2014-PH-1001	The City of Norfolk Generally Failed To Justify Its CDBG Activities, Norfolk, VA, 12/17/2013. Questioned: \$11,548,506; unsupported: \$11,548,506.
2014-SE-1001	Allegations Against Clare View Seniors Apartments, LP, Had Been Corrected or Did Not Violate HUD Requirements, Spokane, WA, 02/04/2014.
<b>HOUSING</b>	
2014-DE-1001	The Wyoming Community Development Authority Properly Administered HUD's Loss Mitigation Program, Casper, WY, 01/22/2014.
2014-KC-1001	Windridge Apartments Did Not Administer Its Program in Accordance With HUD Rules and Regulations and Its Own Policies and Procedures, Wichita, KS, 11/07/2013. Questioned: \$239,827; unsupported: \$200,362.
2014-LA-1001	Marina Village Apartments Was Not Always Administered in Accordance With HUD Requirements, Sparks, NV, 10/24/2013. Questioned: \$45,413; better use: \$45,656.
<b>PUBLIC AND INDIAN HOUSING</b>	
2014-AT-1002	The Housing Authority of the City of Lumberton Did Not Administer Its Public Housing Program in Accordance With Requirements, Lumberton, NC, 12/05/2013. Questioned: \$159,361; unsupported: \$157,861.
2014-BO-1001	The Housing Authority of the City of Bridgeport Did Not Always Ensure That Expenses Charged to Its Federal Programs Were Eligible, Reasonable, and Supported, Bridgeport, CT, 01/23/2014. Questioned: \$1,686,407; unsupported: \$790,555; better use: \$45,276.
2014-NY-1001	The Paterson Housing Authority Had Weaknesses in Administration of its Housing Choice Voucher Program, Paterson, NJ, 01/15/2014. Questioned: \$4,148,434; unsupported: \$4,060,604; better use: \$4,132,900.
2014-PH-1002	The Hopewell Redevelopment and Housing Authority Generally Used Housing Choice Voucher and Public Housing Program Funds in Accordance With Applicable Requirements, Hopewell, VA, 02/04/2014.
2014-PH-1003	The Housing Authority of the County of Lackawanna Needs To Improve Its Controls Over Its Operations To Comply With HUD Requirements, Dunmore, PA, 02/28/2014. Better use: \$370,234.

**AUDIT-RELATED MEMORANDUMS<sup>10</sup>****COMMUNITY PLANNING AND DEVELOPMENT**

2014-AT-1801	Vieques Sports City Complex, Office of the Commissioner for Municipal Affairs, Section 108 Loan Guarantee Program, San Juan, PR, 03/20/2014. Questioned: \$10,876,095; unsupported: \$10,876,095.
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**GENERAL COUNSEL**

2014-AT-1802	Leo Thomas-Lender Official Settled Violations of FHA Lending Requirements, Raleigh, NC, 03/26/2014. Questioned: \$115,000.
2014-AT-1803	Final Civil Action: Kenneth Register-Lender Official Settled Violations of FHA Lending Requirements, Raleigh, NC, 03/26/2014. Questioned: \$10,000.
2014-CF-1801	Violations of U.S. Department of Housing and Urban Development Real Estate Owned Program Requirements, Dayton, OH, 01/29/2014. Questioned: \$7,500.
2014-CF-1802	Real Estate Agent Violated U.S. Department of Housing and Urban Development Real Estate-Owned Program Requirements, Dayton, OH, 02/24/2014. Questioned: \$5,000.
2014-CF-1803	Real Estate Broker Violated U.S. Department of Housing and Urban Development Real Estate-Owned Program Requirements, Dayton, OH, 02/24/2014. Questioned: \$500.
2014-CF-1804	Section 8 Landlord Settled Violations of the Housing Choice Voucher Program, Orlando, FL, 02/26/2014. Questioned: \$10,000.
2014-PH-1801	Final Civil Action, James B. Nutter & Co. and Underwriter, Lender Settled Alleged Violations of Home Equity Conversion Mortgage Program, Washington, DC, 03/27/2014. Better use: \$7,500.
2014-PH-1802	Final Action, Bank of America, NA, and Underwriter, Lender Settled Alleged Violations of Home Equity Conversion Mortgage Program, Washington, DC, 03/27/2014.

**PUBLIC AND INDIAN HOUSING**

2014-FW-1801	The Colfax Housing Authority Did Not Properly Administer Its Programs, Including Its 2009 American Recovery and Reinvestment Act Grant, Colfax, LA, 11/08/2013. Questioned: \$1,034,694; unsupported: \$1,031,961.
2014-FW-1802	The Management of the Housing Authority of the City of Nixon Did Not Exercise Adequate Oversight and Allowed Ineligible and Unsupported Costs, Nixon, TX, 03/31/2014. Questioned: \$116,341; unsupported: \$109,861.

<sup>10</sup> The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government auditing standards, to close out assignments with no findings and recommendations, to respond to requests for information, to report on the results of a survey, or to report the results of civil actions or settlements.

## TABLE A

Audit Reports issued before the start of period with no management decision at 03/31/2014

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE
2009-AT-0001, HUD Lacked Adequate Controls to Ensure the Timely Commitment and Expenditure of HOME funds <sup>11</sup>	See chapter 8, page 39	09/28/2009
2013-BO-0001, HUD's Proposed HOME Regulations Generally Addressed Systemic Deficiencies, but Field Office Monitoring and Data Validation Need Improvement	See chapter 8, page 40	02/12/2013
2013-IE-0803, Follow-up of the Inspections and Evaluations Division on Its Inspection of the State of Louisiana's Road Home Elevation Incentive Program Homeowner Compliance (IED-09-002, March 2010)	See chapter 8, page 41	03/29/2013
2013-HA-0001, HUD's Oversight of the Wage Restitution and Deposit Account Needs Improvement <sup>11</sup>	See chapter 8, page 43	04/16/2013
2013-AT-1008, The City of West Palm Beach Did Not Always Properly Administer Its HOME Program <sup>11</sup>	See chapter 8, page 45	09/30/2013

<sup>11</sup> Significant audit reports described in previous semiannual reports



**TABLE B**

Significant Audit Reports for which final action had not been completed within 12 months after the date of the Inspector General's report

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2002-AT-1002	Housing Authority of the City of Tupelo, Housing Programs Operations, Tupelo, MS	07/03/2002	10/31/2002	07/01/2015
2002-KC-0002	Nationwide Survey of HUD's Office of Housing Section 232 Nursing Home Program	07/31/2002	11/22/2002	Note 1
2005-AT-1013	Corporacion Para el Fomento Economico de la Ciudad Capital Did Not Administer Its Independent Capital Fund in Accordance With HUD Requirements, San Juan, PR	09/15/2005	01/11/2006	Note 1
2006-NY-0001	HUD's Controls over the Reporting, Oversight, and Monitoring of the Housing Counseling Assistance Program Were Not Adequate	06/08/2006	01/08/2007	10/01/2015
2006-KC-1013	The Columbus Housing Authority Improperly Expended and Encumbered Its Public Housing Funds, Columbus, NE	08/30/2006	10/17/2006	11/30/2014
2006-DP-0802	Assessment of HUD's Compliance With OMB Memorandum M-06-16, "Protection of Sensitive Agency Information"	09/21/2006	11/24/2006	09/30/2014
2007-KC-0002	HUD Can Improve Its Use of Residual Receipts To Reduce Housing Assistance Payments	01/29/2007	01/29/2007	Note 1
2007-KC-0003	HUD Did Not Recapture Excess Funds from Assigned Bond-Financed Projects	04/30/2007	08/27/2007	Note 1
2007-AT-1010	The Cathedral Foundation of Jacksonville Used More Than \$2.65 Million in Project Funds for Questioned Costs, Jacksonville, FL	08/14/2007	12/03/2007	04/10/2017
2008-AO-1002	State of Louisiana, Road Home Program, Funded 418 Grants Coded Ineligible or Lacking an Eligibility Determination, Baton Rouge, LA	01/30/2008	05/12/2008	Note 1

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2008-AT-0003	HUD Lacked Adequate Controls Over the Physical Condition of Section 8 Voucher Program Housing Stock	05/14/2008	09/10/2008	10/31/2014
2008-DP-0004	Review of Selected FHA Major Applications' Information Security Controls	06/12/2008	10/08/2008	Note 1
2008-LA-1012	The Housing Authority of the City of Calexico Did Not Comply With Public Housing Program Rules and Regulations, Calexico, CA	07/01/2008	10/14/2008	12/31/2014
2009-BO-1002	Orchard Court Multifamily Project Was Not Properly Managed in Accordance with HUD Regulations, Bath, ME	11/06/2008	01/16/2009	02/19/2015
2009-AO-1001	State of Louisiana, Road Home Program, Did Not Ensure That Road Home Employees Were Eligible To Receive Additional Compensation Grants, Baton Rouge, LA	05/05/2009	09/16/2009	Note 1
2009-AO-1002	State of Louisiana, Road Home Program, Did Not Ensure That Multiple Disbursements to a Single Damaged Residence Address Were Eligible, Baton Rouge, LA	05/05/2009	09/16/2009	Note 1
2009-CH-1008	The City of East Cleveland Did Not Adequately Manage Its HOME Investment Partnerships and CDBG Programs, East Cleveland, OH	05/11/2009	09/08/2009	07/31/2014
2009-NY-1012	The City of Rome Did Not Administer Its Economic Development Activity in Accordance With HUD Requirements, Rome, NY	05/20/2009	09/23/2009	01/30/2032
2009-DP-0005	Review of Implementation of Security Controls Over HUD's Business Partners	06/11/2009	11/17/2009	12/31/2014
2009-CH-1011	The Housing Authority of the City of Terre Haute Failed To Follow Federal Requirements and Its Employment Contract Regarding Nonprofit Development Activities, Terre Haute, IN	07/31/2009	11/24/2009	04/01/2015
2009-AT-0001	HUD Lacked Adequate Controls To Ensure the Timely Commitment and Expenditure of HOME funds	09/28/2009	03/18/2011	Note 3

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2010-KC-1003	The City of East St. Louis Did Not Properly Allocate Salary and Building Expenses or Properly Document Its Process To Secure a Consulting Services Contract, East St. Louis, IL	03/26/2010	07/22/2010	Note 1
2010-AT-1003	The Housing Authority of Whitesburg Mismanaged Its Operations, Whitesburg, KY	04/28/2010	08/26/2010	11/29/2035
2010-PH-1008	Sasha Bruce Youthwork, Incorporated, Did Not Support More Than \$1.9 Million in Expenditures, Washington, DC	05/11/2010	11/03/2010	Note 1
2010-AT-1006	The Puerto Rico Department of Housing Failed To Properly Manage Its HOME Investment Partnerships Program, San Juan, PR	06/11/2010	10/08/2010	Note 1
2010-CH-1008	The DuPage Housing Authority Inappropriately Administered Its Section 8 Project-Based Voucher Program, Wheaton, IL	06/15/2010	10/08/2010	07/31/2014
2010-AT-1011	The Puerto Rico Department of Housing Did Not Ensure Compliance With HOME Program Objectives, San Juan, PR	08/25/2010	12/06/2010	Note 1
2010-FW-0003	HUD Was Not Tracking Almost 13,000 Defaulted HECM Loans With Maximum Claim Amounts of Potentially More Than \$2.5 Billion	08/25/2010	12/03/2010	Note 1
2010-KC-1008	The City of East St. Louis Awarded Block Grant Program Funds to Recipients Without Adequately Verifying Their Eligibility, East St. Louis, IL	09/28/2010	01/26/2011	Note 1
2011-CH-1001	The City of Flint Lacked Adequate Controls Over Its HOME Program Regarding Community Housing Development Organizations' Home-Buyer Projects, Subrecipients' Activities, and Reporting Accomplishments in HUD's System, Flint, MI	10/13/2010	02/03/2011	Note 2
2011-FO-0003	Additional Details to Supplement Our Report on HUD's Fiscal Years 2010 and 2009 Financial Statements	11/15/2010	08/08/2011	06/15/2015

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2011-NY-1004	The City of Binghamton Did Not Always Administer Its Section 108 Loan Program in Accordance With HUD Requirements, Binghamton, NY	12/21/2010	04/20/2012	Note 2
2011-PH-1005	The District of Columbia Did Not Administer Its HOME Program in Accordance With Federal Requirements, Washington, DC	12/23/2010	04/22/2011	Note 1
2011-CH-1003	The City of Cleveland Lacked Adequate Controls Over Its HOME Investment Partnerships Program and American Dream Downpayment Initiative-Funded Afford-A-Home Program, Cleveland, OH	12/27/2010	04/26/2011	04/01/2014
2011-CH-1004	The State of Indiana's Administrator Lacked Adequate Controls Over the State's HOME Investment Partnerships Program and American Dream Downpayment Initiative-Funded First Home/PLUS Program, Indianapolis, IN	01/31/2011	05/25/2011	Note 2
2011-KC-1001	The City of East St. Louis Did Not Properly Manage Housing Rehabilitation Contracts Funded by the CDBG Program, East St. Louis, IL	02/09/2011	06/09/2011	Note 1
2011-CH-1006	The DuPage Housing Authority Inappropriately Administered Its Section 8 Housing Choice Voucher Program, Wheaton, IL	03/23/2011	07/28/2011	07/31/2014
2011-KC-1003	The Missouri Housing Development Commission Did Not Always Disburse Its Tax Credit Assistance Program Funds in Accordance With Recovery Act Requirements, Kansas City, MO	04/01/2011	07/29/2011	Note 1
2011-NY-1009	The East Orange Revitalization and Development Corporation Did Not Always Comply With HOME Program Requirements and Federal Regulations, East Orange, NJ	04/07/2011	08/03/2011	07/01/2015
2011-AT-1006	The Municipality of Mayaguez Did Not Ensure Compliance With HOME Program Objectives, Mayaguez, PR	04/08/2011	08/05/2011	Note 1

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2011-NY-1010	The City of Buffalo Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Buffalo, NY	04/15/2011	01/25/2012	Note 2
2011-AO-1005	The State of Mississippi Generally Ensured That Disbursements to Program Participants Were Eligible and Supported, Jackson, MS	04/18/2011	08/16/2011	Note 1
2011-FW-0002	The Office of Healthcare Programs Could Increase Its Controls To More Effectively Monitor the Section 232 Program	04/26/2011	08/17/2011	06/30/2015
2011-CH-1008	The State of Michigan Lacked Adequate Controls Over Its NSP Regarding Awards, Obligations, Subgrantees' Administrative Expenses and Procurement, and Reporting Accomplishments, Lansing, MI	06/03/2011	11/30/2011	Note 2
2011-AO-0001	The Lafayette Parish Housing Authority Violated HUD Procurement Requirements and Executed Unreasonable and Unnecessary Contracts	06/22/2011	10/13/2011	12/13/2014
2011-NY-1802	The City of Dunkirk Used CDBG Recovery Act Funding for an Ineligible Activity, Dunkirk, NY	07/14/2011	11/10/2011	Note 1
2011-LA-1016	The City of Compton Did Not Administer Its HOME Program in Compliance With HOME Requirements, Compton, CA	08/18/2011	12/15/2011	04/01/2014
2011-NY-1016	The City of Buffalo Did Not Always Disburse Homelessness Prevention and Rapid Re-Housing Program Funds in Accordance With Regulations, Buffalo, NY	09/22/2011	01/25/2012	Note 1
2011-AT-1018	The Municipality of San Juan Did Not Properly Manage Its HOME Investment Partnerships Program, San Juan, PR	09/28/2011	01/12/2012	12/31/2014
2011-CH-1014	The City of Cleveland Lacked Adequate Controls Over Its HOME Investment Partnerships Program-Funded Housing Trust Fund Program Home-Buyer Activities, Cleveland, OH	09/29/2011	01/26/2012	Note 2

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2011-CH-1015	The Springfield Metropolitan Housing Authority Did Not Administer Its Grant in Accordance With Recovery Act and HUD Requirements, Springfield, OH	09/30/2011	01/24/2012	05/01/2015
2012-NY-1002	The City of New York Charged Questionable Expenditures to Its HPRP, New York, NY	10/18/2011	02/16/2012	Note 1
2012-NY-1003	The City of Syracuse Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Syracuse, NY	10/25/2011	02/22/2012	Note 1
2012-PH-0001	HUD Needed to Improve Its Use of Its Integrated Disbursement and Information System To Oversee Its CDBG Program	10/31/2011	02/28/2012	Note 1
2012-FO-0003	Additional Details To Supplement Our Report on HUD's Fiscal Years 2011 and 2010 Financial Statements	11/15/2011	05/10/2012	04/01/2014
2012-LA-0001	HUD Did Not Adequately Support the Reasonableness of the Fee-for-Service Amounts or Monitor the Amounts Charged	11/16/2011	03/27/2012	04/15/2015
2012-AT-1007	The Shelby County Housing Authority Mismanaged Its HUD-Funded Programs, Memphis, TN	01/26/2012	05/25/2012	Note 2
2012-LA-1004	MetLife Bank's Scottsdale, AZ, Branch Office Did Not Follow FHA-Insured Loan Underwriting and Quality Control Requirements	01/26/2012	05/18/2012	Note 2
2012-FO-0004	Information System Deficiencies Noted During FHA's Fiscal Year 2011 Financial Statement Audit	01/27/2012	05/21/2012	Note 2
2012-PH-0004	HUD Controls Did Not Always Ensure That Home Equity Conversion Mortgage Loan Borrowers Complied With Program Residency Requirements	02/09/2012	06/08/2012	Note 2
2012-DP-0001	Audit Report on the Fiscal Year 2011 Review of Information Systems Controls in Support of the Financial Statements Audit	02/14/2012	07/02/2012	Note 2

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2012-CH-1004	The State of Indiana's Administrator Lacked Adequate Controls Over the State's HOME Investment Partnerships Program Regarding CHDOs' Activities and Income, Indianapolis, IN	02/24/2012	06/22/2012	Note 2
2012-KC-1002	The East St. Louis Housing Authority Did Not Properly Manage or Report on Recovery Act Capital Funds, East St. Louis, IL	03/02/2012	06/29/2012	04/30/2014
2012-FW-1005	The State of Texas Did Not Follow Requirements for Its Infrastructure and Revitalization Contracts Funded With CDBG Disaster Recovery Program Funds, Austin, TX	03/07/2012	07/05/2012	Note 2
2012-LA-1005	The City of Los Angeles Did Not Expend Brownfields Economic Development Initiative and Section 108 Funds for the Goodyear Industrial Tract Project in Accordance With HUD Requirements, Los Angeles, CA	03/13/2012	09/19/2012	03/13/2015
2012-PH-1008	Mountain CAP of WV, Inc., Did Not Administer Its HPRP in Accordance With Applicable Recovery Act and HUD Requirements, Buckhannon, WV	03/15/2012	07/12/2012	Note 2
2012-CH-1007	The State of Michigan Lacked Adequate Controls Over Its Use of NSP Funds Under the HERA for a Project, Lansing, MI	03/30/2012	07/26/2012	Note 2
2012-LA-1006	Amar Plaza Was Not Administered in Accordance With HUD Rules and Regulations, La Puente, CA	05/21/2012	09/17/2012	09/19/2014
2012-AT-1009	The Municipality of Bayamón Did Not Always Ensure Compliance With HOME Investment Partnerships Program Requirements, Bayamon, PR	05/23/2012	09/18/2012	Note 2
2012-LA-1007	Los Angeles Neighborhood Housing Services Did Not Always Properly Administer Its NSP2 Grant, Los Angeles, CA	06/05/2012	09/21/2012	09/23/2014

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2012-LA-1008	The City of Phoenix Did Not Always Comply With Program Requirements When Administering Its NSP1 and NSP2 Grants, Phoenix, AZ	06/15/2012	10/15/2012	Note 2
2012-AO-1002	The Jefferson Parish Housing Authority Violated Federal Regulations, Marrero, LA	07/30/2012	12/31/2012	06/30/2014
2012-CH-1009	The Hammond Housing Authority Did Not Administer Its Recovery Act Grants in Accordance With Recovery Act, HUD's, and Its Own Requirements, Hammond, IN	08/03/2012	11/30/2012	02/01/2015
2012-PH-1011	Prince George's County Generally Did Not Administer Its HOME Program in Accordance With Federal Requirements, Largo, MD	08/03/2012	11/30/2012	Note 2
2012-NY-1011	The City of Elizabeth Did Not Always Administer Its CDBG Program in Accordance With Regulations, Elizabeth, NJ	08/15/2012	12/07/2012	Note 2
2012-KC-0003	HUD Did Not Effectively Oversee and Manage the Receivership of the East St. Louis Housing Authority	09/05/2012	01/15/2013	12/31/2014
2012-AT-1015	Little Haiti Did Not Fully Comply With Federal Rules When Administering NSP2, Miami, FL	09/06/2012	01/03/2013	Note 2
2012-FW-1014	The State of Louisiana Generally Complied With Recovery Act HPRP, Baton Rouge, LA	09/07/2012	02/08/2013	Note 2
2012-LA-1010	Innotion Enterprises, Inc., Did Not Always Comply With Its REO Contract Requirements, Las Vegas, NV	09/12/2012	01/10/2013	Note 2
2012-KC-0004	FHA Paid Claims for Approximately 11,693 Preforeclosure Sales that Did Not Meet FHA Requirements	09/18/2012	01/14/2013	Note 2
2012-LA-0003	HUD Did Not Always Enforce REO M&M III Program Requirements	09/18/2012	01/09/2013	Note 2
2012-LA-0004	HUD Did Not Ensure Public Housing Agencies' Use of Property Insurance Recoveries Met Program Requirements	09/21/2012	12/19/2012	Note 2



REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2012-LA-1801	Shea Mortgage, Inc., Allowed the Recording of Prohibited Restrictive Covenants, Aliso Viejo, CA	09/26/2012	03/01/2013	10/09/2014
2012-CH-1011	The Stark Metropolitan Housing Authority Did Not Always Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Own Requirements, Canton, OH	09/27/2012	01/15/2013	12/31/2018
2012-CH-1012	The Saginaw Housing Commission Did Not Always Administer Its Section 8 Housing Choice Voucher Program in Accordance With HUD's and Its Own Requirements, Saginaw, MI	09/27/2012	01/07/2013	01/01/2023
2012-CH-1013	The Flint Housing Commission Did Not Always Administer Its Grants in Accordance With Recovery Act, HUD's, and Its Own Requirements, Flint, MI	09/27/2012	01/24/2013	10/31/2014
2012-FO-0006	HUD's Oversight of Recovery Act-Funded Housing Programs	09/27/2012	03/05/2013	Note 2
2012-KC-1006	The City of St. Louis Did Not Effectively Manage Its Recovery Act Funding, St. Louis, MO	09/27/2012	01/25/2013	Note 2
2012-CH-0801	HUD's Office of Community Planning and Development Needs To Improve Its Tracking of HOME Investment Partnerships Program Technical Assistance Activities	09/28/2012	02/13/2013	Note 2
2012-CH-1014	Mortgage Now Inc. Did Not Always Comply With HUD's Underwriting and Quality Control Requirements, Shrewsbury, NJ	09/28/2012	01/25/2013	Note 2
2012-CH-1803	A Summary of the Foreclosure and Claims Process Reviews for Five Mortgage Servicers That Engaged in Improper Foreclosure Practices, Washington, DC	09/28/2012	01/30/2013	04/30/2014
2012-DP-0005	Review of Controls Over HUD's Mobile Devices	09/28/2012	12/18/2012	11/08/2014

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2012-NY-1802	Village of Spring Valley, Hotline Complaint, Federal Housing Finance Agency Complaint Number Z-12-0445-1, Village of Spring Valley, NY	09/28/2012	01/28/2013	Note 2
2012-CH-1015	Allen Mortgage, LLC, Did Not Comply With HUD Requirements for Underwriting FHA Loans and Fully Implement Its Quality Control Program in Accordance With HUD's Requirement, Centennial Park, AZ	09/30/2012	02/04/2013	Note 2
2013-PH-1001	Luzerne County Did Not Properly Evaluate, Underwrite, and Monitor a High-Risk Loan, Wilkes-Barre, PA	10/31/2012	01/31/2013	Note 2
2013-PH-1002	The City of Baltimore Did Not Administer Its Homelessness Prevention and Rapid Re-Housing Program Grant According to Recovery Act Requirements, Baltimore, MD	11/09/2012	02/08/2013	05/05/2014
2013-FO-0003	Additional Details To Supplement Our Report on HUD's Fiscal Years 2012 and 2011 Financial Statements	11/15/2012	05/15/2013	12/31/2014
2013-AT-1001	The Municipality of Ponce Did Not Always Ensure Compliance With HOME Investment Partnerships Program Requirements, Ponce, PR	11/30/2012	03/29/2013	Note 2
2013-NY-1001	The City of Albany CDBG Recovery Act Program, Albany, NY	12/06/2012	04/03/2013	04/03/2014
2013-PH-0002	HUD Policies Did Not Always Ensure That Borrowers Complied With Program Residency Requirements	12/20/2012	04/19/2013	04/16/2014
2013-SE-1001	The Idaho Housing and Finance Association Did Not Always Comply With HOME Investment Partnerships Program Match and Compliance Monitoring Requirements, Boise, ID	12/21/2012	12/21/2012	Note 2
2013-CH-0001	HUD Did Not Always Provide Adequate Oversight of Its Assisted Living Conversion Program	01/04/2013	05/03/2013	Note 2

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2013-FO-0004	Information System Deficiencies Noted During Federal Housing Administration's Fiscal Year 2012 Financial Statement Audit	01/15/2013	08/22/2013	Note 2
2013-LA-1801	Standard Pacific Mortgage, Inc., Allowed the Recording of Prohibited Restrictive Covenants, Irvine, CA	02/05/2013	06/04/2013	06/05/2014
2013-NY-1004	The City of Paterson Had Weaknesses in the Administration of Its Housing Opportunities for Persons with AIDS Program, Paterson, NJ	02/25/2013	04/15/2013	04/08/2014
2013-DP-0004	Technical Security Control Weaknesses in Selected Ginnie Mae Applications	02/28/2013	06/26/2013	Note 2
2013-FW-1001	The Cherokee Nation Generally Administered Its Recovery Act Funds According to Requirements, Tahlequah, OK	03/12/2013	06/28/2013	05/31/2014
2013-LA-1003	Bay Vista Methodist Heights Violated Its Agreement With HUD When Administering Its Trust Funds, San Diego, CA	03/14/2013	05/15/2013	05/14/2014
2013-AT-1003	The Municipality of Arecibo Did Not Always Ensure Compliance With CDBG Program Requirements, Arecibo, PR	03/22/2013	06/14/2013	05/31/2014

Significant Audit Reports issued within the past 12 months that were described in previous semiannual reports for which final action had not been completed as of March 31, 2014

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2013-FW-1004	The Housing Authority of the City of El Paso Did Not Follow Recovery Act Obligation Requirements or Procurement Policies, El Paso, TX	04/12/2013	08/27/2013	04/30/2014
2013-LA-1802	Pulte Mortgage LLC, Allowed the Recording of Prohibited Restrictive Covenants, Englewood, CO	04/18/2013	01/10/2014	07/29/2014
2013-LA-1803	CTX Mortgage Company LLC Allowed the Recording of Prohibited Restrictive Covenants, Dallas, TX	04/18/2013	01/10/2014	07/29/2014

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2013-LA-1004	The City of San Bernardino Did Not Administer Its CDBG and CDBG-Recovery Act Programs in Accordance With HUD Rules and Regulations, San Bernardino, CA	04/23/2013	09/06/2013	09/09/2014
2013-PH-1803	Review of the Philadelphia Housing Authority's Compliance with Federal Lobbying Disclosure Requirements and Restrictions, Philadelphia, PA	04/26/2013	11/15/2013	08/26/2014
2013-NY-1006	Nassau County Did Not Administer It's HOME Investment Partnerships Program in Accordance With HUD Requirements, Nassau County, NY	05/13/2013	09/06/2013	07/01/2014
2013-LA-1006	The City of Santa Ana Did Not Administer NSP2 Funds in Accordance With HUD Rules and Requirements, Santa Ana, CA	06/17/2013	09/30/2013	06/16/2014
2013-FW-1006	The Management and Board of Commissioners of the Harris County Housing Authority Mismanaged the Authority, Houston, TX	06/19/2013	02/11/2014	11/30/2014
2013-NY-1007	Authority Officials Generally Administered Recovery Act Funds in Accordance With Requirements but Budgetary and Procurement Controls Had Weaknesses, New Brunswick, NJ	06/21/2013	08/27/2013	08/15/2014
2013-KC-0002	HUD Did Not Enforce the Reporting Requirements of Section 3 of the Housing and Urban Development Act of 1968 for Public Housing Authorities	06/26/2013	10/24/2013	07/31/2015
2013-LA-1007	The County of Santa Barbara Did Not Comply With HOME Investment Partnerships Program Requirements, Santa Barbara, CA	07/09/2013	11/04/2013	10/24/2014
2013-PH-1005	The Charleston-Kanawha Housing Authority Needs To Improve Its Housing Quality Standards Inspections and Apply Correct Payment Standards When Calculating Housing Assistance Payments, Charleston, WV	07/17/2013	11/14/2013	04/15/2014

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2013-NY-0002	HUD Can Improve Public Housing Agencies Use of Housing Choice Vouchers by Consistently Implementing All Utilization Protocols and Improving Controls	07/18/2013	11/15/2013	09/27/2014
2013-NY-0003	HUD Officials Did Not Always Monitor Grantee Compliance With the CDBG Timeliness Spending Requirement	07/19/2013	11/26/2013	10/03/2014
2013-AT-1006	The Puerto Rico Housing Finance Authority Did Not Always Comply With HOME Requirements, San Juan, PR	07/23/2013	11/20/2013	11/15/2014
2013-BO-1002	The City of Worcester Did Not Properly Administer Its CDBG Program, Worcester, MA	07/29/2013	12/19/2013	12/04/2014
2013-NY-1009	Essex County's HOME Investment Partnerships Program Was Not Always Administered in Compliance With Program Requirements and Federal Regulations, Essex County, NJ	08/09/2013	11/05/2013	07/09/2014
2013-FW-1007	The City of Eagle Pass Housing Authority Generally Followed Recovery Act Public Housing Capital Fund Requirements, Eagle Pass, TX	08/14/2013	11/13/2013	05/14/2014
2013-LA-1008	The Lending Company, Inc., Did Not Always Comply With FHA Underwriting and Quality Control Program Requirements, Phoenix, AZ	08/20/2013	12/24/2013	09/19/2014
2013-AT-0003	Economic Development Programs Lacked Adequate Controls To Ensure Program Effectiveness	09/03/2013	01/28/2014	12/31/2014
2013-BO-1003	The Housing Authority of the City of Lowell Did Not Always Operate Its Public Housing and Recovery Act Capital Fund Programs in Compliance With HUD Regulations and Its Own Policies, Lowell, MA	09/04/2013	01/08/2014	07/31/2014
2013-LA-0002	FHA Paid Claims for Approximately 4,457 Preforeclosure Sales That Did Not Meet Minimum Net Sales Proceeds Requirements	09/05/2013	03/31/2014	09/04/2014

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2013-DP-0006	Weaknesses Identified in HUD's Fiscal Year 2012 Security Program	09/12/2013	01/13/2014	06/30/2014
2013-LA-1009	The City of Hawthorne Inappropriately Used Nearly \$1.6 Million in HOME Funds for Section 8 Tenants, Hawthorne, CA	09/13/2013	01/06/2014	12/23/2014
2013-CH-1006	The State of Michigan Lacked Adequate Controls Over Its NSP Under the American Recovery and Reinvestment Act of 2009, Lansing, MI	09/15/2013	01/13/2014	01/06/2015
2013-CH-1008	Community Advocates Did Not Properly Administer Its Program and Recovery Act Grant Funds, Milwaukee, WI	09/17/2013	01/15/2014	03/31/2015
2013-KC-0004	HUD Paid Claims That Lacked Contact or Collection Activities With Coborrowers	09/18/2013	01/07/2014	09/17/2014
2013-LA-1010	The City of Hawthorne Did Not Administer Its CDBG Program Cost Allocations in Accordance With HUD Rules and Requirements, Hawthorne, CA	09/20/2013	01/06/2014	12/23/2014
2013-KC-0005	HUD Had Made Progress in Reducing Oversubsidization in the Housing Choice Voucher Program, but the Problem Continued To Exist	09/23/2013	12/12/2013	10/30/2014
2013-LA-0803	Reviews of Six FHA Lenders Demonstrated That HUD Needs To Strengthen Its Oversight of Prohibited Restrictive Covenants	09/23/2013	01/14/2014	09/23/2014
2013-FW-1008	The City of New Orleans Did Not Have Adequate Financial and Programmatic Controls To Ensure That It Expended and Reported Funds in Accordance With Program Requirements, New Orleans, LA	09/24/2013	01/06/2014	05/09/2014
2013-FW-1805	The Malakoff Housing Authority Did Not Have Sufficient Controls Over Its Public Housing Programs, Including Its Recovery Act Funds, Malakoff, TX	09/26/2013	12/19/2013	05/02/2014
2013-NY-1010	The City of Auburn Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Auburn, NY	09/26/2013	01/24/2014	06/30/2015

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2013-CH-1009	The Flint Housing Commission Did Not Always Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Own Requirements, Flint, MI	09/27/2013	01/14/2014	01/23/2015
2013-IE-0804	Evaluation of HUD's Property Inventory System	09/27/2013	03/26/2014	09/30/2015
2013-PH-0004	HUD's Oversight of Its Moving to Work Demonstration Program Needs Improvement	09/27/2013	01/24/2014	01/31/2015
2013-AT-1008	The City of West Palm Beach Did Not Always Properly Administer Its HOME Program, West Palm Beach, FL	09/30/2013	01/17/2014	Note 3
2013-CH-1010	The City of Toledo Did Not Always Administer Its CDBG-R Program in Accordance With HUD's and Its Own Requirements, Toledo, OH	09/30/2013	01/15/2014	01/15/2015
2013-CH-1011	The Michigan State Housing Development Authority Did Not Follow HUD's Requirements Regarding the Administration of Its Program, Lansing, MI	09/30/2013	01/15/2014	07/31/2029
2013-CH-1012	The Hamtramck Housing Commission Did Not Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Own Requirements, Hamtramck, MI	09/30/2013	01/21/2014	01/23/2015
2013-DE-1005	The Jefferson County Housing Authority Did Not Properly Use Its Disposition Sales Proceeds, Wheat Ridge, CO	09/30/2013	01/24/2014	02/28/2020
2013-DP-0007	Information System Control Weaknesses Identified in the Hyperion Application System	09/30/2013	01/29/2014	08/29/2014

**AUDITS EXCLUDED:**

81 audits under repayment plans

32 audits under debt claims collection processing, formal judicial review, investigation, or legislative solution

**NOTES:**

1 Management did not meet the target date. Target date is over 1 year old.

2 Management did not meet the target date. Target date is under 1 year old.

3 No management decision

## TABLE C

## Inspector General-issued reports with questioned and unsupported costs at 03/31/2014 (thousands)

AUDIT REPORTS		NUMBER OF AUDIT REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A1	For which no management decision had been made by the commencement of the reporting period	43	\$861,560	\$384,763
A2	For which no management decision had been made by the commencement of the reporting period	5	\$8,960	\$5,299
A3	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	-	\$212	\$177
A4	For which additional costs were added to reports in beginning inventory	0	\$0	\$0
B1	For which costs were added to noncost reports	23	\$124,850	\$113,406
B2	Which were issued during the reporting period	0	\$0	\$0
<b>SUBTOTALS (A + B)</b>		<b>71</b>	<b>\$995,582</b>	<b>\$503,645</b>
C	For which a management decision was made during the reporting period	45 <sup>12</sup>	\$152,743	\$113,572
	1) Dollar value of disallowed costs:			
	Due HUD	20 <sup>13</sup>	\$37,153	\$22,118
	Due program participants	31	\$87,472	\$73,471
	(2) Dollar value of costs not disallowed	7 <sup>14</sup>	\$28,118	\$17,983
D	For which a management decision had been made not to determine costs until completion of litigation, legislation, or investigation	5	\$8,960	\$5,299
E	For which no management decision had been made by the end of the reporting period	21 < 50 > <sup>15</sup>	\$833,879 < \$820,354 > <sup>15</sup>	\$384,774 < \$371,500 > <sup>15</sup>

<sup>12</sup> Twenty-four audit reports also contain recommendations with funds be put to better use.

<sup>13</sup> Seven audit reports also contain recommendations with funds due program participants.

<sup>14</sup> Six audit reports also contain recommendations with funds agreed to by management.

<sup>15</sup> The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.



**TABLE D**

Inspector General-issued reports with recommendations that funds be put to better use at 03/31/2014 (thousands)

AUDIT REPORTS		NUMBER OF AUDIT REPORTS	DOLLAR VALUE
A1	For which no management decision had been made by the commencement of the reporting period	30	\$424,986
A2	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	4	\$17,375
A3	For which additional costs were added to reports in beginning inventory	-	\$251
A4	For which costs were added to noncost reports	0	\$0
B1	Which were issued during the reporting period	13	\$1,130,315
B2	Which were reopened during the reporting period	0	\$0
<b>SUBTOTALS (A + B)</b>		<b>47</b>	<b>\$1,572,927</b>
C	For which a management decision was made during the reporting period	31 <sup>16</sup>	\$373,255
	(1) Dollar value of recommendations that were agreed to by management:	10 <sup>17</sup>	\$305,980
	Due HUD	18	\$51,891
	Due program participants		
	(2) Dollar value of recommendations that were not agreed to by management	5 <sup>18</sup>	\$15,384
D	For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	3	\$4,811
E	For which no management decision had been made by the end of the reporting period	13 < 35 > <sup>19</sup>	\$1,194,861 < \$1,093,953 > <sup>19</sup>

16 Twenty-four Audit Reports also contain recommendations with questioned costs.

17 One Audit Report also contains recommendations with funds due program participants.

18 One Audit Report also contains recommendations with funds agreed to by management.

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

## EXPLANATIONS OF TABLES C AND D

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The Inspector General Act Amendments of 1988 require inspectors general and agency heads to report cost data on management decisions and final actions on audit reports. The current method of reporting at the “report” level rather than at the individual audit “recommendation” level results in misleading reporting of cost data. Under the Act, an audit “report” does not have a management decision or final action until all questioned cost items or other recommendations have a management decision or final action. Under these circumstances, the use of the “report” based rather than the “recommendation” based method of reporting distorts the actual agency efforts to resolve and complete action on audit recommendations. For example, certain cost items or recommendations could have a management decision and repayment (final action) in a short period of time. Other cost items or nonmonetary recommendation issues in the same audit report may be more complex, requiring a longer period of time for management’s decision or final action. Although management may have taken timely action on all but one of many recommendations in an audit report, the current “all or nothing” reporting format does not recognize their efforts.

The closing inventory for items with no management decision in tables C and D (line E) reflects figures at the report level as well as the recommendation level.

# HUD OIG TELEPHONE DIRECTORY

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## Office of Audit

<b>HEADQUARTERS OFFICE OF AUDIT</b>	Washington, DC	202-708-0364
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<b>REGION 1-2</b>	New York, NY	212-264-4174
	Albany, NY	518-462-2892
	Boston, MA	617-994-8380
	Buffalo, NY	716-551-5755
	Hartford, CT	860-240-4837
	Newark, NJ	973-776-7339

<b>REGION 3</b>	Philadelphia, PA	215-656-0500
	Baltimore, MD	410-962-2520
	Pittsburgh, PA	412-644-6372
	Richmond, VA	804-771-2100

<b>REGION 4</b>	Atlanta, GA	404-331-3369
	Greensboro, NC	336-547-4001
	Jacksonville, FL	904-232-1226
	Knoxville, TN	865-545-4400
	Miami, FL	305-536-5387
	San Juan, PR	787-766-5540

<b>REGION 5</b>	Chicago, IL	312-353-7832
	Columbus, OH	614-469-5745
	Detroit, MI	313-226-6280

<b>REGION 6</b>	Fort Worth, TX	817-978-9309
	Baton Rouge, LA	225-448-3976
	Houston, TX	713-718-3199
	New Orleans, LA	504-671-3715
	Albuquerque, NM	505-346-7270
	Oklahoma City, OK	405-609-8606
	San Antonio, TX	210-475-6800

<b>REGION 7-8-10</b>	Kansas City, KS	913-551-5870
	St. Louis, MO	314-539-6339
	Denver, CO	303-672-5452
	Seattle, WA	206-220-5360

<b>REGION 9</b>	Los Angeles, CA	213-894-8016
	Las Vegas, NV	702-336-2100
	Phoenix, AZ	602-379-7250
	San Francisco, CA	415-489-6400

## Office of Investigation

<b>HEADQUARTERS</b>	Washington, DC	202-708-0390
<b>OFFICE OF INVESTIGATION</b>		

<b>REGION 1-2</b>	New York, NY	212-264-8062
	Boston, MA	617-994-8450
	Hartford, CT	860-240-4800
	Manchester, NH	603-666-7988
	Newark, NJ	973-776-7355

<b>REGION 3</b>	Philadelphia, PA	215-430-6758
	Baltimore, MD	410-209-6533
	Pittsburgh, PA	412-644-6598
	Richmond, VA	804-822-4890
	Washington, DC	202-287-4100

<b>REGION 4</b>	Atlanta, GA	404-331-5001
	Birmingham, AL	205-745-4314
	Columbia, SC	803-451-4318
	Greensboro, NC	336-547-4000
	Jackson, MS	601-965-4700
	Memphis, TN	901-554-3148
	Miami, FL	305-536-3087
	San Juan, PR	787-766-5868
	Tampa, FL	813-228-2026

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REGION 5	Chicago, IL	312-353-4196
	Cleveland, OH	216-357-7800
	Columbus, OH	614-469-6677
	Detroit, MI	313-226-6280
	Grand Rapids, MI	616-916-3715
	Indianapolis, IN	317-226-5427
	Minneapolis-St. Paul, MN	612-370-3130

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REGION 6	Fort Worth, TX	817-978-5440
	Baton Rouge, LA	225-448-3941
	Houston, TX	713-718-3221
	Little Rock, AR	501-324-5931
	New Orleans, LA	504-671-3700
	Oklahoma City, OK	405-609-8603
	San Antonio, TX	210-475-6819

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REGION 7-8-10	Kansas City, KS	913-551-5866
	St. Louis, MO	314-539-6559
	Denver, CO	303-672-5350
	Billings, MT	406-247-4080
	Salt Lake City, UT	801-524-6090
	Seattle, WA	206-220-5380

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REGION 9	Los Angeles, CA	213-894-0219
	Las Vegas, NV	702-366-2144
	Phoenix, AZ	602-379-7252
	Sacramento, CA	916-930-5691
	San Francisco, CA	415-489-6683

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## ACRONYMS LIST

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<b>ARRA</b>	American Recovery and Reinvestment Act of 2009
<b>BPD</b>	Bureau of Public Debt
<b>CDBG</b>	Community Development Block Grant
<b>CDBG-DR</b>	Community Development Block Grant Disaster Recovery
<b>CFR</b>	Code of Federal Regulations
<b>CI</b>	Criminal Investigation (Internal Revenue Service)
<b>CPD</b>	Office of Community Planning and Development
<b>DOL</b>	U.S. Department of Labor
<b>FBI</b>	Federal Bureau of Investigation
<b>FFMIA</b>	Federal Financial Management Improvement Act of 1996
<b>FHA</b>	Federal Housing Administration
<b>FHFA</b>	Federal Housing Finance Agency
<b>FIFO</b>	first-in, first-out
<b>FIRMS</b>	Facilities Integrated Resources Management System
<b>FISMA</b>	Federal Information Security Management Act
<b>FSS</b>	Family Self-Sufficiency
<b>GAAP</b>	generally accepted accounting principles
<b>GAO</b>	U.S. Government Accountability Office
<b>HEMS</b>	HUD Enforcement Systems
<b>HERMIT</b>	Home equity reverse mortgage information technology
<b>HIAMS</b>	HUD Integrated Acquisition Management System
<b>HIFMIP</b>	HUD's Integrated Financial Management Improvement Project
<b>HOME</b>	HOME Investment Partnerships Program
<b>HPS</b>	HUD Procurement System
<b>HUD</b>	U.S. Department of Housing and Urban Development
<b>HUDCAPS</b>	HUD's Centralized Accounting Program System
<b>IDIS</b>	Integrated Disbursement and Information System
<b>IRS</b>	Internal Revenue Service
<b>IT</b>	Information Technology
<b>MMI</b>	Mutual Mortgage Insurance
<b>OCFO</b>	Office of the Chief Financial Officer
<b>ODOC</b>	Office of Departmental Operations and Coordination
<b>OIG</b>	Office of Inspector General
<b>OMB</b>	Office of Management and Budget
<b>PERMS</b>	Performance Measurement System
<b>PHA</b>	public housing agency
<b>SPS</b>	Small Purchase System
<b>U.S.C.</b>	United States Code
<b>VA</b>	U.S. Department of Veterans Affairs

# REPORTING REQUIREMENTS

The specific reporting requirements as prescribed by the Inspector General Act of 1978, as amended by the Inspector General Act of 1988, are listed below.

<b>SOURCE-REQUIREMENT</b>	<b>PAGES</b>
Section 4(a)(2)-review of existing and proposed legislation and regulations	36
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	12 - 35
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	39
Section 5(a)(3)-identification of each significant recommendation described in previous Semiannual Reporton which corrective action has not been completed.	Appendix 3, table B, 57
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	12 - 35
Section 5(a)(5)-summary of reports made on instances where information or assistance was unreasonably refused or not provided, as required by Section 6(b)(2) of the Act.	No instances
Section 5(a)(6)-listing of each audit report completed during the reporting period, and for each report, where applicable, the total dollar value of questioned and unsupported costs and the dollar value of recommendations that funds be put to better use.	Appendix 2, 52
Section 5(a)(7)-summary of each particularly significant report.	12 - 35
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Appendix 3, table C, 72
Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.	Appendix 3, table D, 56
Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.	Appendix 3, table A, 56
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	46
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	48
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	49

# FRAUD ALERT

*Every day, loan modification and foreclosure rescue scams rob vulnerable homeowners of their money and their homes. The U.S. Department of Housing and Urban Development (HUD), Office of Inspector General, is the Department's law enforcement arm and is responsible for investigating complaints and allegations of mortgage fraud. Following are some of the more common scams:*

## COMMON LOAN MODIFICATION SCAMS

**Phony counseling scams:** The scam artist says that he or she can negotiate a deal with the lender to modify the mortgage — for an upfront fee.

**Phony foreclosure rescue scams:** Some scammers advise homeowners to make their mortgage payments directly to the scammer while he or she negotiates with the lender. Once the homeowner has made a few mortgage payments, the scammer disappears with the homeowner's money.

**Fake “government” modification programs:** Some scammers claim to be affiliated with or approved by the government. The scammer's company name and Web site may appear to be a real government agency, but the Web site address will end with .com or .net instead of .gov.

**Forensic loan audit:** Because advance fees for loan counseling services are prohibited, scammers may sell their services as “forensic mortgage audits.” The scammer will say that the audit report can be used to avoid foreclosure, force a mortgage modification, or even cancel a loan. The fraudster typically will request an upfront fee for this service.

**Mass joinder lawsuit:** The scam artist, usually a lawyer, law firm, or marketing partner, will promise that he or she can force lenders to modify loans. The scammers will try to “sell” participation in a lawsuit against the mortgage lender, claiming that the homeowner cannot participate in the lawsuit until he or she pays some type of upfront fee.

**Rent-to-own or leaseback scheme:** The homeowner surrenders the title or deed as part of a deal that will let the homeowner stay in the home as a renter and then buy it back in a few years. However, the scammer has no intention of selling the home back to the homeowner and, instead, takes the monthly “rent” payments and allows the home to go into foreclosure.

Remember, only work with a HUD-approved housing counselor to understand your options for assistance. HUD-approved housing counseling agencies are available to provide information and assistance. Call 888-995-HOPE to speak with an expert about your situation. HUD-approved counseling is free of charge.

IF YOU SUSPECT FRAUD, CALL THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, OFFICE OF INSPECTOR GENERAL.





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

**Faxing the OIG hotline:** 202-708-4829

**Emailing the OIG hotline:** [hotline@hudoig.gov](mailto:hotline@hudoig.gov)

### **Sending written information to**

Department of Housing and Urban Development

Inspector General Hotline (GFI)

451 7th Street, SW

Room 8254

Washington, DC 20410

### **Internet**

<http://www.hudoig.gov/hotline/index.php>

**ALL INFORMATION IS CONFIDENTIAL, AND YOU MAY REMAIN ANONYMOUS.**



U.S. DEPARTMENT  
OF HOUSING  
AND URBAN  
DEVELOPMENT

Report Number 71

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