

U.S. Department of Housing and Urban Development
Office of the Inspector General

Semiannual Report to the Congress

as of September 30, 1997



OIG MISSION STATEMENT AND VALUES

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

OIG values are as follows:

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



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
THE DEPUTY SECRETARY
WASHINGTON, D.C. 20410-0050

December 29, 1997

Honorable Albert Gore, Jr.
The Vice President of
the United States
Washington, DC 20501

Dear Mr. Vice President:

I am transmitting to you the Department of Housing and Urban Development's Office of Inspector General's (OIG) Semiannual Report. This report covers the period from April 1, 1997, through September 30, 1997, and is prepared pursuant to Section 5(b) of the Inspector General Act of 1978. One of the major topics of the report is a discussion about the implementation of HUD's management reform effort – an effort begun nearly one year ago.

During the past several years, Congress, the General Accounting Office, and the HUD Inspector General have all called for radical and systemic reform at HUD. In fact, the Inspector General stated last year that "prospects for further improvement . . . are dim," and the GAO retained HUD on its high-risk list. In many ways, as we indicated in our management plan, HUD had become "the poster child for inept government."

As the Secretary stated at his Senate confirmation hearing, we strongly agreed with this historic assessment of the Agency, believing that wholesale reform of HUD's management was necessary for the Agency to be able to carry out its mission. Secretary Cuomo pledged that such reform would be his number one priority in 1997. In keeping with that commitment, we have spent the entire first year focusing almost exclusively on cleaning up waste, fraud and abuse at HUD and aggressively reinventing the Department's operations and systems. To that end, we have taken a number of steps, including terminating or suspending problem programs, reforming other programs to protect seniors and homeowners, and cracking down on the Nation's worst slumlords – debarring more than 300 percent more landlords in 1997 than in the prior year.

During this first year, we also developed and began implementation of the HUD 2020 Management Reform Plan, a sweeping proposal designed to rethink and remake the Agency. The plan's design involved teams of employees from all parts of the Department at all levels, outside management experts like the father of "reinvention," David Osborne, and the co-creator of the "reengineering" movement, James Champy, and hundreds of hours of input and consultation with HUD's constituents and employees. At its core, the HUD 2020 Plan is grounded in the recommendations made over the years by the Inspector General, the General Accounting Office, and the Department's Congressional committees – and responds directly to the core issues raised over the years.

HUD 2020, which we are now well into implementing, is built on a few basic and essential changes, including:

- Consolidating routine processing work into back-office centers, such as the consolidating of FHA Single Family Mortgage Insurance processing from 80 offices nationwide to four regional centers (a move which, when combined with new technology, will reduce processing time from 4-6 weeks to 2 days or less);
- Modernizing and integrating HUD's 89 separate financial systems, as well as restructuring its information systems;
- Continuing the downsizing of the Agency to the target of 7,500 full-time employees by the year 2002. (Over 80 percent, of this downsizing is in FHA Single Family, a downsizing which is driven by a dramatic change in technology in the mortgage insurance processing industry). To meet this goal, the Department has aggressively used buyouts (a power which Congress rescinds on December 31, 1997). Even after the buyouts, HUD's workforce has an average of 18 years experience – more than the average government agency. And all of the reductions have been accomplished without closing a single office;
- Reorganizing HUD personnel to match the workforce and its skills to the Agency's workload, an effort which involved countless hours of analysis and system redesign by each of HUD's program offices. The Department is also implementing plans to use the 1,500 or so "unplaced" employees (those who do not have a job in the staffing plan for the year 2002) to augment program staff in areas of the Department that are most vulnerable to waste, fraud and abuse;
- Creating a new National Real Estate Assessment Center that, for the first time in HUD's history, will systematically and comprehensively assess the physical and financial condition of HUD's housing portfolio;
- Establishing a new Enforcement Center headed by an FBI detailee and staffed by US Attorneys. The center has now become the focal point of the Department's efforts to clean up years of waste, fraud and abuse; and
- Creating a more customer-friendly structure at HUD, with the advent of "Community Builders" and the use of new technology that empowers communities, such as HUD's Community 2020 mapping software. In fact, when the plan is fully implemented, there will be twice as many customer service representatives in HUD Field Offices as there were prior to the plan;

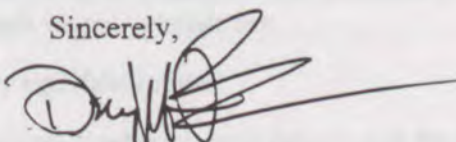
Over the years, many plans for the reorganization of HUD have been proposed. The difference now is that the HUD 2020 plan is actually being implemented according to an aggressive but prudent timetable. Since the introduction of the plan in June, 1997, the Department has signed partnership agreements with its two employee unions, concluded two buyouts, virtually completed the personnel reassignment and merit staffing process (which will be finalized on January 16, 1998) and begun consolidation of administrative functions.

In the enclosed report, the Inspector General raises concerns about the pace of implementation of the HUD 2020 plan. The OIG suggests that HUD is moving too fast to implement the proposed reforms, and has suggested that additional study is necessary. We do not believe that this Agency can afford to wait for more studies. The greatest risk to HUD is inaction in the face of overwhelming evidence of the need for change. We can--and must--move to implement reforms without sacrificing effectiveness.

At the same time, the Department welcomes constructive assistance and input from the OIG to ensure successful implementation of the HUD 2020 plan. To this end, Inspector General Gaffney has put together a team from her office to work with the Department's management reform implementation group on the transition plans to the new HUD; the teams are now working together and will do so over the coming months.

Let me assure you that this Department is strongly committed to management reform. Congress has been very supportive of the Department's management reform efforts. This year, we worked together with Congress to pass the first major piece of housing legislation in five years. The new *Mark-to-Market* law will save affordable housing for 4.4 million Americans, and save taxpayers \$1.5 billion over the next five years. We appreciate this support and look forward to your assistance as the changes at HUD continue. Please do not hesitate to contact me if the Department can provide further information about these changes.

Sincerely,

A handwritten signature in dark ink, appearing to read "Dwight P. Robinson", with a long horizontal flourish extending to the right.

Dwight P. Robinson
Deputy Secretary

Enclosure

Reporting Requirements

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

<i>Source/Requirement</i>	<i>Page</i>
Section 4(a)(2)-review of existing and proposed legislation and regulations.	Pages 71-80
Section 5(a)(1)-description of significant problems, abuses and deficiencies relating to the administration of programs and operations of the Department.	Pages 1-70, 81-87
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses and deficiencies.	Pages 45-70
Section 5(a)(3)-identification of each significant recommendation described in previous Semiannual Reports on which corrective action has not been completed.	Appendix 2, Table B
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	Pages 21-70
Section 5(a)(5)-summary of reports made on instances where information or assistance was unreasonably refused or not provided, as required by Section 6(b)(2) of the Act.	No instances
Section 5(a)(6)-listing of each audit report completed during the reporting period, and for each report, where applicable, the total dollar value of questioned and unsupported costs and the dollar value of recommendations that funds be put to better use.	Appendix 1
Section 5(a)(7)-summary of each particularly significant report.	Pages 45-70
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Appendix 2, Table C
Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.	Appendix 2, Table D
Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.	Appendix 2, Table A
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	Pages 85-87

INSPECTOR GENERAL'S MESSAGE

Our last Report to the Congress noted that Secretary Cuomo had engaged the Department in devising a comprehensive plan for HUD management reform.

Chapter One of this Report to the Congress provides an update on HUD's 2020 Management Reform Plan. We generally support the goals and objectives of the Plan, and applaud key provisions that are designed to correct systemic management weaknesses in HUD.

We are extremely concerned, however, that development and implementation of the Plan are proceeding at a pace and in a manner that have not allowed for cost benefit analysis, adequate consultation with HUD stakeholders, or enactment of legislative proposals that underlie the Plan. Despite these problems, HUD is using existing buyout authority to significantly reduce its staffing, in order to meet the Plan's target staffing level of 7,500 by Fiscal Year 2002. We have found no methodological workload analysis that supports this target staffing level.

While HUD can reduce its staffing through buyouts, HUD on its own cannot enable this reduced staff to function effectively. Congressional involvement is essential to redefine HUD's mission and programs to manageable proportions. Involvement of other HUD stakeholders is essential to ensure that revised HUD program delivery systems best serve the beneficiaries of HUD funding. And HUD needs more time to conduct a thoughtful analysis of its staffing needs and the costs and benefits of its Plan.

To these ends, we urge the immediate attention of the Congress and the Administration to HUD's management reform.

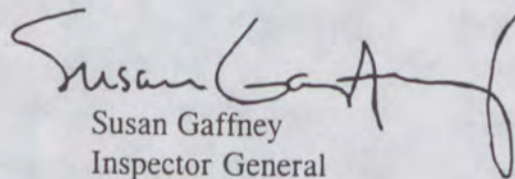

Susan Gaffney
Inspector General

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HUD Management Issues



HUD's 2020 Management Reform Plan

During his Congressional confirmation hearings in January of this year, Secretary Cuomo stated that HUD's mission could not be carried out in the future unless the Department's house was in good order. He further stated that he would continue to build on Secretary Cisneros' reinvention efforts. Accordingly, on June 26, 1997, Secretary Cuomo followed through by announcing the HUD 2020 Management Reform Plan.

The HUD Reform Plan is one of the boldest attempts to date to overhaul and improve the Department's operations, and it comes after numerous attempts over the years to address HUD's shortcomings. The Plan calls for major staff downsizing, modification of HUD's field and headquarters organizational framework, consolidation of HUD's programs and activities, and significant changes in the way HUD conducts its business. Perhaps the most significant aspect of HUD's Reform Plan is its goal of downsizing HUD's staff from 10,500 to 7,500 by the year 2002. The Plan was published in the Federal Register as a Notice on August 12, 1997.

Although HUD's Reform Plan is significant in terms of its scope and provisions, several of the Plan's proposed reforms have been underway or under consideration in one form or another since at least 1995. The current Plan, however, combines these ongoing reforms with organizational consolidations and new reforms.

According to HUD's press release on the HUD Reform Plan, it was developed by HUD staff at Secretary Cuomo's direction, and with the assistance of the Vice President's Office, the Office of Management and Budget, the OIG, and outside experts. In fact, however, in spite of early indications to the contrary, the OIG's participation in the design and development was extremely limited. It was not until September 2, 1997, that the Secretary requested, by memorandum, that the OIG participate in HUD's reform process by providing representation on HUD's project management teams. We declined to participate at that point, since the Department's major Reform Plan decisions had already been made.

On September 11, 1997, we briefed the Deputy Secretary and other HUD staff regarding our initiation of a review of HUD's Reform Plan.

HUD's reform effort actually began in February 1993, when former Secretary Cisneros announced his intention to "reinvent" HUD. Task Force groups were established to review and refocus HUD's mission and identify improvements in the delivery of program services to HUD's clients. While HUD's reinvention process was underway, the National Performance Review (NPR) issued its report on September 7, 1993, and recommended that HUD eliminate its regional offices, realign and consolidate its field office structure, and reduce its field workforce by 1,500 by the close of FY 1999. For the most part, these measures were either in progress or had been completed by the time Secretary Cuomo assumed office.

When former Secretary Cisneros assumed office in 1993, it was generally the view of the Congress, the General Accounting Office (GAO), and our Office that HUD was in dire need of reform. Our Office and GAO had been sharply critical of HUD's performance. Our reports, for example, had identified numerous material

Events Leading to HUD's Current Reform Plan



weaknesses in HUD's operations, including its lack of sufficient resources, its inadequate financial accounting and budgeting for funds, its ineffective and outdated financial management systems, and its inadequate monitoring and enforcement of program regulations and requirements, to name several areas.

In January 1994, GAO determined that HUD warranted the focused attention that comes with being designated a "high-risk" area — the only Cabinet level agency to be so designated. GAO cited four long-standing HUD deficiencies as the basis for its designation: weak internal controls, an ineffective organizational structure, an insufficient mix of staff with proper skills, and inadequate information and financial management systems. To this day, HUD continues to be designated by GAO as a "high-risk" area — an agency lacking the capacity to manage its affairs effectively.

In September 1992, the Congress mandated a study of HUD by the National Academy of Public Administration (NAPA). The study encompassed HUD's staff resource requirements and management, financial management, systems integration, program inventory and resource estimation capabilities. The Appropriations Committees were concerned that HUD lacked the capacity to carry out its mission. In July 1994, NAPA issued its report, which was very critical of HUD's performance and capabilities. In its report, NAPA stated that *"If, after five years, HUD is not operating under a clear legislative mandate and in an effective, accountable manner, the president and Congress should seriously consider dismantling the department and moving its core programs elsewhere."*

NAPA's report indicated that HUD's operating weaknesses were being exacerbated by its growing array of programs and funding set-asides, many of which had come about through Congressionally enacted legislation. In our December 1994 report to the Secretary entitled "Opportunities for Terminating, Consolidating and Restructuring HUD Programs," we identified approximately 240 discrete programs and related funding set-asides that HUD was administering. These programs and related components were placing ever-increasing demands on HUD's shrinking staff resources and were causing the Department to divert its attention away from its core missions. (A recent update of our 1994 report indicates that HUD's program inventory problem has actually worsened, as the Department is now administering over 300 programs and funding set-asides.)

In January 1995, legislation was introduced to abolish the Department and transfer its functions to other agencies. In response, Secretary Cisneros, in March 1995, officially issued his reform plan for HUD entitled "HUD Reinvention: From Blueprint to Action." The Blueprint called for major reforms, including a consolidation and streamlining of the Department's programs, coupled with a reduction in staff from approximately 10,500 to 7,500 by the year 2000. In conjunction with the Secretary's Blueprint, HUD submitted legislation to the Congress to consolidate and streamline the Department's programs. Although the legislation was not enacted, HUD's 7,500 staff target was never revised.

As demonstrated by HUD's recent history and systemic weaknesses, bold measures to reform HUD are clearly warranted. The Congress also believes HUD reforms are long overdue. In its report on HUD's FY 1998 appropriations, the House Committee on Appropriations stated *"...HUD must change its administrative and programmatic structures if the Department is to retain its relevance in the future."* In fact, HUD may be running out of opportunities to reinvent itself. In its report on



The Plan in Brief

HUD's FY 1998 appropriations, the Senate Committee on Appropriations expressed concern with the Department's "*repeated gestures of reinvention.*"

HUD's 2020 Management Reform Plan focuses on two new and distinct missions: (1) empowering people and communities; and (2) restoring the public trust. The former involves an effort by HUD to assist communities and their residents to become self-sufficient and less reliant on the Federal Government by fostering close relationships with other federal agencies, establishing partnerships with communities, and harnessing the forces and resources of the free market. The latter involves restoring public confidence in the Department by establishing a zero tolerance for waste, fraud, and abuse; and demanding greater accountability on the part of its private- and public-sector clients. According to HUD's Reform Plan, these new missions do not replace HUD's traditional goals relating to affordable housing, homelessness, homeownership and economic development.

In line with its two new missions, the Department has proposed six major reforms as follows:

No.	Reform
1.	Reorganize by function rather than strictly by program cylinders, and consolidate and privatize where needed.
2.	Modernize and integrate HUD's outdated financial management systems with an efficient, state-of-the-art system.
3.	Create an Enforcement Authority with one objective — to restore public trust in the Department and its programs.
4.	Refocus and retrain HUD's workforce to carry out the Department's revitalized missions.
5.	Establish new performance-based systems for HUD programs, operations, and employees.
6.	Replace HUD's top-down bureaucracy with a new customer-friendly structure.

In conjunction with these reforms, HUD plans to (1) reduce its staff from 10,500 to 7,500 by the year 2002; (2) radically restructure its operations; and (3) consolidate its programs and activities. The 7,500 staff target level was originally established and reported by HUD in its March 1995 Reinvention Blueprint report. In conjunction with these reforms, HUD has submitted legislation to the Congress to consolidate and streamline the Department's programs.

Insofar as organizational changes are concerned, HUD's 2020 Management Reform Plan provides for the reorganization of HUD by function rather than by program cylinders (Reform No. 1). As such, the Plan provides for the establishment of a number of processing centers, as well as program hubs and centers, as shown in the following table:



Organizational Entity	General Functions
Real Estate Assessment Center (Washington, DC)	Evaluates physical condition of public and assisted housing and performance of public housing agencies (PHAs) and other assisted property owners.
Section 8 Financial Management Center (Kansas City, MO)	Reviews and approves budgets, establishes accurate and timely payments, processes year-end statements, calculates Section 8 renewal needs, and maintains funding controls.
Enforcement Center (Washington, DC)	Pursues non-civil rights enforcement actions, primarily in the public housing, Section 8, and Housing (FHA) areas.
Troubled Agency Recovery Center (Cleveland, OH, Memphis, TN)	Monitors troubled PHAs and implements intervention strategies to improve their performance.
Grants Management Center (Washington, DC)	Provides centralized grants management and processing/approval of public housing formula and competitive grants.
Special Applications Center (Chicago, IL)	Reviews, processes and approves all non-funded, non-competitive applications such as for public housing demolition/disposition, 5(h) homeownership, designated housing, Section 202 conversions, etc.
Title I Asset Recovery Center (Albany, NY)	Manages the collection of deficiency balances owed to HUD/FHA due to buyer defaults.
FHA/Single Family Homeownership Centers (4)	Manages insurance endorsements, technical reviews, underwriting, loss mitigation, marketing and outreach, and lender monitoring.
Property Disposition Centers (Atlanta, GA, Ft. Worth, TX)	Manages the foreclosure and disposition of HUD owned and HUD assigned properties.
FHA Multifamily Hubs (18)	Administers all FHA multifamily mortgage insurance, direct loan, and capital grant programs.
Public and Indian Housing (PIH) Hubs (28)	Supervises and performs all PIH functions within a defined geographic area, including program performance, administration, technical assistance, and compliance functions.
PIH Program Centers (15)	Performs all PIH program performance, administration, technical assistance, and compliance functions.
Field Legal Centers (8)	Provides full range of legal services.
Fair Housing Hubs (10)	Supervises all Fair Housing and Equal Opportunity (FHEO) compliance and enforcement functions.
Fair Housing Program Centers (18)	Performs all FHEO compliance and enforcement functions.
Economic Development and Empowerment Service (Washington, DC)	Coordinates all HUD economic development and job skills programs to provide improved focus on community empowerment.
Chief Financial Office Accounting Center (Ft. Worth, TX)	Manages all field program and administrative accounting operations.



Preliminary Observations

In conjunction with its management reform initiative, HUD will also maintain geographically dispersed Area Offices and Area Resource Centers. In addition to being the location of one or more hubs and processing centers, Area Offices will provide community resource and liaison services for public/private partnerships, marketing and outreach for homeownership, community and economic development, technical assistance, and general troubleshooting. The Area Offices will also continue to perform a full range of field management functions such as funding, policy interpretation, monitoring and technical assistance, as well as provide legal counsel and administrative support. On the other hand, the Area Resource Centers will serve as coordinators and community resource representatives with direct linkages to other centers and hubs. The Area Resource Centers will provide a broad range of program liaison and customer services to state, local and community organizations.

While we agree that HUD must reform, and agree with some of the corrective measures in the HUD Reform Plan, we generally remain cautious about the potential effectiveness of HUD's new organizational configuration, the Department's capacity to implement its planned reforms, and the potential effectiveness of many of its planned reforms. We also believe that the HUD Reform Plan could have the unintended effect of compounding many of HUD's current problems, and could even create new problems for the Department.

Our major concerns are the manner in which the HUD Reform Plan was developed, and the premises upon which it is based. Briefly, the HUD Reform Plan was largely developed without the benefit of any formal and open consultation process involving responsible, affected and interested parties. In addition, a cost-benefit analysis of the Department's planned reforms was not performed prior to HUD's announcing its reform decisions in June of this year. Further, the HUD Reform Plan is built on an unsupported premise, namely, that the Department can adequately function with a staff of 7,500. This arbitrarily derived staff level was determined without first performing an adequate analysis of HUD's diverse and complex mission, and without assessing its financial risk exposure, functions, and future workload demands.

Although the Department is rapidly approaching its 7,500 staff target level, its reform implementation plans have not been finalized, and its proposed legislation to streamline and consolidate programs has not been enacted. In conjunction with HUD's FY 1996 appropriations hearings, the Department stated in reference to its Reinvention Blueprint legislative proposals that "*Without enactment of most of these proposals, reduction to 7,500 FTE will cripple HUD's operations.*" As a result, the Department is now in serious jeopardy of not having the capacity to carry out its current mission and responsibilities. Furthermore, once the 7,500 downsizing target is reached, HUD will have no capacity to handle any additional workload that may come about as a result of the enactment of future HUD related legislation.

HUD, therefore, is undergoing a drastic downsizing and overhaul of its organization and operations, in a relatively short period of time, and without any assurance that its reforms will enable the Department to accomplish its mission and restore the public's trust in HUD. Nevertheless, HUD management is moving quickly to institute its reforms, and is making continuous modifications to such reforms.

Our preliminary observations to date represent our best judgment as to the propriety and potential impact of HUD's reforms. We will continue to increase our



HUD Plan Has Some Positive Aspects

focus on the potential benefits of HUD's reforms, their estimated cost, and the capacity of HUD to implement its reforms. Also, we will continue to report to the Congress on the results of our reviews of HUD's reforms.

The HUD 2020 Reform Plan acknowledges the need for the Department to improve its performance and correct its material operating weaknesses. This is especially evident by the Plan's provisions to address such major weaknesses as HUD's (1) disjointed automated financial management systems; (2) inadequate monitoring of program recipients; (3) deficient contract procurement processes; and (4) proliferation of programs.

Another positive is the Reform Plan's focus on assessing the quality of public housing and other HUD assisted housing stock. During the last semiannual reporting period, we proposed a legislative amendment to require that the quality of public housing be assessed. HUD now plans to establish a standard inspection protocol to assess the physical condition and quality of not only public housing, but other HUD assisted multifamily housing as well. We believe that the current system for assessing the performance of PHAs is incomplete because a standard or even high performer rating can be assigned to a PHA even though its housing stock may be unacceptable in terms of its quality and livability. Through its reform initiative, HUD plans to address this anomaly.

In addition to adding the above housing quality component, HUD intends to further reform its Public Housing Management Assessment Program (PHMAP) by placing greater emphasis on independent confirmation of housing agencies' PHMAP performance by nonfederal auditors. HUD proposes to work more closely with the nonfederal audit community to obtain more reliable PHMAP confirmation results from nonfederal audits. On several occasions, we reported that inadequate confirmation of PHMAP certifications is a serious problem that impedes the effectiveness of the PHMAP process.

We also agree conceptually with HUD's plan to aggressively pursue enforcement actions against recipients of HUD assistance who engage in fraud, abuse and mismanagement of the Department's programs. Through its Real Estate Assessment Center and Troubled Agency Recovery Centers, HUD plans to take aggressive actions to identify troubled PHAs, assist them in turning around their operations, and assume control of those PHAs who fail to meet HUD's standards within due time. On the FHA multifamily front, the Department proposes to increase funding for enforcement activities; accelerate enforcement efforts; and reform bankruptcy laws to prevent project owners from triggering these laws to avoid prosecution by HUD and the Department of Justice.

Another potentially positive reform initiative is the establishment of the Section 8 Financial Management Center. This Center consolidates HUD's current multi-location Section 8 accounting, budgeting, and payment processing functions into a single center. This organizational change could potentially result in improving the efficiency, consistency, and overall effectiveness of HUD's Section 8 accounting and budgeting functions.



***Lack of
Consultation
With
Responsible,
Affected and
Interested
Parties***

HUD's Reform Plan was initially developed without adequate consultation with and/or direction from responsible, affected, and interested parties, particularly outside HUD. While some consultation is currently taking place, it has been limited and sporadic. This situation appears to be due to three factors: (1) an understandable impatience brought about by HUD's past history of formulating reform plans but taking little action to implement such plans; (2) the Reform Plan's adoption of a staff target level of 7,500 by the year 2002; and (3) the fact that HUD's current statutory buyout authority runs out in December 1997.

Because of the lack of adequate consultation with and/or direction from all pertinent parties, a number of extremely important questions remain unanswered. What are the costs of the HUD's reforms in contrast to their benefits? Are extensive buyouts by December 1997 a reasonable means to accomplish staff downsizing? How will HUD compensate for the substantial institutional expertise being lost through buyouts? How will PHAs and assisted multifamily housing owners be able to cope with the multiple, overlapping, and interlocking HUD entities that will be overseeing their operations? Do communities need and want HUD to play a community building role? How will the non-enactment of HUD's Reform Plan authorizing legislation affect its planned reforms?

The most important issue is the potential capacity of HUD to carry out its broadly based mission and growing array of programs with a severely downsized, albeit reorganized, staff. In its July 1994 report, NAPA stated that HUD lacked adequate resources to carry out its responsibilities. At the time of NAPA's report, HUD's staff numbered about 13,500.

In its 1994 report on HUD, NAPA also stated *"As a partner in HUD's revitalization, Congress' role is to work with the administration and the secretary to develop a long-term agenda for change. Clarifying HUD's mission and consolidating its programs require the help of HUD's authorizing and appropriations committees."* We agree that any meaningful reform of HUD must entail the Department's close collaboration with the Congress and OMB, in addition to coordination with other affected and interested parties such as assisted low-income families, resident management entities, and other HUD recipients and low-income housing and community development trade organizations. No amount of reorganization or improvement in HUD's systems can overcome the fundamental need to more tightly define the Department's mission, restructure and consolidate HUD programs, and ensure the Department has adequate resources to carry out its mission and responsibilities.

We further believe that the reform of HUD cannot be done by HUD alone; the Congress must take an active role in bringing about positive change in the Department. The Congress should (1) review HUD's mission and refocus it in a more meaningful manner; (2) enact authorizing legislation to restructure and consolidate HUD's programs; (3) ensure that HUD has the necessary resources to carry out its mission and responsibilities; and (4) exercise ongoing oversight of HUD to ensure its agreed upon reforms are progressing satisfactorily.



***Downsizing
Target
Not Based
on
Methodological
Mission and
Workload
Analysis***

HUD's staff downsizing target of 7,500 was adopted without first performing a detailed analysis of HUD's mission and projected workload under its proposed reforms. Consequently, HUD can neither support the propriety of its 7,500 target level nor its allocation of this staff among its newly proposed organizations. The 7,500 staffing target is a carryover from HUD's 1995 Reinvention Blueprint. We believe it is highly unlikely that two widely varying reform plans would call for a staff level of exactly the same size. Because HUD has not justified the propriety of its 7,500 staff target through an analysis of the Department's mission and projected workload, HUD management is unable to demonstrate that a staff of 7,500 will be able to carry out the Department's functions and activities.

The roots of HUD's recent transformation can be traced back to the Administration's NPR. In September 1993, NPR recommended that HUD eliminate its regional offices, consolidate its field office structure and reduce its workforce by 1,500 by the close of FY 1999. (In 1993, HUD's FTE staff totaled about 13,500.) In response to the NPR's recommendations, the Secretary issued his proposed streamlining plan for HUD in December 1993.

In March 1995, HUD issued its report entitled: "HUD Reinvention: From Blueprint to Action." The report stated "*Significant downsizing is anticipated, reducing HUD's current workforce of 12,000 today to fewer than 7,500 employees.*" The downsizing target was tied to HUD's plan to (1) consolidate 60 of its major programs into three performance-based funds: a Community Opportunity Fund, an Affordable Housing Fund, and a Housing Certificates for Families and Individuals Fund; (2) phase out the direct funding of public housing in favor of providing direct assistance to residents; and (3) bring homeownership within reach of more citizens by transforming FHA into a businesslike, government owned "Federal Housing Corporation." In conjunction with these goals, HUD planned to reduce its field offices from 80 to 60.

The 7,500 downsizing target, apparently, was a "best-guess" estimate of what the Congress and the Administration would buy off on. We were never furnished any methodological mission and workload analysis in support of this figure, and HUD was unable to demonstrate that a staff of 7,500 was adequate to accomplish its 1995 Reinvention Blueprint goals.

Although the House Appropriations Committee supports HUD's downsizing efforts, the Committee stated in its report on HUD's 1998 appropriations that the Department's reorganization "*...should not be accomplished merely for the sake of staff reduction, but should be done after careful study and review of the importance and level of business done at each field office.*"

HUD's staff numbered about 17,000 in 1980, and is in the process of being downsized to 7,500 by the year 2002. Although HUD was considerably more involved in public and assisted housing development in the early 1980s, we still cannot account for a staff reduction of 9,500 when compared to HUD's current and projected program workload, as well as its financial risk exposure. Since 1980, the number of HUD programs has increased by over 450 percent (from 54 to over 300), while HUD's staff will have been reduced by almost 56 percent (from 17,000 to 7,500).

HUD also has a substantial risk exposure in terms of its current budget and outlays, future subsidy outlays, FHA insurance in force, and Government National Mortgage Association guarantees. This risk exposure has been estimated to be as



much as \$1 trillion. Therefore, while HUD may be among the smallest cabinet agencies in terms of staff size, it is among the top cabinet agencies when viewed from the standpoint of financial risk exposure.

In addition, some of HUD's workload may increase dramatically under its new reforms and organization, particularly in the public housing area. While some of HUD's work can and will be contracted out, such work must still be monitored and evaluated by HUD staff. HUD is already relying heavily on contractors to perform studies, design systems, administer functions, and develop plans and strategies; but HUD has made little effort to date to formally evaluate the effectiveness and cost benefits of its contracted work. (See Chapter 3 of this Report for the results obtained from an OIG audit of HUD contracting.) Potential reliance on contractors as a means of supplanting HUD staff may not be in the best interests of HUD and the taxpayers.

***Some Aspects
of Plan
Uncertain Due
to Tie with
Future
Legislation***

Some of the Department's proposed reforms are dependent on the enactment of certain legislation. While HUD has proposed legislation to the Congress tied to its Reform Plan, the passage of this legislation is uncertain. In most cases, the House and Senate have also proposed related legislation which, in some cases, differs from HUD's proposals. If HUD's legislative proposals are not enacted or if legislation is enacted that differs significantly from HUD's proposals, this could undermine certain aspects of the Department's planned reforms, resulting in the need for HUD to reassess its planned staffing needs and redirect its reforms.

It is interesting to note that HUD's 1995 reinvention effort was also tied closely to the enactment of legislative reforms. These proposals were never enacted. In response to a question from the House Appropriations Committee regarding HUD's Reinvention Blueprint legislative proposals, the Department noted *"Our reduction in Salaries and Expenses staff to 7,500 in fiscal year 2000 is tied to the legislative proposals which provide the statutory basis of transition from the old program structure to the new. Without enactment of most of these proposals, reduction to 7,500 FTE will cripple HUD's operations."*

Some of HUD's reforms that are tied to the enactment of legislation include:

- Program consolidations and streamlining (e.g., HOME Program, Homeless Programs, etc.).
- Automatically mandating judicial receivership for PHAs troubled for more than 1 year.
- Permanent extension of public housing deregulation efforts.
- Privatization of the HOPE VI Program.
- Establishment of a Public Housing Authority Evaluation Board.
- Conversion of the Public Housing Drug Elimination Program to a performance-based formula.
- Allocation of capital funds for small PHAs by formula.
- Reforming of the bankruptcy laws to prevent FHA multifamily property owners from evading enforcement actions.
- Permanent extension of FHA note sale authority.

HUD has already sent to the Congress its "Public Housing Management Reform Act of 1997," the "Housing 2020 Multifamily Management Reform Act of 1997,"



the "Homelessness Assistance and Management Reform Act of 1997," and the "Urban Empowerment Zones Partnership Act of 1997." With respect to the public housing area, both the House and Senate introduced and passed reform bills, but have not yet reached Conference agreement. Some of HUD's proposed legislative changes have been incorporated in both bills. On the FHA multifamily housing front, the House passed mark-to-market legislation on October 8, 1997. Also, the House and Senate have introduced bills to consolidate HUD's programs for the homeless, but have not yet passed such legislation. HUD's Urban Empowerment Zones legislation has not yet been introduced.

Even if the above legislative reforms are enacted in the foreseeable future, it is not certain what form the legislation will take. The more the enacted legislation deviates from HUD's legislative proposals, the greater the impact on HUD's ability to implement its 2020 Reform Plan. To illustrate, the House's proposed "Housing Opportunity and Responsibility Act of 1997" (H.R. 2) provides for the establishment of a Housing Evaluation and Accreditation Board, which differs substantially from HUD's proposed Public Housing Authority Evaluation Board. The House's Board would have significant power and responsibilities, such as setting PHA performance standards and accrediting PHAs, whereas HUD's Board will primarily be an advisory body established to recommend ways to improve the Department's oversight and evaluation of PHAs. The Board would have no real powers. Enactment of the House's proposed Board, however, would create a powerful, independent entity, with PHA operating responsibilities. This could result in the need for HUD to alter the role of its public housing organizational units.

***Cost-Benefit
Analysis
Not
Performed
Prior to
Issuance
of HUD's
Reform Plan***

Cost-benefit considerations were not an integral part of HUD's reform decisions. Consequently, there is no evidence that HUD's proposed programmatic and staffing changes will be in the best interests of the Federal Government and HUD's clients. Additionally, we believe a cost-benefit analysis of HUD's reforms is required under Section 7(p) of the Department of Housing and Urban Development Act. Because HUD did not document the basis and feasibility of its reform decisions up front, the Department is unable to fully justify and support its current organizational and program reforms.

Section 7(p) of the Department of Housing and Urban Development Act provides that any HUD field reorganization that meets three preconditions (specified in Section 7(p)) cannot take effect until 90 days after a cost-benefit analysis of the effects of the reorganization plan on each office involved is published in the Federal Register. This is known as the "Dole Amendment," and was included in the Housing and Community Development Amendments of 1978.

In a June 27, 1997 memorandum to the Deputy Secretary, HUD's Acting General Counsel opined that the Dole Amendment is not applicable to HUD's Reform Plan, primarily because one of its three preconditions is not met, namely that the Department's reorganization plan will impact the availability, accessibility, and quality of services provided on behalf of recipients in local communities. However, in response to a September 8, 1997 memorandum from the Inspector General inquiring about the availability of such a cost-benefit analysis, the Acting General Counsel advised in a memorandum dated September 25, 1997, that although the Dole Amendment did not apply to HUD's Reform Plan, the Department would publish a cost-benefit analysis in keeping with the spirit of the Dole



Amendment. HUD's cost-benefit analysis was contracted for under a Task Order, effective September 26, 1997.

In arriving at the June 27, 1997 opinion, the Acting General Counsel relied primarily on the Dole Amendment's legislative history. However, a fundamental maxim of statutory construction is that legislative history, generally, should only be considered when the statute's plain language is ambiguous. We did not find the Dole Amendment's terms ambiguous. Further, the June 27, 1997 opinion appears to conflict with a 1993 HUD legal opinion concerning a similar application of the Dole Amendment.

HUD's Reform Plan is an undertaking of major proportions. It entails significant downsizing and relocation of offices and staff, as well as reliance on private contractors to carry out HUD's business, not to mention its uncertain impact on the Department's clientele. Also, the sources of funding for aspects of HUD's reorganization are uncertain, indicating the importance of cost considerations in the reform planning process. Further, the initial development and assessment of HUD's Reform Plan took place without the benefit of a public comment or formalized internal and external consultation process. Therefore, the Plan's potential shortcomings were not fully considered and assessed. We seriously question the Department's rationale for proceeding with its Reform Plan without first performing an acceptable cost-benefit analysis of its planned reforms.

After publication of the Reform Plan in August 1997, the Conference Report on HUD's FY 1998 appropriations (House Report 105-297) was published on October 6, 1997. The Conference Report states that the Congress must be kept well-informed on how HUD's current reorganization plan is to be implemented, and how it will impact Congressionally mandated programs and affect services at the local level. Accordingly, the Conference Report directs HUD to provide the following information by January 15, 1998:

- A cost-benefit analysis of HUD's newly created offices, including the Assessment Center, the Section 8 Center, and the Enforcement Center.
- A schedule of events, i.e., rough estimate of the dates for implementation of the Reform Plan, including when HUD will undertake and complete significant actions (e.g., new offices, staff moves, etc.).
- Upon submission of the President's Budget Request, the Department's annualized funding projections needed to carry out its management plan.
- An explanation of the modernization and integration of HUD's financial/management information systems and how the systems will develop internal controls and improve the Department's ability to monitor and measure program performance.
- An explanation of the resources (financial, information, staff) needed to effectively manage and operate HUD's core programs.
- HUD's legal analysis of the applicability of the Dole Amendment to the Department's reorganization plan.

The Conference Report further states that HUD is to take no "significant actions" that involve geographically relocating staff or entering into binding commitments for office space, as related to the three new proposed center locations (i.e., the Assessment Center, the Enforcement Center, and the Section 8 Center)



until the Congress is provided with the information mentioned above. A contractor has been assembling the cost-benefit data for the Department.

***Plan
Does Not
Go Far
Enough
in Improving
Information
Systems***

Although we are encouraged by the HUD Reform Plan's initiative to integrate the Department's automated financial systems, the Plan fails to incorporate initiatives to reform the Department's program information systems. This could impede the effectiveness of HUD's financial systems integration effort. HUD's program information systems are important to this effort because these systems directly support the operations of the Department's programs and provide data for input into HUD's financial systems. Further, in designating HUD as a "high risk" area in January 1994, GAO cited the inadequacy of not only the Department's financial management systems, but also its information systems in general.

Any new integrated financial management system can only be as good as its input. Information for input into HUD's financial management systems originates largely in the Department's program information systems; however, these systems are highly suspect because they contain unreliable and erroneous data, or simply lack data needed to manage HUD programs. The Department's Section 8 Program systems, for example, do not provide adequate data on PHA reserve levels, average Section 8 per unit costs, contract renewals, and the status of funding. On the other hand, HUD's Indian Housing Program systems do not provide adequate data showing how and where Indian housing authorities are spending HUD program funds. Critical information is either lacking or is deficient in connection with other HUD program information systems as well.

Oftentimes, HUD has to perform periodic field surveys to update and ensure the integrity of the information in its program systems. In addition, HUD contractors engaged in evaluating HUD programs sometimes have to establish their own independent databases because they are unable to rely on the data in HUD's program information systems.

HUD needs to do more than just integrate its financial systems; it needs to improve all its information systems and ensure they work in a complementary fashion and provide the information HUD needs to properly administer its programs. Although HUD's Financial Systems Integration team has acknowledged that reforms are needed in its program information systems and that such reforms should be coordinated with HUD's financial systems integration, the Department has not yet committed itself to such an effort. Rather, this effort is still in the planning stage.

***Many Critical
Human
Resource
Issues
Remain
to be
Resolved***

The rapid pace of the reform's downsizing effort is driven by the lapse of HUD's buyout authority on December 30, 1997. The Department's current target for completing its reassignments and merit staffing is December 11, 1997. This would provide time for an additional buyout window in mid-December to help bring HUD closer to its 7,500 staff downsizing target.

HUD is faced with many difficult staff selection decisions within the next few months. The Department estimates that about 3,000 staff will be reassigned to new positions. Some staff will be reassigned to new positions because their current job is considered "substantially similar" to the newly created positions. These new positions have similar duties, critical elements, and qualifications, and can be performed by the employee with little loss in productivity. A major portion of these reassignments in the new HUD will be merit staffed. On October 14, 1997,



vacancies were announced for the approximately 1,700 new positions in the centers and hubs. Because of the consolidation of functions, many of these new positions will require staff to relocate.

Employees have expressed a serious need to ensure that all staff selections are made in a fair and equitable manner. Some staff were selected for substantially similar positions while others with comparable qualifications were not. These determinations were made by supervisors based on four criteria: experience, skills, education and training, and performance. Some employees have questioned the basis for these decisions since they felt their supervisors did not have full information to make such determinations. Because this process was expedited, there was no input from employees nor were personnel files reviewed. An expedited process will also be followed for merit staffing determinations, that is, because of the volume of merit staffing actions, final selections will be based on employee applications without employee interviews.

There may be a domino effect as a large number of staff apply for the numerous available positions. New vacancies may open up as staff move to new positions. After merit staffing selections are made in mid-December, the Department will allow unplaced employees to volunteer for reassignment to positions that remain vacant in January 1998. The Secretary has recently announced that there will be no directed reassignments. This will make it even more difficult to fill positions in the new HUD and may adversely affect HUD's proposed centers. The Department might find itself in a position where outside hires may be needed to fill critical vacant positions. This further complicates HUD's ability to reach its 7,500 downsizing target. There are significant costs associated with such a major downsizing and reorganization effort; however, HUD has not yet developed a complete cost estimate of its reforms.

We noted that HUD's downsizing effort is moving forward even though the Department's organizational reform plans are still being revised.

***Staff
Downsizing
Effort
Resulting
in a Loss
of Technical
Staff Expertise***

HUD's recent loss of mid- and senior-level staff and other experienced staff may seriously impair its ability to transition to a more effective Department. As of September 30, 1997, a total of 774 employees had accepted first-round buyouts from the Department, leaving HUD with a staff of about 9,100. A second round of buyouts is planned for December 1997. Many of HUD's technical staff experts and mid- and senior-level managers have already left the Department, taking with them vast institutional knowledge and program expertise that cannot be easily replaced. The current round of buyouts comes on the heels of over 1,250 buyouts commencing in FY 1995.

The realization by field staff that their positions would be downsized or relocated under HUD's current reform process resulted in a flurry of buyout actions in affected locations. While the Reform Plan may take several years to complete, these recent buyouts will have an adverse impact on HUD's present workload. For example, the Arizona State Office lost 26 percent of its Housing staff, while the Alabama State Office lost 29 percent. These staff losses will have a severe impact on ongoing work.

In addition to our concern about the sufficiency of a 7,500 staff level, we are also concerned about the relative capacity of HUD's remaining staff to carry out their mission and responsibilities once reforms are in place. Not only is HUD losing



significant staff expertise and managerial talent through downsizing, but many remaining staff members may be unfamiliar with their new positions. Thus, HUD may be faced with a lengthy transition period before staff are sufficiently trained and experienced to operate at full capacity.

While HUD has been able to cope with the loss of key personnel through normal retirements and attrition in the past, the current departure of many key personnel at the same time will have an adverse impact on the Department's technical capacity. Although HUD's reform measures entail an ambitious plan to train its employees, limited, short-term training can never supplant the institutional knowledge and expertise gained from years of experience. This lack of staff and expertise contributed to the HUD scandal of the 1980s. In its final report on the HUD Section 8 scandal, the Senate Committee on Banking, Housing and Urban Affairs noted "*At the civil service level, many believe (especially former employees) that there was a 'brain drain' during the 1980s that contributed to scandals.*"

***Structure
and
Operating Plans
for Overseeing
Public Housing
and PHAs
May be Difficult
to Implement***

Of all the organizational changes called for by HUD's Reform Plan, the public housing area appears to be the most significantly affected. HUD's new organizational structure and operating plans for overseeing the Public Housing Program and PHAs may be difficult to implement because they provide for assigning staff authority and responsibilities in a fragmented and overlapping manner. In addition, HUD has not determined its potential public housing workload and adequately assessed its related staffing needs under its new reforms.

Under HUD's new public housing organizational set-up, numerous organizational entities and staff positions will be involved in overseeing aspects of the Public Housing Program and PHAs. Some will be involved directly, while others will be involved in a more indirect manner. In addition to HUD headquarters units, these entities include the following field organizations:

- Public Housing Hubs
- Program Centers
- Area Offices
- Area Resource Centers
- Real Estate Assessment Center
- Section 8 Financial Management Center
- Two Troubled Agency Recovery Centers
- Grants Management Center
- Special Applications Center
- Public Housing Authority Evaluation Board
- Enforcement Center

Also, such positions as the Secretary's Representatives, Public Trust Officers, and Community Builders will be involved to varying degrees. Further, the HUD Reform Plan calls for the privatization of the HOPE VI Program, which will involve non-HUD entities in the program administration process.

The above entities involve numerous overlapping and interlocking relationships, and will require extensive coordination in carrying out their responsibilities. The lines of authority and responsibility between and among these



entities could potentially be a source of confusion to PHAs, particularly given the planned geographical dispersion of the Department's centers and offices.

In addition, the autonomous nature of the key public housing centers is reenforced by different chains of command. As indicated in the following table, the management hierarchy for these centers differs widely.

Center	HQ Official Reporting To
Real Estate Assessment Center	Deputy Secretary
Troubled Agency Recovery Centers	Deputy Assistant Secretary for Troubled Agency Recovery, PIH
Grants Management Center	General Deputy Assistant Secretary, PIH
Special Applications Center	Deputy Assistant Secretary for Public Housing Investments, PIH
Enforcement Center	Deputy Secretary

There are also many uncertainties regarding the potential workload of HUD's public housing organizational units and the deployment of staff to these units which HUD has not yet assessed. To illustrate, HUD is currently responsible for overseeing approximately 65 "troubled" PHAs. However, under its Reform Plan, HUD is proposing to revise its PHMAP system for evaluating PHAs by adding a new performance indicator to measure the physical quality of a PHA's housing stock. According to HUD officials, this could increase the number of troubled PHAs to between 500 and 1,000, depending on how "housing quality" is scored under PHMAP. Not only will HUD's Troubled Agency Recovery Centers (TARCs) be faced with overseeing this large number of troubled PHAs, but HUD's Reform Plan also calls for placing any PHA that remains troubled for more than 1 year in receivership. Thus, one can easily see the potential impact of such a situation on HUD's limited staff. If there is doubt about HUD's capacity to oversee 65 troubled PHAs with its current staff, then there should be serious concern about its capacity to oversee 500 to 1,000 troubled PHAs and to accommodate a potentially large number of PHA receivership actions with a substantially downsized staff.

In addition, under the Reform Plan, the Department will now be identifying and monitoring "marginally standard" PHAs, i.e., PHAs whose PHMAP scores fall within 10 points of the "trouble" cut-off point. This responsibility will fall on HUD's program centers and hubs. However, HUD has not projected the potential number of marginally standard PHAs; therefore, the staffing requirements in this area are unknown. Also, HUD's Real Estate Assessment Center may be involved in contracting with nonfederal auditors and reviewing their audited confirmations of PHAs' performance under the Department's PHMAP. The Assessment Center will also be required to monitor all the contractors engaged in performing physical inspections of PHA properties. Further, HUD's program centers and hubs will be responsible for confirming two PHMAP performance indicators for all medium sized and large PHAs. All of these areas entail potentially significant staffing demands.

In conjunction with its reforms, HUD will also be implementing for the first time its new Section 8 Management Assessment Program (SEMAP) to evaluate PHA



**HUD's
Community
Builders
Concept
Raises
Questions**

performance in key Section 8 tenant-based assistance areas. This will be another addition to HUD's workload.

In addition to experiencing problems in determining workload and initial staffing needs, we believe that the Department will also be faced with the need to redeploy its staff from time to time to meet the unexpected workload demands of its public housing organizational units once its reforms are in place. This could prove difficult and disruptive to HUD's operations in the future, due primarily to the geographical dispersion of some of the Department's organizational entities, their limited staff resources, and the organizational autonomy of these units.

Given HUD's significant staff downsizing, management's decision to establish approximately 600 "Community Builder" positions raises several questions. Community Builders will serve as HUD's link to communities, and will be responsible for assisting communities in identifying their needs and coordinating the development and implementation of Integrated Service Delivery Plans. HUD's current plan is to staff about one-third of the 600 Community Builder positions nationwide with 2-year temporary employees. Community Builders will be required to have knowledge of the full range of HUD services and programs, in addition to having economic development skills. They will also need to have some working knowledge of non-HUD program assistance that might be used in tandem with HUD assistance at the local level.

While this "front-door" access to community leaders might appear to be conceptually sound, in reality it may prove to be a daunting task. One reason is the sheer volume, diversity and complexity of HUD's programs. It takes years to develop technical proficiency and knowledge in just one of HUD's major programs. Whether these Community Builders can acquire adequate expertise in all of HUD's programs and activities remains to be seen. This could be a difficult task even in the event HUD undergoes major program consolidation, particularly for the 2-year temporary Community Builders. If the Community Builders are unable to acquire program expertise, our concern is that these positions may do little to assist communities and further HUD's mission.

Another compelling reason for questioning the potential effectiveness of the Community Builders concept is the staff intensive nature of integrated services delivery. This was borne out by several HUD field offices, which earlier this year worked directly with communities to test the integrated services delivery concept. These task forces were comprised of experts in HUD's program areas. The resulting task force reports noted that this concept was very staff intensive. In addition, integrated services delivery is a profession in itself and requires considerable technical knowledge and ability.

Considering the thousands of communities HUD serves, it is questionable whether a staff of 600 Community Builders would have a significant impact on such communities. We also believe that Community Builders would need to engage in extensive coordination within HUD, due to their full array of program responsibilities. Further, the performance of Community Builders is impractical to evaluate since these positions are primarily involved in providing advice and guidance.

Also, in some respects, Community Builders might take on conflicting dual roles. In other words, they may be viewed as representing the communities they



serve, in addition to representing HUD. We would expect that Community Builders would be identifying what communities need from HUD and would be involved in advising such communities how to obtain what they need from HUD. Therefore, depending on the capabilities and influence of particular Community Builders, these individuals may be in a position to unduly affect HUD's funding of certain communities. However, it is not clear how HUD's competitive and formula-based funding processes would be affected by the Integrated Service Delivery Plans and the roles of Community Builders.

Another concern is that HUD's Community Builder positions are being called upon to perform what, in many cases, are essentially "technical assistance" tasks, which the private sector is capable of performing. Also, the cost of performing integrated services delivery functions is likely an eligible cost, or can be made an eligible cost, under certain HUD grant programs.

Given the fact that the private sector can provide many of the same services as Community Builders, we question HUD's rationale for allocating 600 Community Builder positions out of its already scarce resources.

***Issues
Affecting
the Relationship
Between OIG
and HUD's
New
Enforcement
Center
Still Being
Resolved***

The establishment of HUD's new Enforcement Office initially called for providing authority and responsibilities to the Enforcement Office that appeared to usurp the statutory authority and responsibilities of the OIG, particularly with respect to the conduct of criminal investigations. Not only would this situation violate the intent of the Inspector General Act, it would also lead to undue overlap, inefficiencies, and confusion in carrying out HUD's enforcement efforts. We are now engaged in a dialogue with HUD management and the Director of HUD's Enforcement Center to arrive at a satisfactory resolution to our concerns.

In several of our prior Semiannual Reports to the Congress, we expressed concern about HUD's lax program enforcement efforts. Based on audit and investigative reports and referrals, we reported that HUD was not always imposing sanctions against program abusers when warranted and, generally, was not enforcing its regulations and contractual agreements. Consequently, we called for HUD to take a more aggressive stand against fraud, waste, and abuse in its programs.

HUD's Reform Plan acknowledges the Department's dismal program enforcement record. In response, the Reform Plan provides for the establishment of an Enforcement Center. According to HUD's Reform Plan, the Enforcement Center will have authority to (1) contract with private sector investigators, auditors and attorneys; and (2) consult with the Department of Justice, Federal Bureau of Investigation (FBI), and the Internal Revenue Service (IRS). The Center will initially focus on FHA subsidized multifamily housing, but will also have certain responsibilities for public housing and the tenant-based Section 8 Programs.

In July, a senior FBI Agent was detailed to HUD for an 18-month period to establish the Enforcement Center. In conjunction with the Enforcement Center's operations, the Department of Justice (DOJ) agreed to (1) provide the Center with monthly reports on individuals and organizations charged with federal criminal and civil violations involving HUD programs; and (2) assign DOJ attorneys to HUD to assist the Center.

Although we are pleased to see an emphasis on aggressive enforcement initiatives in the Department, the Enforcement Center's proposed authority and



responsibilities may be inconsistent with Congressional intent, as expressed in the legislative history of the Inspector General Act. The scope of the Enforcement Center's authority and responsibilities exceeds the scope of HUD program offices' traditional enforcement authority and responsibilities.

In a memorandum dated June 25, 1997, we advised the Secretary that the Department's intentions with respect to its proposed Enforcement Center were inconsistent with the legislative history of the Inspector General Act. As a follow-up to the Inspector General's June 25, 1997 memorandum, we entered into an agreement, which was jointly signed by HUD's Deputy Secretary and the Inspector General on September 12, 1997. One of the agreed upon provisions in the agreement was that the OIG and the Department would work cooperatively in the design and implementation of the Enforcement Center.

Following the above agreement, we advised the Secretary, Deputy Secretary, and the Enforcement Center's Director by memorandum (September 18, 1997) of the principles that should govern the relationship between the OIG and the Enforcement Center. These principles were as follows:

- Pursuant to the Inspector General Act of 1978, as amended, the OIG is the single focal point in HUD for the coordination of all Departmental efforts to deal with fraud, waste, and abuse in federal programs administered by the Department.
- In conformance with Section 7 of the Inspector General Act and existing HUD policy, allegations by any party of fraud, waste, abuse, and mismanagement relating to HUD programs/operations must be made directly to the OIG.
- The Enforcement Center must consult with the OIG on criminal, civil, or regulatory violations as soon as it comes across information indicating the potential for such violations. The OIG has the right of first refusal to follow up on any potential enforcement actions emanating from such violations.
- The OIG is responsible for all cases having criminal or civil fraud potential.
- In conducting audits and investigations, the OIG operates independently, and makes both criminal and civil referrals directly to DOJ and the U.S. Attorneys, subject only to the civil referral notice provision contained in an agreement between the OIG and HUD's Office of General Counsel.
- HUD must exercise extreme caution and close collaboration with the OIG whenever it is contemplating the assignment of audit or investigative responsibilities outside the OIG.

The application of the above principles will leave the Enforcement Center with a large and complex workload comprised of enforcement cases requiring administrative or civil action not related to fraud.

In October, a dialogue was finally initiated between our Office and the Director of HUD's new Enforcement Center. This dialogue is continuing, and we are hopeful that it will result in a satisfactory resolution of our concerns.

We will continue to make every effort to work with HUD management to ensure a proper delineation of authority and responsibilities between our Office and the Enforcement Center.





Operation Safe Home

Violent crime in public and assisted housing, fraud in public housing administration, and equity skimming in multifamily insured housing have been the focus of this initiative since its inception in February 1994.

Operation Safe Home differs from traditional OIG work in that it is highly targeted and proactive. It employs non-traditional techniques. It represents a long-term, sustained commitment to reducing the targeted vulnerabilities. Through the creative and aggressive efforts of our personnel, life in public and assisted housing is changing, criminals are receiving prison sentences, and monies are being recovered.

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



Violent Crime in Public and Assisted Housing

Since the inception of Operation Safe Home, OIG Special Agents have directed their efforts toward attacking the violent crimes that have been affecting the residents of public and assisted housing. To support these efforts, we created a witness relocation program for those who are willing to testify against the criminal elements operating in these complexes but are threatened by those criminal elements. In addition to continuing active law enforcement operations, we began to concentrate on what is referred to as post enforcement. Post enforcement includes a wide variety of activities that are directed toward continuing to keep the criminal elements away from public and assisted housing by enabling the residents and the local community to participate in reclaiming their neighborhoods. Normally, they are initiated after a major enforcement effort has routed the criminals out of the area, but some have been initiated simultaneously with the enforcement operation.

In addition, the Attorney General has designated 13 priority cities where the U.S. Attorneys are leading collaborative efforts to reduce violent crime in public and assisted housing. The 13 cities are Boston, MA; Atlanta, GA; Kansas City, MO; Gary, IN; Newark, NJ; Greensboro, NC; Memphis, TN; New Orleans, LA; San Francisco, CA; Washington, DC; Detroit, MI; Chicago, IL; and Philadelphia, PA. Activities that occurred during this reporting period through the "Priority City" initiatives are identified in the individual state write-ups below.

Through experiences with Operation Safe Home, we have identified several program areas where changes can only be made through changes to the laws that govern the HUD programs. During this reporting period, two legislative proposals were submitted for consideration. The first exempts "One Strike and You're Out" type eviction actions from the automatic stay provisions of the Bankruptcy Code. The second restricts Legal Services Corporation representation in certain eviction proceedings. A detailed write-up of each of these is presented under *Legislation* in the Chapter entitled *Legislation, Regulations and Other Directives*. These two proposals are in addition to the five legislative proposals made during the previous reporting period that would enhance the violent crime component.

Task Force Operations

Our efforts to combat violent crime are based on initiating and/or participating in federal, state, and local law enforcement task forces that focus their attention on violent crime in and around public and assisted housing complexes. The federal agencies involved in these task forces include the Federal Bureau of Investigation (FBI), the Drug Enforcement Administration (DEA), the Bureau of Alcohol, Tobacco and Firearms (ATF), the U.S. Secret Service (USSS), the U.S. Marshals Service (USMS), the U.S. Postal Inspection Service (USPS), the U.S. Customs Service (USCS), the U.S. Immigration and Naturalization Service (INS), the Internal Revenue Service (IRS), and the Department of Justice (DOJ). Law enforcement personnel from states, counties, cities, and housing authorities are also major partners in Operation Safe Home.



The following summarizes the results of task force activities and provides a synopsis of the operations and the witness relocation efforts during this 6-month reporting period:

Summary of Results

Activity	Current Reporting Period	Cumulative to Date
Arrested	1,526	13,232
Seized Weapons ¹	237	1,857
Cash	\$850,149	\$3,574,527
Drugs ²	\$3,633,975	\$25,231,715
Search Warrants	183	1,570

1 Includes 19 assault weapons and shotguns seized during this reporting period, for a total of 199 to date.

2 Estimate based on measurable quantities seized.

California

There were eight locations with active Safe Home operations in the state during this reporting period. In LOS ANGELES, 23 individuals were arrested as a result of the operations of the Los Angeles City Housing Task Force, comprised of the Housing Authority Police Department and our Office. One of those arrested had been deported for numerous narcotics violations in the past and was turned over to the INS; another was wanted for assault with intent to terrorize; and another was a parolee at large.

During a search for probation violators at the Sierra Vista public housing development in STOCKTON, a convicted felon was arrested for possession of a firearm. As a result of an earlier operation, an individual from the same development was sentenced to 5 years in a state prison for selling cocaine and heroin to an undercover OIG Special Agent. These actions were the result of work by the Stockton and Lodi Police Departments, San Joaquin County Sheriff's and Probation Offices and our Office.

A comparison of the crime statistics available for 1994 and 1995 in the areas in which Operation Safe Home has been active shows an overall reduction in violent crime of 2.6 percent. One development, Nickerson Gardens, shows a 50 percent reduction in violent crime, 11.8 percent drop in robberies, and 26.2 percent reduction in property crimes.

In HAYWARD, community outreach continues in local efforts such as the removal of abandoned vehicles, graffiti abatement, canvassing of residents (called "Knock and Talk"), and enhanced patrols in order to maintain a strong presence and expand community outreach in publicly funded residential communities. This follows several operations that resulted in the arrest of 22 individuals on various drug charges. Many of the arrests occurred in HUD subsidized apartment complexes and single family residences. Several of the units were being used as crack houses. The FBI, DEA, OIG, USSS, USMS, Alameda County Sheriff's Office, the Housing Authority, Probation Department and District Attorney's Office, and the San Leandro, Hayward, and Livermore Police Departments were involved in



these operations. The Housing Authority has initiated eviction proceedings against those residents involved.

Two operations focusing on parole violators and gang members resulted in 60 arrests in MORENO VALLEY. A multi-agency task force crime suppression initiative focused on the problems of parolees at large, sexual offenders, active gang members and parolees under court ordered supervision who frequented public and assisted housing complexes. The task force is comprised of the California Departments of Corrections and Probation, Bureau of Narcotics Enforcement, and Highway Patrol; OIG; and the Moreno Police Department. In HAMET, the Police Department, Inland Empire Parolees at Large Team (PAL), Moreno Valley Parole Unit and OIG initiated a parole/PAL Crime Suppression Operation. In addition to the 60 arrests, 9 rifles/shotguns, 2 automatic handguns, a stiletto knife, a small amount of tar heroin and other drugs were seized.

SAN FRANCISCO, designated a "Priority City," established three separate teams addressing violent crimes in the city. These teams were responsible for the arrest of 80 individuals during this 6-month reporting period. The table below identifies each of these task forces.

Task Force		Confiscated		Arrests
		Drugs	Weapons	
Housing Task Force	Active in six public housing developments, involving five narcotics suppression operations.	crack: 10 oz & 72 rocks marijuana: 6 gr	4	21
The San Francisco Police Department and OIG	Has a full time U.S. District Attorney working open cases.			
FRET — Fugitive Recovery Enforcement Team	Fugitive sweeps throughout the city and county, with special focus on the Alice Griffith housing development because of increased illegal narcotics activity in the Bayview/Hunter's Point area.	crack & marijuana	1	43
The San Francisco Police and District Attorney, OIG, FBI, ATF, INS, DEA, USMS, CA Departments of Parole and Youth Authority				
Violent Crime Suppression	Crime suppression and narcotics surveillance conducted in July in the Bayview/Hunter's Point area, where there is a concentration of Section 8 units.	Crack: 76.35 gr Marijuana: 5 gr Heroin: 1 fluid oz		16
The San Francisco Police and District Attorney, OIG, FBI, ATF, DEA, IRS				

Operation Dream, a post enforcement effort by the San Francisco Housing Task Force partially funded by Operation Safe Home monies, included police sponsored picnics; academic awards ceremonies; field trips to expose the children to fishing, skiing, theme parks and ball games; Easter egg hunts; Toys for Tots drive at Christmas time; and courses on self-esteem and conflict resolution.

The efforts of an Operation Safe Home Task Force, formed in January 1997 to combat violent crime, illegal gun sales, and narcotics trafficking in the Casa Rialto Apartments, a HUD insured multifamily housing development, had an impact on crime in that development. Police statistics show a 50 percent reduction in overall crime in Casa Rialto as contrasted to two other housing developments in the same area with no Operation Safe Home activity. These developments showed 100 to 200 percent increases in crime.

In a city-wide warrant service sweep in OAKLAND, 24 individuals were arrested for felony narcotic sales. They all had prior convictions, making them susceptible to the California "Three Strikes" law. The Oakland Police Department and Housing Authority Securities Services and our Special Agents were involved in this operation. The post enforcement phase of the operation, sponsored by the Oakland Police Department and partially supported by Operation Safe Home funds, included eviction of residents involved in criminal activities, and enhanced police patrols and activities for children, including camping and other outdoor activities.

Two Special Agents represented HUD at a community meeting sponsored by the SAN JOSE Mayor and Police Department. The meeting, attended by Attorney General Janet Reno, showcased the positive effect of federal funding in increasing the quality of life for low- and moderate-income families. The meeting was held at the Monte Alban Apartments, a multifamily Section 8 complex that was once controlled by an organized gang. After attendees toured the complex, an overview was given on the multi-agency law enforcement operation that resulted in the arrest and subsequent eviction of numerous gang members and their families. One of our Agents also participated in a round table discussion with several community leaders that addressed neighborhood concerns.

Colorado

The DENVER Vice and Narcotics Bureau and OIG Special Agents worked together on two operations in September. The first was a buy/bust operation that led to the arrest of four individuals at a hotel. At the time of their arrest, these individuals were in possession of a large amount of black tar heroin that was meant for distribution to street level dealers operating within the SNAP (Safe Neighborhood Action Plan) targeted areas of the city. The second was a "Knock and Talk" operation in the Sun Valley Homes public housing development which was initiated after information was received that a resident with an outstanding warrant was selling and using heroin. Both the resident and her friend were arrested and ¼ gram of heroin and drug paraphernalia were confiscated.

Connecticut

The Federal Gang Task Force in HARTFORD continued its operations with the arrest of 57 individuals, including a murder suspect who resided in a densely populated Section 8 neighborhood. One operation involved a 3-month investigation where 9 arrest warrants and 13 federal search warrants were executed in a round-up of drug conspirators supplying narcotics to members of



the *Los Solidos* street gang, who in turn supply narcotics to public housing developments in Hartford. In addition to the 9 arrests, a weapon, \$68,900 in cash, and cocaine valued at \$42,500 were seized. In another operation, 11 individuals involved in a narcotics distribution ring providing drugs in public and assisted housing developments were arrested following several months of intense investigation by the Task Force with the assistance of the Police Departments from East Hartford, Manchester, Vernon, Windsor, and New Britain. Ten kilograms of cocaine, 5 grams of crack, 17 motor vehicles, and \$314,066 were seized during this operation. The Task Force is comprised of the Hartford Police Department, the State Police, OIG, and the FBI.

District of Columbia

Efforts to eliminate drug trafficking continued in three areas of the Nation's Capital, designated a "Priority City." Working with the Metropolitan Police Department (MPD) and the U.S. Attorney in each of these operations, we concentrated on the Clifton Terrace Apartments and Brookland Manor Apartments public housing developments and the Highlands section of the city.

Operation Rattle was initiated by our Office and the Third District Vice/Narcotics Unit of the MPD to combat the high levels of violent crime at the Clifton Terrace Apartments, located in the Northwest section of the city. Last year HUD took title to the development through a federal judge in an effort to provide safe and decent housing. Toward this goal, 42 individuals were arrested and numerous narcotics, \$1,200 in cash and 10 weapons were seized.

Continued efforts at Brookland Manor Apartments in the Northeast section of the city resulted in 33 arrests and seizure of cocaine with a street value of \$9,000, quantities of crack cocaine and PCP. Over \$1,000 in cash and 1 weapon were also seized. In the Highlands area of the city, *Operation Ring* was responsible for the arrest of 52 individuals and the seizure of quantities of both marijuana and crack cocaine.

The Third Annual Kelly Miller/LeDroit Family Day was held on September 23. The event was co-sponsored by our Office and the DC Housing Authority. Our staff spoke to the community about the importance of resident involvement and support to keep criminal drug crews from returning and publicly recognized numerous residents who had gone the extra mile to make their public housing community a better place to live. Post enforcement efforts since May 1995 have sustained lower crime rates each year, with a 10 percent reduction in 1997 violent crime statistics compared to the same 6-month reporting period in 1996. In addition, surveys indicate that the residents continue to live free of fear, intimidation, and drug dealing.

Two of our Special Agents were presented Certificates of Appreciation by the U.S. Attorney's Office for the District of Columbia for their efforts against gangs. One was for OIG assistance in a homicide investigation and prosecution of members of the *Circle*, a faction of the notorious *Simple City Crew*. OIG provided for the relocation of witnesses who would not have otherwise come forward. The second effort involved the prosecution of a member of the *LeDroit Park Crew* who was a primary drug supplier and rumored to have committed several murders. The prosecution focused on the attempted murder of a federal informant. After a failed attempt to try the individual because witnesses would not

cooperate, our Special Agent placed a witness in the relocation program in exchange for testimony and also testified himself at the trial concerning the severe problems of drugs and associated violence that had overtaken the neighborhood, as well as the methods being used to combat these problems. The 22-year-old gang member was sentenced to 22 years in a federal prison with no hope of early parole.

Florida

The TAMPA Safe Home Task Force, comprised of ATF, OIG, and the Tampa Police Department, initiated an operation involving the purchase of illegal firearms in a public housing complex. As undercover operatives attempted to make a purchase, the potential seller and three accomplices threatened the operatives with guns and stole the moneys intended to make the buy. But the robbery was captured on film. After an extensive manhunt, all four individuals were arrested, charged with armed robbery, and indicted by a federal grand jury.

Georgia

Following a 4-month undercover operation, 57 individuals were arrested for selling crack cocaine in and around the NEWNAN public and assisted housing developments. During the execution of state arrest warrants, \$3,000 in cash, 28 grams of crack cocaine, 3 ounces of marijuana, 1 handgun, and 3 vehicles were seized. This operation involved Agents and Officers from the DEA, OIG, Georgia Highway Patrol, Coweta and Upston County Sheriff's Departments, and the Georgia Bureau of Investigation.

HUD's Office of Public Housing assisted the Newnan Housing Authority in setting up the funding and the Office of Multifamily Housing coordinated our efforts with the management agents. Prior to the initiation of this operation, our Special Agents met with the public housing executive directors and the management agents of the affected complexes to ensure that the residents who were arrested would be evicted.

Our Special Agents and Officers from the ATLANTA Police Department participated in the Metropolitan Atlanta High Intensity Drug Trafficking Area Task Force (HIDTA), which was responsible for the arrest of 18 individuals and confiscation of 123 bags of heroin, 111 hits of crack valued at \$20 each, and marijuana in several operations during this reporting period. In one operation, an OIG Special Agent and an Atlanta Police Officer documented on video tape the heroin distribution activities of the *New Jersey Boys*, a drug organization trafficking drugs in public and assisted housing in Atlanta. In another operation, acting on a tip from a confidential source, a Police Officer and one of our Special Agents followed and stopped a vehicle near the Perry Homes public housing development. A drug dog located three bags of marijuana in the back seat of the vehicle and the driver was identified as a high ranking member of the *New Jersey Boys*.

A major supplier of cocaine to Atlanta public housing developments, who was also a member of a drug organization that stretched from Atlanta to Mexico, was arrested by a task force comprised of the DEA, ATF, FBI, OIG, Georgia Bureau of Investigation, the Army National Guard, Metropolitan Atlanta Regional Transportation Authority, and the Atlanta and Dekalb Police Departments. Twelve kilograms of cocaine and approximately \$20,000 were confiscated during this operation.



Illinois

The efforts of the members of two separate task forces are impacting gang operations in CHICAGO. The Stormy Monday Violent Crime Task Force operations are under the auspices of the "Priority City" initiative.

Gangster Disciples	Multi-count indictment for 8 high ranking members. 5 arrests; 2 high ranking members pled guilty; 7 weapons, 3 kilograms of cocaine, cash and a vehicle were seized. Area of Operation: Citywide Task Force: US Attorney, DEA, ATF, USCS, OIG, IL State Police, Chicago Police Department, members of the HIDTA Task Force.
Black Disciples	Two members arrested, 3 oz. of crack, and \$2,000 seized. Area of Operation: Abla Homes public housing complex Task Force: Stormy Monday Violent Crime Task Force: ATF, OIG and Chicago Housing Authority Police Department
4-Corners Hustlers	Two members arrested, 16 ziplock bags of marijuana seized. Area of Operation: La Clair Courts public housing complex Task Force: Stormy Monday Violent Crime Task Force

Indiana

As part of the "Priority City" initiative that is focusing on the Delaney public housing development in GARY, the Northwest Indiana Violent Crime Task Force was responsible for 11 arrests. The arrests included a narcotics trafficker who distributed approximately 100 kilograms of cocaine a month to the *Vice Lords* gang, who controlled drugs at Delaney. In another successful sting operation, a firearms trafficker, who had bought 15 handguns in a youth center in a neighboring state, was arrested. The Task Force includes the ATF, DEA, IRS, OIG, Gary, Hammond and Portage Police Departments, and the Lake County Sheriff's Department.

Kansas

In conjunction with the KANSAS CITY Police Department, a total of 121 individuals were arrested following search and arrest warrants executed at more than 10 public housing complexes and scattered Section 8 sites. The majority of these occurred under the auspices of CARE (Crime Awareness and Reduction Effort), comprised of the OIG and the Narcotics, Community Policing, Special Crime Occurrence Reduction and Enforcement (SCORE) SWAT Team, and Traffic and Reserve Units of the Kansas City Police Department. During these operations, 86 individuals were arrested and 12 weapons, over \$5,000 in cash, and drugs that included crack cocaine, heroin and marijuana with a street value of over \$11,000 were confiscated. The Mayor, several councilmen and concerned citizen community action groups also observed these operations. CARE became



known when a national news team included one of our operations in a story about citizen group activities against violent crime.

DEA, OIG and the TOPEKA Police Department launched a new task force effort in June. Their first target was the Highland Crest public housing development. Vehicles stops, field interviews, community policing, and an enhanced law enforcement presence were used to arrest 43 individuals, seize a weapon and 2 vehicles, and serve notices of lease violations and evictions. Subsequent operations yielded 146 arrests and the seizure of 8 weapons, 4 vehicles and 378 grams of drugs, primarily methamphetamine.

One of the eight individuals convicted of conspiracy and drug distribution was sentenced to life plus 5 years in prison as a result of an investigation into an operation that supplied drugs to housing sites in OLATHE. Four others pled guilty and are awaiting sentencing. The investigation was a long-term effort conducted by the DEA, Kansas National Guard, Kansas Bureau of Investigation, Olathe Police Department, and OIG.

Louisiana

The NEW ORLEANS Task Force, comprised of the ATF, DEA, OIG, USSS, USMS, New Orleans Police Department, and Jefferson Parish Sheriff's Department, arrested 62 individuals on various drug-related crimes, 20 in public housing complexes and 42 in Section 8 areas of the city. During these operations, 7 weapons, over \$34,000 in cash, a vehicle, and approximately 600 grams of cocaine, crack cocaine, heroin and marijuana were confiscated.

Maryland

Crack, heroin, marijuana, 2 guns and 12 arrests were the result of operations conducted by the HIDTA Task Force in BALTIMORE. In one undercover operation in the O'Donnell Heights public housing complex, one of the nine individuals arrested eluded police in a stolen vehicle but was captured after a high speed chase. Evictions were initiated against the nine residents involved in this operation. The Task Force includes the ATF, OIG, and the Baltimore City Police Department.

Massachusetts

Nine more individuals were arrested by the WORCESTER Task Force during this reporting period. Four lived in the Lakeside Village public housing complex and will be evicted. In August, the Task Force sponsored a community cookout at the Great Brook Valley public housing developments. Over 300 residents attended the event that included demonstrations by the city's K-9 Corps and Fire Department. Our Special Agents distributed Operation Safe Home T-shirts to those who attended. The Task Force is comprised of the Worcester Police Department's Vice and Gang Units, OIG and the State Police.

Four BOSTON Housing Authority Police Officers were assigned to work with our Special Agents as part of the "Priority City" initiative. Their focus is to work on outstanding arrest warrants involving Housing Authority residents, issue no trespass notices, coordinate eviction actions with HUD legal staff, and assist with our enforcement operations. Four days after establishing the task force, nine individuals who had outstanding warrants were arrested.



Michigan

Crack Ridge, a 6-month investigation by the ATF, OIG, and TAYLOR Police Department, was completed during this reporting period. The investigation involved the Pine Ridge, Woodbrook and Southland Apartments assisted housing complexes in Taylor. The Task Force arrested 63 individuals and seized 12 grams of crack cocaine, 37 grams marijuana, \$630 in cash, 2 weapons and 4 vehicles.

As a result of an investigation initiated by our Office into narcotics activities in the Jeffries public housing development, Officers and Special Agents from the DETROIT Police Department and the OIG arrested three members of the *Jeffries Boys, Inc.* street gang who were responsible for the shooting death of a member of the *Gangster for Life* street gang. The homicide was unsolved prior to our drug investigation.

Missouri

In July, as part of the "Priority City" initiative, the U.S. Attorney for the Western District of Missouri and OIG initiated a federal and local law enforcement strategy designed to fight problems of crime and drugs in KANSAS CITY area public housing developments. Known as CREATE (Crime Reduction through Enforcement, Awareness, Teamwork and Education), the strategy is structured around seven basic mission goals:

- Locate and apprehend probation and parole violators and fugitives in conjunction with the USMS, FBI, U.S. Probation Office, Kansas City Police Department, and the Missouri Department of Probation and Parole.
- Work with the Housing Authority to make sure that eviction and new resident application procedures are effective in excluding unacceptable residents.
- Conduct post enforcement activities to unite residents and cultivate a positive atmosphere and awareness of issues of common interest.
- Increase the frequency of security patrols.
- Establish programs for gun abatement and firearms education for children.
- Establish a working relationship with the professional mental health community to obtain counseling and education for vulnerable groups of residents.
- Marshal resources and support from other federal agencies to assist in the overall mission.

In the Shaw Park area in ST. LOUIS, follow-up, by the St. Louis City Street Crime Apprehension Team, that includes our Special Agents, on a project that cross matched drug complaints to Section 8 locations resulted in six arrests. Charges included drug possession and car theft. Shaw Park was one of several city neighborhoods chosen for narcotics, firearms and outstanding warrants sweeps this past summer.

The PLATTE COUNTY Sheriff's Safe Home Task Force, comprised of the Sheriff's Office and our Special Agents, served a search warrant on a resident of a Section 8 housing complex. The resident was manufacturing a controlled substance in the apartment unit. Because there were children also living at the apartment, the individual was charged with the drug offense and with endangering the welfare of a child. The resident was arrested, the children were released into the custody of the grandparents, and the equipment used to manufacture the drugs was confiscated, along with 3 grams of methamphetamine.

New Jersey

Eight arrests were made during operations conducted by a task force comprised of our Special Agents and the NEW BRUNSWICK Police Department Anti-Crime Unit. The arrests were made as a result of the sale and/or distribution of drugs that occurred in or near public and assisted housing developments, as well as in a school zone. Forty-eight bags of heroin, 12 bags of marijuana, 19 bags of cocaine, and \$345 in cash were seized during these operations. Two of the arrestees will be evicted under the "One Strike and You're Out" policy.

Following two surveillance operations, involving the DEA, OIG, and the CAMDEN City and County Police, search warrants were issued and five individuals arrested. In addition to over \$8,000 in cash, 151 bags of crack were seized. One of the search warrants was executed at a housing unit in the McGuire Gardens public housing development that was being used to sell and distribute crack cocaine.

New York

The STATEN ISLAND Narcotics (SIN) initiative was created to target violent crime and drug trafficking in and around seven public housing developments (the West Brighton, Mariner's Harbor, Todt Hill, Markham Gardens, Stapleton, General Berry and Richmond Terrace) and three assisted housing developments (Parkhill, Fox Hill, and Arlington Terrace) that are under the jurisdiction of the New York City Housing Authority. The Task Force, initiated by our Office, is comprised of the New York City Police Department's Organized Crime Control Bureau (the Narcotics Unit), the 110th Precinct, and Housing Police Bureau, the OIG, DEA, and USSS.

During this reporting period, our Special Agents were involved in several initiatives throughout the designated areas. Major efforts resulted in the dismantling of the *Lamont Bryant* drug gang, who were responsible for the sale of drugs and at least five shootings in the Mariner's Harbor and Arlington Terrace complexes. With the execution of 16 search warrants, 30 members of the gang were arrested. The leader of the gang was sentenced to 3 to 6 years in prison after pleading guilty in a 4-count indictment. Another initiative provided a blanket of security around the West Brighton and Markham Gardens complexes in response to a series of six gang-related shootings and saw the ultimate ousting of the *Crips* gang. At one checkpoint, a known drug dealer was apprehended in full view of the residents, who applauded as the arrest was made.

Recently, 16 drug dealers were arrested in and around the Stapleton and Parkhill housing complexes. Of those arrested, one was a citizen of the Dominican Republic and wanted by the INS, three were members of the *Bloods* street gang, and two were identified as members of a racist gang.

The efforts of this Task Force during this reporting period have resulted in 131 arrests, the seizure of 5 weapons, cloned cell phones, and innumerable amounts of crack cocaine, cocaine, marijuana, heroin, and so called "designer drugs."

Six residents of public housing in GLEN COVE were issued eviction notices as a result of their prior arrests by the Operation Safe Home Task Force comprised of the OIG, Glen Cove and Nassau County Police Departments, the New York State Division of Parole and USPS. In a May operation, 24 individuals were arrested and 16 packets of cocaine seized. Following this operation, Task Force



members walked through the complexes where residents voiced their support and gratitude for the law enforcement efforts. The new executive director of the Glen Cove Housing Authority served eviction notices under the "One Strike and You're Out" policy.

The 79 individuals arrested at the Marcy Homes public housing complex in BROOKLYN face prosecution on narcotics trafficking and distribution, gun trafficking, Racketeer Influenced Corrupt Organizations Act violations, homicide and attempted homicide charges relating to crimes that occurred over the last 18 months. In addition, three major drug rings were dismantled. The gangs were the *Goldtops* (who distributed heroin and "gold-topped" crack cocaine), *Greentops* (who distributed "green-topped" crack cocaine) and *Blacktops* (who distributed "black-topped" crack cocaine). The execution of three federal search warrants led to the discovery of 2 handguns, 75 glassines of heroin, 87 grams of crack cocaine, 341 vials of crack cocaine, and \$6,000 in cash. This joint enforcement initiative was conducted by the New York City Police Department, OIG, and the FBI.

Ohio

Two members of the *Windsor Terrace Posse* were arrested in COLUMBUS by the ATF, OIG and Columbus Police. One of those arrested was the alleged leader of the *Posse* and a federal fugitive for 2 years. The second individual was charged with conspiracy, possession and distribution of narcotics and firearms violations. The gang supplied drugs and guns to the *Short North Posse* at the Windsor Terrace public housing development. Both gangs had been decimated as a result of previous Operation Safe Home efforts.

Search and arrest warrants executed at three locations operated by the MARION Metropolitan Housing Authority resulted in 23 arrests for drug trafficking and gun charges. This 5-month investigation was handled by a Task Force comprised of the IRS, Metrich Drug Enforcement Task Force, Marion Metropolitan Drug Enforcement Team and Police Department, the Marion County Sheriff's Department and OIG.

In an operation in WARREN, state search and arrest warrants were executed for gang members responsible for a drive-by homicide. Twenty-eight gang members were arrested. These mid-level drug dealers were selling narcotics at the Fairview Garden Apartments, Hilltop Apartments and Highland Homes public housing complexes. In addition to our Special Agents, Officers from the Trumbull County Sheriff's Department Narcotics Unit and Warren Police Department were involved in this operation.

We assisted the TRUMBULL COUNTY Sheriff's Department Narcotics Unit and their Drug Task Force in the eradication of 230 marijuana plants being cultivated in urban areas of the county. Information from residents in public housing resulted in some plants being confiscated in the Highland Terrace Apartments and the Palmura Heights public housing developments. The plants had a street value of approximately \$230,000.

Oklahoma

The OKLAHOMA CITY Task Force conducted two separate operations during this reporting period. In one operation at the Terrace and Sunfire Apartments, both 100 percent assisted housing complexes, surveillance operations resulted in

the arrest of 5 individuals and the seizure of cash, a rifle, and ½ ounce of crack cocaine. The other operation involved 80 drug violation charges being filed against 65 individuals, most of whom were residents of assisted housing developments. This Task Force is comprised of the Oklahoma City Police Department and the OIG.

Crime data available for Oklahoma City for 1995 and 1996, the period during our Operation Safe Home initiatives, reflect significant decreases in violent crime in every major category. For example, no homicides or rapes were reported for the last 12 months while burglaries decreased by 70 percent.

Pennsylvania

We were pleased to recognize the executive director of the EASTON Housing Authority, three Housing Authority employees and two city detectives for their support and assistance in a recently completed initiative in Easton. During a meeting with the Housing Authority's Board of Commissioners, the Chief of Police stated that the operation was instrumental in reducing drug related crimes in and around two specific public housing developments in the city.

During this reporting period, law enforcement operations occurred in several locations throughout the state with the following results:

Task Force		Drugs Confiscated	Result
Project PHILADELPHIA	Target: drug activity at or near the Martin Luther King and Southwark public housing developments.		
DEA, OIG, Philadelphia Police Department	The U.S. Attorney's Office assigned an Assistant U.S. Attorney to pursue potential federal prosecutions.	200+ bags of crack	12 arrests 3 evictions
Priority City initiative			
PHILADELPHIA Interdiction Task Force	In an all day undercover operation, a known marijuana distributor was among those arrested. The marijuana was transported from Texas. This case was initiated in El Paso, TX, by the DEA.	1,094 lbs marijuana	3 arrests
DEA, OIG, USPS, PA State Police and Philadelphia Police Department			
WEST CHESTER	A sting operation at the Oak Place public housing development.	1 kilo + 120 gr crack (\$140,000)	6 arrests
DEA, OIG, Philadelphia Police Department			



Task Force		Drugs Confiscated	Result
<i>COATESVILLE Task Force</i>	The 6-month investigation was initiated at the Mayor's request.		
DEA, OIG, PA State Police and Coatesville Police Department		Crack cocaine marijuana	40 arrests
<i>PITTSBURGH</i>	Series of search warrants at the Broadhead Manor Housing Community (a public housing development) and 1 scattered assisted housing site in Crafton area.		6 arrests Also confiscated \$800 cash 2 weapons
Pittsburgh Housing Authority & City Police Departments, PA State Police and OIG	Neighbors applauded this effort.	Crack cocaine marijuana	

Our Agents took part in two post enforcement events that involved the residents of public housing complexes. In CHESTER, we joined with the Housing Authority and the National Guard in sponsoring "Operation Safe Home Day" at the Ruth Bennett Homes public housing development. Thirty-five children attended martial arts demonstrations by a local karate school and presentations on potential careers in government service presented by the Guard and our Agents.

Approximately 40 adults and children attended the "Operation Safe Home Day" that we sponsored at the WEST CHESTER Community Center. A local karate academy provided a martial arts demonstration and a free lesson for children, and one of our Special Agents presented a seminar that covered the dangers of drugs and explained career opportunities in federal law enforcement. The purpose of these two events was to show that there are other alternatives in life to selling and using drugs.

Puerto Rico

Federal indictments continue to be brought against gang members in BAYAMON. These gangs controlled the drug trade in the Ramos Antonio, Manuel A. Perez, and Birgilio Davila public housing developments through intimidation and violent reprisals. During this reporting period, 37 gang members were arrested in predawn raids. In addition to our Special Agents, DEA, ATF, USPS, FBI and the Puerto Rico Police Department work on this task force.

Rhode Island

Concluding a 6-month undercover operation, the NEWPORT/SOUTH KINGSTON Task Force arrested 8 individuals and seized crack cocaine worth approximately \$700. The Task Force, targeting the public housing developments in both South Kingston and Newport, consisted of Special Agents from OIG, FBI and Naval Criminal Investigation Service, and Officers from the Newport, South Kingston and North Providence Police Departments.



South Carolina

Operations by the SPARTANBURG Department of Public Safety, ATF, FBI and our Office at public and assisted housing complexes and a private residence resulted in the arrest of 10 individuals involved in the sale of narcotics. Over 7 grams of crack cocaine, some marijuana and \$362 in cash were seized during these operations. The Assistant U.S. Attorney agreed to prosecute all Operation Safe Home cases.

Tennessee

During the last reporting period, 77 individuals were indicted on various drug charges as a result of an Operation Safe Home initiative in MCKENZIE. The first three of these individuals have been found guilty of possession and sale of a controlled substance in a public housing development. Although no sentences have been imposed as of this reporting period, the defendants have been assessed fines totaling \$22,000.

The following table identifies the results of the operations conducted by federal and state agencies working in three cities during this reporting period.

Location	Confiscated	
	Drugs	Results
MEMPHIS		
FBI, OIG, Shelby County Sheriff's Dept.	248 grams crack	44 arrests
	218 grams cocaine	2 convictions
	431,394 grams marijuana	2 sentenced to 36 years in prison
	350 tablets of various drugs	Also confiscated: \$42,314 in cash 6 weapons 5 vehicles
PARIS		
FBI, OIG, Shelby and Henry County Sheriff's Departments, Paris Police Dept., TN Bureau of Investigation		8 sentenced to 49 years in prison
		Also confiscated: \$14,160 in cash 1 vehicle
SAVANNAH		
Operation Crack of Dawn		
Hardin County Sheriff's Department, Savannah Police Department, TN Highway Patrol, 24th Judicial District Drug Task Force, OIG		59 arrests

In addition to law enforcement operations, a representative from our Office was a guest speaker at a Hardin County DARE (Drug Abuse Reduction Education) graduation ceremony in SAVANNAH. The program is designed to build up the self-esteem of students and to help them resist drug and gang activity. This particular program targeted 5th graders who will be entering middle school next year. Supporting DARE Programs throughout the city and county is part of our Safe Home post enforcement efforts in Savannah.



Texas

Efforts by the EGGHOUSE (Eliminate Gangs and Guns from Public Housing) Task Force during this reporting period included the arrest of two individuals when they appeared at a DALLAS flea market selling weapons. One of the 142 weapons confiscated included a handgun that was identified as the weapon used to kill a local police officer. The shooter was subsequently convicted and is currently on death row. Weapons formerly held by the individuals have been recovered by law enforcement authorities as far away as Virginia and Illinois, and one was traced to Mexico. This Task Force is comprised of the ATF, OIG, and the Dallas Police Department under the auspices of the Dallas Housing Authority.

We made a presentation at the ATF sponsored 1-day Gang Resistance Education and Training (GREAT) event which focused on making students from a local high school aware of gang activity, the importance of goal setting and accepting responsibility, and law enforcement as a career choice. Part of the day was spent listening to speakers, touring the ATF gun vault, and role playing. The role playing was designed to teach the students how to resolve conflicts without resorting to violence.

An analysis of crime data for the FORT WORTH neighborhoods where Operation Safe Home initiatives were conducted in 1995 and 1996 showed an overall 25 percent decrease in crimes. In particular, there was a 33 percent decrease in assaults with a deadly weapon and burglaries at the Ripley Arnold public housing development. The Cavile Place public housing development showed a 25 percent reduction in robberies and a 100 percent decrease in homicides.

Virginia

Operation Nova is a proactive initiative that began immediately after an OIG Operation Safe Home presentation was made to the ALEXANDRIA Police Department. Alexandria has approximately 1,152 public housing units and 1,220 assisted housing units. The Department's Street Crimes Unit targets drug enforcement activities occurring in/around public and assisted housing complexes in the city. The Street Crimes Unit employs a combination of successful undercover investigative approaches/techniques and, in 1996, was awarded, for the third straight year, the Washington, DC "Metropolitan Council of Governments Award," competing against all the other metropolitan area law enforcement agencies.

We are the only federal agency involved in these operations and our Special Agents are fully participating in enforcement activities with the Street Crimes Unit by conducting surveillance, arrests, and vehicle stops, executing search warrants, and other investigative techniques. During this reporting period, 69 individuals were arrested for the sale and/or possession of narcotics; 3 handguns, \$1,000 in cash, and various amounts of crack/cocaine and marijuana were also seized.

In MANASSAS, our Special Agents joined forces with the Prince William County Police Department for a 30-day drug undercover operation. *Operation Stone-Breaker* concentrated on drug trafficking in and around the Coverstone IV apartment complex, a public housing complex, where 10 individuals were arrested.



Washington

An evening community celebration at a public housing complex was held to commemorate the community's diversity and cooperation with the larger Seattle community. The sponsors included the City Council, the Police Department and members of the community. We were asked to participate because of our continued efforts with the local Police and Housing Authority in both reactive and proactive efforts. This celebration publicly exhibited the enhanced quality of life and rapport those residents enjoy as a result of Operation Safe Home.

Several operations took place in TACOMA during this reporting period. Two involved a soup kitchen adjacent to an assisted housing development that is experiencing drug problems. In one operation, six individuals were arrested for selling heroin to a confidential informant at the soup kitchen. Deportation is expected for two illegal aliens; two others have extensive criminal histories. In total, 26 individuals were arrested and over \$500 in cash and both heroin and crack were seized.

Members of our staff participated in the National Night Out Against Crime at the Yesler Terrace and Rainier Vista communities in SEATTLE and the Salishan complex in TACOMA in August. We supported the celebrations and encouraged citizen participation and awareness in Operation Safe Home by providing T-shirts and pins to the residents and their children.

Witness Relocation

During this period, 66 witnesses to violent crimes were relocated through this program. Since the inception of this program, we have relocated over 380 witnesses and their families.

The Executive Director of the RICHMOND, VA Redevelopment and Housing Authority was presented with the Inspector General Award for his efforts in supporting our Witness Relocation Program. He established a central repository from which a cooperating housing authority anywhere in the country can obtain a Section 8 voucher that will reimburse the costs of housing witnesses and their families. He and his staff, working with both our Office and HUD's Office of Public and Indian Housing, also agreed to be the repository for the vouchers.

Fraud in Public and Indian Housing Administration

Fraud and abuse in the administration of HUD's Public and Indian Housing Programs erode public support and detract from the scarce resources available to provide better living conditions for residents. Embezzlement, bribery, kickbacks, bidding irregularities, false claims, conflicts of interest are the types of fraud and abuse found by our Auditors and Investigators.



Summary of Results

Activity	Current Reporting Period	Cumulative to Date
Indictments	2	122
Plea Agreements/Convictions	3	94
Sentences Imposed Jail Probation	300 months	947 months 2,115 months
Fines/Restitutions	\$43,064	\$1,650,671

California

In LAKE HAVASU, two members of the Chemehuevi Housing Authority were indicted by a federal grand jury for conspiracy and theft of tribal funds. The former Chairperson/Housing Authority Commissioner and the Secretary/Treasurer of the Chemehuevi Tribe converted over \$175,000 by charging personal expenses to tribal credit cards and cashing tribal checks. This indictment is the result of evidence obtained through the 1992 execution of search warrants during a joint investigation conducted by the OIGs from the Departments of Interior and HUD, the FBI and the San Bernardino County Sheriff's Department. To date, four individuals from the Chairperson's administration have been charged as a result of this investigation.

Florida

Kerchia Dowling, the former executive director of the BRADENTON Housing Authority, pled guilty to one count of theft of government funds. Following allegations concerning her misuse of Authority funds, an audit and investigation by our Office determined that she had used the Authority's credit cards to obtain non-business related goods and services, as well as cash advances at a casino and bingo hall.

Louisiana

A negotiated plea agreement was reached after a joint investigation with the FBI and Louisiana State Police determined that Edward Cole, former executive director of the EAST BATON ROUGE Housing Authority, was operating a private lead-based paint testing business out of the Housing Authority. He also used Authority funds to pay the leases for equipment used in that business. Mr. Cole received a sentence of 5 months in prison, 2 years probation, and 5 months at a halfway house, was fined \$3,050, and ordered to pay \$20,289 in restitution.

Missouri

The former executive director of the HAYTI HEIGHTS Housing Authority was indicted on two counts of embezzlement of public funds. She allegedly provided the Authority with fraudulent contractor invoices in order to either illegally pay money to herself or to repay the Authority for monies she had paid to herself earlier that she was not entitled to receive. This was a joint investigation conducted by our Offices of Investigation and Audit.

Oklahoma

Jim Drake, former executive director of the SHAWNEE Housing Authority, entered into a plea agreement for mail fraud following our joint investigation with the FBI. The investigation disclosed that Mr. Drake engaged in a scheme to conceal receipts of Housing Authority funds by cashing checks and converting



them for his personal use. The U.S. Mail was used when royalty checks from gas leases on Authority property were redirected.

Virginia

Three more individuals who were part of the scheme to embezzle funds from the CHESAPEAKE Housing Authority were sentenced during this reporting period. Two received 12-year suspended sentences; the third received a 4-year suspended sentence plus 240 hours of community service. Restitution totaled over \$50,000. The scheme, involving a former Housing Authority employee and five individuals, was uncovered during an investigation of questionable checks written by an employee. In this joint investigation by the FBI and OIG, over \$100,000 of Section 8 funds were disclosed as fraudulently obtained and split among the six individuals involved.

Wisconsin

Following a negotiated plea, Lynn Bondeson, the former finance administrator of the SUPERIOR Housing Authority, was sentenced to 1 year probation and ordered to pay \$3,000 in restitution. Our investigation disclosed that she embezzled approximately \$5,600 by forging the signatures of board members on Housing Authority checks. The restitution has been made.

Equity Skimming in FHA Insured Multifamily Housing

Equity skimming is the illegal use of any part of the rents, assets, proceeds, income or other funds derived from any FHA insured multifamily property for purposes other than to meet actual or necessary expenses. In addition to the financial losses that occur when owners do not pay their mortgages, equity skimming generally has other insidious implications. Most notably, living conditions deteriorate because the funds intended to maintain living units are diverted for unauthorized uses.

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

The following reflects the work that was accomplished during this reporting period:



Summary of Results

Activity	Current Reporting Period	Cumulative	Estimated Equity Skimming
Cases Identified	20	229	\$176,875,193
Cases Settled Prior to Litigation	22	83	\$54,914,253
Court Judgments	2	11	\$11,244,582
Criminal Convictions	4	17	\$2,780,538

California

Our audit of the multifamily mortgagor operations at the Huron Plaza and Sunridge Apartments, located in HURON and FRESNO, found owner/agent misuse of project assets. This misuse contributed to the unacceptable physical condition of units at Huron Plaza and the continued loan delinquency and subsequent default at Sunridge. Over \$505,000 was used in violation of their Regulatory Agreements with HUD. Violations included diverting laundry income and direct distributions to owners; payment of excessive, unsupported or non-project charges by service contractors and others; and excessive management fees. We also noted other deficiencies with the projects' management that included non-compliance with Section 8 requirements; inadequate separation of accounting, disbursement and procurement functions; and absence of a required fidelity bond. As a result, HUD paid excessive subsidies and there was exposure to unnecessary financial risks. Our recommendations included the need for HUD to require the owner to make the needed repairs at Huron Plaza, obtain compensation from the owner, and instruct both the owner and current agent that distributions to the owner will not be permitted unless there is surplus cash and the physical condition is satisfactory. (Report No. 97-SF-212-1003)

There were several equity skimming cases that were resolved in the State of California during this reporting period. The table below summarizes those cases:

	Debarred	Settled	Recovery
San Francisco	David Sciplin		\$106,153
Studio City	Thomas E. Bell & Bell Diversified Development		
Westlake Village		Lincoln Property Company	\$130,000
Sacramento		Shade Tree Apartments	\$97,001
		Insignia Residential Group	\$5,000,000



Florida

EMC Residential Management, Inc. President Steven Rossi, the former owner and management agent of two HUD insured projects in NAPLES, pled guilty to one count of equity skimming. Over \$798,000 was taken out of project funds through the creation of false vendors. The money was used to purchase personal items such as expensive jewelry and automobiles. Consequently, the Rookery Bay Apartments, with mortgages totaling over \$19 million, went into default. This was an OIG investigation that was referred by our Office of Audit.

An audit of Cooper-Holt Manor in JACKSONVILLE BEACH disclosed ineligible and unsupported expenditures totaling more than \$258,000. Examples include the payment of servicing fees and legal expenses that did not benefit the project; the provision of an unauthorized rent-free rental unit to an employee; and salary payments that had no supporting documentation. Our recommendations to the HUD program office included considering administrative sanctions against the partner and removal from day-to-day project operations; demanding repayment of all ineligible and unsupported costs and loss of revenue; and instructing the mortgagor to provide proper documentation for the salaries paid. (Report No. 97-AT-211-1004)

Illinois

Our audit of the Colonial Park Apartments in PARK CITY disclosed that project funds were improperly used to make payments on loans from an identity-of-interest entity and to make distributions to the owner, as well as other costs that were not necessary to the operation of the project. An agreement was reached with the owner, Colonial Park Association, LTD., whereby they paid HUD \$159,717 to satisfy the equity skimming. (Report No. 97-CH-211-1804)

Indiana

Three general partners of Woodbrook Associates in INDIANAPOLIS entered into settlement agreements to pay a total of \$20,000 and to cooperate with the government in civil litigation against a fourth general partner. These actions resulted from our investigation that disclosed the disbursement of project funds while the Woodbrook Apartments complex was in default on FHA loans, thereby violating the Regulatory Agreement with the Department.

Kansas

Final payment was received during this reporting period for equity skimming violations identified in our audit of the French Village Apartments in KANSAS CITY. An agreement with V. J. Dawar, the mortgagor, provided for the payment of \$90,000 plus interest. The total amount recovered, including this payment, was over \$149,500.

Kentucky

In LOUISVILLE, the U.S. Attorney for the Western District of Kentucky, with assistance from the FBI and our staff, obtained a guilty plea from Jeanette Franck, a property manager, to theft and intentional misapplication of property belonging to Colonial Square Cooperative, Inc. Ms. Franck intentionally misapplied over \$204,000 through unauthorized bank loans and checks from the Cooperative for personal benefit.

Michigan

Choice Properties, Inc., the owners of Village Square Apartments in TROY, agreed to make all the necessary repairs and reimburse the cost of our audit. The audit disclosed that the project's identity-of-interest management agent made \$150,000 in distributions to the project's owners when the project was in



unsatisfactory physical condition. We found there was approximately \$127,000 in deferred maintenance and the agent had ignored HUD's directives to make those repairs. In accordance with the negotiated agreement, all repairs have been satisfactorily completed and the owners reimbursed the government \$4,524 to cover the cost of the audit. (Report No.97-CH-214-1805)

Missouri

In KANSAS CITY, a federal judge imposed the maximum sentence on Douglas Fidler, who presented himself as a member of the religious community that was responsible for operating Good Shepherd Manor, a HUD insured Section 8 property. He embezzled funds from the Manor to pay for personal expenses. He also solicited donations from private individuals to cover payments for medical treatments that were not covered by insurance. After pleading guilty to mail fraud in March, he returned part of the \$258,569 that he embezzled. He was sentenced in June to 37 months incarceration, 3 years supervised probation and restitution of \$199,446.

Robert Anderson, the former management agent for Mid-City Towers II, a HUD owned project and Section 8 subsidized development in KANSAS CITY, pled guilty to embezzling incremental amounts from various development accounts that totaled over \$19,000. This investigation was conducted by the FBI and our Office.

New York

As a result of our audit and subsequent investigation with the FBI and the U.S. Attorney's Office, Jay Bloom, the president of Michael Walsh Homes Housing Development Funds Company, Inc., pled guilty to embezzlement. He used approximately \$8,800 of the Michael Walsh Homes, a HUD funded multifamily housing development in UTICA, to buy lumber to build a deck and a tractor for use at his personal residence. In addition, he was involved in a conspiracy with a union official to bill a local union for purported legitimate work by a design company he owned. The work, however, was done at the union official's residence.

The owner of Cathedral Park Partners in BUFFALO, Dr. Joseph Dimino, recently forwarded an escrow check to FHA in the amount of \$416,544. The case was based on our audit that identified over \$500,000 of unallowable distributions to the owners and questionable management and consulting fees. However, although HUD and the DOJ settled the case in 1995, the payment was held in escrow because of unpaid property taxes.

Ohio

Our audit of the Ridgewood Hills, a multifamily housing development in CINCINNATI, disclosed that the owners inappropriately paid over \$197,000 in advances to the management agent while the project was in default. The owners also paid expenses that were not documented as being relative to the project. The Assistant U.S. Attorney negotiated a \$100,000 settlement with the principals involved.

Oklahoma

A settlement was agreed to by Robert Dossey, former director and president of the nonprofit mortgagor of Breckenridge Apartments in TULSA. Mr. Dossey agreed to a judgment in the amount of \$225,000 for unjust enrichment and to take a voluntary debarment from all federal contracts for a minimum of 2 years and a maximum of 4 years, or until the full amount of the judgment is paid.



Puerto Rico

The owner of a HUD insured hospital in HATO REY signed a settlement agreement in August to a civil claim of \$6 million. The claim stemmed from a joint investigation by our Offices of Audit and Investigation and the FBI that exposed the diversion of over \$5 million from the hospital. In the civil settlement, the owner conveyed 4 properties worth \$1.5 million, and agreed to pay approximately \$1.1 million from the sale of another hospital, agreed to have HUD foreclose on the hospital and not to file bankruptcy, and to transfer certain other assets, including equipment and accounts receivable to HUD.

Rhode Island

In PROVIDENCE, Frank Labonte, the former site manager, pled guilty to defrauding HUD and the owners of a Section 8 complex by filing false rent subsidy information and converting up to \$500,000 for his own use. Mr. Labonte admitted that, between 1992 and 1996, he falsified information on residents' assets, income, or medical expenses used to calculate rent subsidies; forged residents' signatures on the forms and filed forms for deceased and former residents; and used the U.S. Mail to further the scheme. He also admitted that he used money from accounts belonging to Grace Church Housing Corporation for his own use and covered his tracks by creating false monthly bank statements and doctoring company checks which he had endorsed to himself. In the plea agreement, he admitted that the total loss to the government and Grace Church was between \$350,000 and \$500,000.

Texas

Our audit of the payment practices of Medlock Southwest Management Corporation, a multifamily management agent for 12 HUD insured projects in LUBBOCK, disclosed inappropriately commingled funds and unsupported expenditures approaching \$1 million. We found that the lack of internal controls over the centralized computer system resulted in the inability to track and account for project costs, which is in violation of the Regulatory Agreement with HUD. In addition, we found that the management agent distributed \$24,000 to the general partners when the projects were not in a surplus cash position, also in violation of their Regulatory Agreement. Although the management agent agrees that they over billed for some costs, they did not agree with all of our findings. We recommended that all questioned costs be repaid and internal controls and accounting systems be implemented to satisfy HUD's requirements. (Report No. 97-FW-211-1003)

Virginia

Our audit of the Princeton Lakes Apartments in VIRGINIA BEACH disclosed over \$121,000 of project funds were used to pay owner debts in lieu of meeting the project's mortgage and maintaining the units. (Report No. 97-PH-212-1007)





Audits

In addition to evaluating HUD's management reform issues, conducting activities in support of Operation Safe Home, and reviewing regulations and legislative proposals, the OIG's Office of Audit continued to monitor HUD programs and operations through audits. During this reporting period, the Office of Audit issued 6 reports and 7 audit-related memoranda on internal HUD operations, and 23 reports and 31 audit-related memoranda on grantees and program participants. (See Appendix 1 for a listing of the audit reports issued.) Cash recoveries amounted to \$8.3 million, with another \$6.2 million in commitments to recover funds.

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

- An OIG audit disclosed many instances where time pressures and staff inattention to contract management resulted in ineffective and extremely costly contracts.
- During implementation of HUD's Centralized Accounting and Program System, the Department did not institute adequate measures in the general control environment, thereby exposing the Department to the risk of unauthorized use of restricted data and programs.
- An audit found that an Indian housing authority could not adequately support \$1.8 million of development costs.
- An assessment of a public housing authority's progress in eliminating long-standing problems found that the authority is improving its operations in many areas, but has abandoned other improvement strategies.
- HUD needs to improve its procedures for approving Section 203(k) Program consultants and consultant trainers. HUD's selection of two lenders to approve 203(k) consultants was arbitrary and left HUD open to complaints of unfair treatment.
- HUD approved a rent increase of \$1.1 million for repairs to a multifamily project by increasing Section 8 rents to levels in excess of 500 percent of fair market rents. HUD took this action without establishing controls to make sure the additional funds would be used for the intended purpose.
- A grantee incurred more than \$4.7 million of ineligible costs and \$2.2 million of unsupported costs in administering its Community Development Block Grant and Section 108 Loan Guarantee Assistance Programs.



Departmentwide Operations

HUD Contracting

During this reporting period, the OIG reviewed HUD's contracting functions and access controls over HUD's Centralized Accounting and Program System (HUDCAPS). The contracting review was performed at the request of the Chairmen of the Senate Subcommittee on VA, HUD and Independent Agencies and the Senate Subcommittee on Financial Institutions and Regulatory Relief. The HUDCAPS review was performed to provide reasonable assurance that information processed by the system is properly safeguarded. The results of these reviews follow.

From 1992 through 1996, HUD awarded about 9,600 contracts worth over \$3.2 billion. Considering staff reductions, reorganizations, and management pressure for timely services, the HUD procurement system processed a remarkable number of transactions during that time period. An OIG audit, however, disclosed that there were many instances where time pressures and staff inattention to contract management resulted in ineffective and extremely costly contracts.

The lack of adequate planning, needs assessment, good initial estimates, monitoring, and control of costs on several multimillion dollar contracts has made HUD vulnerable to waste and abuse. In addition, the absence of integrated financial and data systems to track contractor performance and cost is, in the OIG's opinion, a serious weakness. Departmental managers have, for all practical purposes, abdicated their procurement and contract oversight responsibilities with costly consequences.

We found several contracts where HUD used an indefinite quantity/task order process to expedite procurement, but the combination of vague work orders, inadequate estimates, and lack of oversight led to incumbent contractors "holding the Department hostage" to the present contract. Consequently, HUD has found itself in some financially unsound and costly long-term arrangements.

Contracting problems were compounded over the past 4 years by continuing Departmental weaknesses highlighted in our prior Semiannual Reports to the Congress. These include a lack of integrated financial and management data systems, dwindling experienced staff resources due to attrition and buyouts, and the proliferation of new programs and initiatives.

Since HUD may use contracts even more extensively in the future, it is imperative that improvements be made in the following areas of contract management.

- Needs Determination, Planning, and Periodic Assessments.
- Cost Consciousness.
- Contractor Oversight and Monitoring.
- Contracting for Prohibited Services.
- Coordinated Data and Financial Systems.
- Timely Close-out Procedures.
- Interagency Agreements.



Both program managers and procurement officers need to take a more aggressive role in contract management. HUD's 2020 Management Reform Plan will need to allocate sufficient resources to improve existing weaknesses and address the increase in contracting that may be required by staff reductions.

The Department has recently taken some positive steps to address some of these areas, such as commissioning independent reviews of procurement in FHA, resuming requests for close-out audits, and undertaking a reassessment of FHA advertising costs, but much more needs to be done.

The report contains suggestions and recommendations to improve the noted weaknesses in contract management. To sustain improvement, however, Departmental management will need to be creative in finding ways to correct existing contract vulnerabilities and meet the likely increase in demand for contract oversight.

While the Department viewed the OIG audit as a tool to be used in reforming HUD's contracting and procurement systems, as part of the HUD 2020 Management Reform Plan, Department officials took issue with many specific aspects of the audit. (Report No. 97-PH-163-0001)

HUDCAPS Access Controls

The purpose of the OIG audit was to evaluate the general access controls over HUDCAPS, one of HUD's major financial systems. We found that the Department did not institute adequate measures during HUDCAPS implementation to control system access. This situation exposed the Department to the risk of unauthorized use of restricted data and programs.

HUDCAPS incorporates a commercial off-the-shelf software product called the Federal Financial System. Our purpose in reviewing access controls was to provide reasonable assurance that information processed is properly safeguarded. Access controls have a significant impact on the overall security of application systems; they can be placed either within the application itself, or outside of the application in the general control environment. If general controls are weak, they may invalidate controls built into the application itself and expose the application system to serious risks, such as jeopardizing the integrity of data and allowing unauthorized disclosure of sensitive information.

The audit found numerous instances of weaknesses in the access control structure which jeopardize the processing of information. We made appropriate recommendations to HUD's Chief Information Officer. (Report No. 97-DP-166-0001)

Public and Indian Housing Programs

Public and Indian Housing Programs are designed to assist low- and very low-income families in obtaining decent, safe and sanitary housing. During this reporting period, we continued our review of alleged fraud, abuse and mismanagement by certain Indian housing authorities as reported by *The Seattle Times* in December 1996. Additionally, at the request of the former Secretary, we



Indian Housing

reviewed the Atlanta Housing Authority to assess its progress in eliminating long-standing problems. At the request of a former Congressman, we reviewed the Housing Authority of the City of Galveston regarding allegations reported in a local newspaper. We also reviewed the activities of various public housing authorities (PHAs) including their administration of the Drug Elimination and HOPE I Programs.

During the last reporting period, the Inspector General testified before the Congress about *The Seattle Times*' allegations of fraud, abuse and mismanagement by certain Indian housing authorities. During her testimony, the Inspector General noted that the OIG had work ongoing or completed in this area at the time the articles were printed. This work has continued into the current reporting period.

An OIG audit of the Mowa Choctaw Housing Authority (MCHA) in MT. VERNON, AL, disclosed that the MCHA did not establish and maintain an adequate accounting system to properly account for and support \$1.8 million of costs incurred in developing three low-income projects. Because of the condition of the books and records, MCHA had not provided HUD actual development cost certificates for the projects and had not had an independent financial audit review since 1994. Attempts by two independent auditors and HUD's Office of Native American Programs to determine the projects' development costs were unsuccessful. The audit also disclosed deficiencies in MCHA's homebuyer selection process and collection of homebuyer payments.

Among other things, the audit recommended that the MCHA certify the development costs of the low-income projects, support all questionable costs, and contract with an independent auditor to perform an audit for the period October 1994 through March 1997. (Report No. 97-AT-207-1809)

At the request of the Northwest Office of Native American Programs, the OIG audited the Coquille Indian Housing Authority, COOS BAY, OR, and found that the Authority used over \$814,000 in development funds to pay unnecessary costs and costs unrelated to its low-income housing development. These costs included charges for rental equipment that the Coquille Indian Tribe had provided to the Authority at no charge; purchase of land that was not needed for their housing development and not authorized by HUD; and expenses related to projects of the Coquille Economic Development Corporation. The audit also disclosed unauthorized individuals accessing the HUD line of credit control system, drawdowns of excess development funds, and questionable salary costs for one Development Corporation employee.

The audit recommended recovery of the misused development funds and debarment of the individuals or organizations involved. (Report No. 97-SE-207-1002)

The OIG audit of the Southern Puget Sound Inter-Tribal Housing Authority, SHELTON, WA, involved the use of HUD's low-rent development funds in an innovative financing program. Funds totaling about \$675,000 from the low-rent development program and other Authority sources were used to help finance 11 transactions involving a subsidiary mortgage company, Sound Development



Association (SDA). Based on a review of SDA's transactions and funding, we concluded that HUD and Authority funds were used to capitalize a newly created program which helped over-income homebuyers acquire homes in the private market. Evidence indicated that the new program did not operate as described to HUD by SDA's former executive director.

The audit recommended that HUD require the Authority to show that all funds used for unauthorized purposes are repaid and properly accounted for, and provide assurances that HUD and Authority funds will only be used for authorized purposes. (Report No. 97-SE-207-1003)

In BELCOURT, ND, an OIG audit, which stemmed from observations made as a result of a Congressional inquiry, disclosed serious weaknesses in the Turtle Mountain Housing Authority's internal control procedures over cash collections. The Authority has not established proper separation of duties over the handling of cash receipts and recording cash transactions. Without proper controls, the Authority has limited assurance that all cash collections are properly received, receipted, and recorded. The audit recommended that HUD's Northern Plains Office of Native American Programs help the Authority set up and maintain proper controls over its cash collections. (Report No. 97-DE-207-1803)

A separate audit report noted that the Turtle Mountain Housing Authority's procedures for selecting occupants for its newly constructed projects under the Homeownership and Low-Rent Programs were not carried out according to HUD's or the Authority's requirements. The audit, conducted in response to a Congressional inquiry, found that assignments were often made based on politics, friendship, or family ties. The audit also disclosed construction deficiencies, the most significant of which was excessively high humidity levels inside the homes caused by inadequate ventilation. This caused damage to the homes and uncomfortable living conditions. The audit recommended that the Northern Plains Office of Native American Programs assist the Authority in revising its waiting list policies, increase oversight of the administration of the waiting list, and ensure that the Authority installs proper ventilation systems and corrects other deficiencies. (Report No. 97-DE-207-1003)

Public Housing

At the request of the former HUD Secretary, the OIG reviewed the Housing Authority of the City of ATLANTA, GA, to assess its progress in eliminating long-standing problems, based on the Memorandum of Agreement (MOA) and the Cooperative Recovery Agreement between HUD and the Authority. Our assessment showed that the Authority is improving its operations in many areas. Notable actions include the implementation of the Olympic Legacy Program and the move to site-based management. The Olympic Legacy Program, a \$300 million neighborhood revitalization effort, calls for the demolition of five of the Authority's worst developments and replacing them with new mixed-income housing apartment complexes. The site-based management system represents a change from the Authority's centralized operational approach to managing its housing stock.

Although improvements are being made, the Authority should continue to work to assure its operational improvements are institutionalized. We noted that the Authority did not complete many of the strategies under the MOA because they



were either ongoing initiatives, were adjusted, or were deemed inappropriate by the Authority and abandoned. We recommended that the Authority follow through on many of the strategies and tasks initiated or planned, but not completed. We also recommended that HUD monitor the Authority's progress and provide technical advice and assistance when needed. (Report No. 97-AT-201-1814)

The OIG reviewed the Housing Authority of the City of GALVESTON, TX, after a former Congressman expressed concerns regarding a local newspaper's stories on the Authority's use of Section 8 reserves to subsidize operations of Port Holiday Apartments, a non-HUD insured project. The former Congressman also expressed concerns about a management review alleging fraudulent acts by the former executive director.

The OIG review found that although the management review was critical of the Authority's use of over \$200,000 of Section 8 operating reserves to subsidize Port Holiday operations, HUD does not prohibit an authority from loaning its Section 8 operating reserves for housing related activities. However, the Authority improperly used about \$78,600 of its low-rent funds to subsidize operations of Port Holiday and its affiliated nonprofit corporation. Although the review did not identify any fraudulent activity by the former executive director, there are problems with the Authority's overall management that require corrective action.

The audit recommended that HUD impose appropriate administrative sanctions for continued violation of HUD restrictions on the use of funds, and require the Authority to cease the improper use of low-rent funds and repay the low-rent program. (Report No. 97-FW-204-1004)

In recent years, the Housing Authority of the City of AUSTIN, TX, has been experiencing a significant turnover in both staff and management positions. This situation, coupled with a lack of adequate and consistent management controls and actions, has caused significant problems in the ability of the Authority to properly operate its HUD funded programs. An OIG audit disclosed that the Authority did not provide adequate resources to maintain units in good repair; meet its primary objective of providing housing to needy families on a timely basis; adequately monitor the Section 8 Housing Assistance Payments Program; or reexamine residents annually for income and family composition.

The audit recommended that the Authority evaluate the reasons for staff turnover and assess the workload in relation to available staff resources. The audit also made specific recommendations to correct each of the deficiencies cited in the audit. A new executive director took over Authority operations in February 1997. In responding to the audit, he discussed substantial changes he has made in Authority operations since OIG conducted the audit. (Report No. 97-FW-209-1002)

An OIG audit found that the INDIANAPOLIS, IN Public Housing Agency had frequent turnover of key management personnel and lacked a plan to facilitate continuity of operations. Even though the Agency had a long waiting list for units, it had a vacancy rate of 23 percent because it lacked adequate resources to repair the backlog of vacant units. Other deficiencies were also noted. The audit



recommended that the Agency be required to develop an overall plan for the Agency's direction and that HUD use the plan to monitor the Agency's progress. (Report No. 97-CH-202-1008)

The Housing Authority of the City of DURHAM, NC, generally kept the exteriors of its developments in good repair. However, an OIG audit found that the Authority needs to improve the maintenance of the developments' interiors. Twenty-seven of the 30 housing units inspected failed HUD's housing quality standards and families were not living in decent, safe and sanitary housing. Problems noted include windows and doors which did not seal properly or would not lock, inoperable plumbing fixtures and kitchen ranges, peeling and cracked paint, holes in walls, broken tile, hazardous electrical switches, insect infestation, and inoperable smoke detectors. The maintenance problems were due to insufficient staffing and ineffective procedures for inspecting units and preparing work orders. The audit report recommended that the Authority make the needed repairs and hire sufficient maintenance staff. (Report No. 97-AT-202-1005)

The TROY, NY Housing Authority is generally providing decent, safe and sanitary housing to residents. However, an OIG audit disclosed ineligible and unsupported payments of over \$600,000. We also reported deficiencies in the areas of internal controls and monitoring Drug Elimination Program subgrantees. Because of the problems identified in the Authority's 1994 Drug Elimination Program, the audit recommended that HUD disburse no further funding for the Authority's 1996 Drug Elimination Program until it is assured that similar problems do not exist. (Report No. 97-NY-206-1006)

Drug Elimination Program

An ongoing OIG audit of the Housing Authority of NEW HAVEN, CT, found that the Authority has reported almost \$950,000 in costs for law enforcement activities charged to the Public Housing Drug Elimination Program for FYs 1993 and 1994. However, the Authority has not executed a contract with the New Haven Police Department for enhanced police services, as required by regulations. This noncompliance was brought to their attention by the Director, Office of Public Housing, who advised the Authority that no funds could be used for any police services, nor would any retroactive payment be authorized for enhanced public services, until a contract was executed. We recommended that the directive remain in force until such time as fiscal accountability is achieved and effective accounting and managerial controls are established. If the Authority cannot implement the necessary fiscal and internal controls within a specific time period, HUD should consider sanctions as allowed in the grant agreement. (Report No. 97-BO-101-0804)

The BINGHAMTON, NY Housing Authority generally complied with program regulations in administering its Low-Rent Housing Program, and provided decent, safe and sanitary housing. However, an OIG audit disclosed that the Authority has not adequately monitored subgrantees under the Drug Elimination Program. The Authority was awarded grant funds for 2 years totaling \$500,000. Of the 11 subgrantees awarded funding, 8 had no written contracts. The costs incurred by these 8 amounted to almost \$346,000. Failure to execute written contracts with subgrantees limits the Authority's legal recourse in the event of default or nonperformance. And since the subgrantee is not bound to a specific scope of



services to be provided, the Authority is precluded from making eligibility determinations on the costs incurred. Our audit also reported ineligible and unsupported costs. Among other things, the audit recommended the establishment of procedures and controls to provide effective monitoring of performance and the reimbursement of ineligible or unsupported costs. (Report No. 97-NY-202-1003)

The OIG audited the NEW BEDFORD, MA Housing Authority's administration of the Public Housing Drug Elimination Program for FYs 1994 through 1996. The Authority has taken positive steps to address drugs and crime, eliminating much of the open drug dealing in and around the Authority and encouraging resident participation in drug prevention programs. This successful performance can be attributed to the Authority's strict "No Trespass" policy. To complement an additional police presence, the Authority provides a comprehensive and active drug prevention program designed to target drug related problems. This program aids at-risk families and youth. The audit report made no recommendations. (Report No. 97-BO-209-1802)

HOPE I

An OIG audit disclosed that Charis Community Housing, Inc., ATLANTA, GA, did not maintain proper control over the finances of Martin Street Plaza, a nonprofit community based organization. Because Charis was unable to account for the \$1.7 million for activities at Martin Street Plaza, we were unable to determine the reasonableness and necessity of grant expenditures. In addition, we identified \$68,826 in ineligible costs. Among other things, the audit recommended that HUD obtain a full accounting of the use of the \$1.7 million, and require Charis to reimburse all ineligible costs and obtain an audit for 1996. (Report No. 97-AT-205-1806)

Section 8 Rental Assistance

An OIG review of the SAN DIEGO, CA Housing Commission's (SDHC) procedures for approving contract rents for its tenant-based Section 8 Housing Assistance Payments Program found that some rents approved were excessive. SDHC not only approved initial contract rents that were too high, but also gave annual adjustments without determining that those adjustments were warranted. This occurred because SDHC did not consistently compare rents it approved for Section 8 units to those rents that project owners charged for comparable unassisted units. The audit recommended that HUD require SDHC to analyze non-Section 8 unit rents for apartment complexes that also have Section 8 units, determine whether excessive contract rents were paid, and repay HUD the amount overpaid. (Report No. 97-SF-203-1005)

Fair Housing and Public Housing Offices

Because of poor management, ineffective HUD headquarters oversight, and the inability or unwillingness of the BEAUMONT, TX Fair Housing and Public Housing Offices to get along with each other, serious problems have kept the offices from achieving their mission to implement court orders relating to the desegregation of 36 East Texas counties. An OIG audit found constant conflict between the two Beaumont directors; confusion and frustration at East Texas housing authorities; high turnover and low morale at the Beaumont Fair Housing Office; and a change in mission focus from enforcement to technical assistance. In addition, HUD does not have an accurate estimate of what court ordered



improvements will cost, and is not tracking the amount of funds it has spent or the progress of improvements made thus far. This is because the Office of Public and Indian Housing only obtained rough estimates when it committed to make the improvements, and has not assigned any office the task of tracking the funding or status of the improvements. As a result, HUD may lack sufficient funds to complete improvements by the court ordered deadline.

The audit reported that a court ruling may result in HUD staff and the future Fair Housing Services Center performing duplicate duties. In addition, the court's ruling that the Fair Housing Services Center will perform monitoring of housing authorities and other providers may infringe on HUD's statutory rights to perform compliance monitoring. Since headquarters Fair Housing officials maintain the Fair Housing Services Center will not perform monitoring or duplicate work performed by HUD staff, they have not taken action regarding the ruling.

The audit recommended that HUD initiate action to close the Beaumont Fair Housing and Public Housing Offices and transfer their duties and functions to the Fort Worth and/or Houston Offices. In addition, the Office of Public and Indian Housing should assign staff to track expenditures and progress, and develop an accurate estimate of the cost of court ordered improvements. The Assistant Secretary for Fair Housing and Equal Opportunity should determine whether the issues raised by the ruling warrant action; if so, prompt measures should be taken. (Report No. 97-FW-174-0001)

Single Family Housing Programs

Single Family Housing Programs provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, we reviewed the role of consultants and consultant trainers in the Section 203(k) Program, activities by real estate asset managers, the Direct Sales Program, and closing agents services.

Section 203(k) Program

As a result of our ongoing review of the Section 203(k) Program, the Southeast/Caribbean District found that HUD needs to improve its procedures for approving Section 203(k) Program consultants and consultant trainers. The audit disclosed that HUD delegated its authority for approval of 203(k) consultants to two lenders. A policy letter stated that HUD would give automatic approval to consultants trained and certified by either CrossLand Mortgage Corporation or Countrywide Home Loans. This policy expired in January 1996, but HUD continued to direct prospective consultants to these two companies, who reviewed their background and experience. If CrossLand or Countrywide determined the prospective consultants were qualified, they referred them for 203(k) Program training. HUD's selection of CrossLand and Countrywide was arbitrary and left HUD open to complaints of unfair treatment.

The procedures for approving consultant trainers also resulted in inconsistent approvals by different HUD offices. The audit found one case in which a company was approved by six HUD field offices, but disapproved by headquarters.



The audit recommended that HUD issue updated written criteria for the approval and training of 203(k) consultants, and establish written procedures for approval of 203(k) consultant trainers in order to provide for more consistent decisions. (Report No. 97-AT-121-0803)

An audit of the Major Mortgage Corporation, a direct endorsement mortgagee in LIVONIA, MI, found that due care was not exercised when it underwrote 20 of the 25 Section (203)k loans we reviewed. In computing the maximum allowable mortgage amount, Major Mortgage used the wrong loan-to-value ratio for 20 loans and did not properly determine the property values of 2 of those 20 loans. This resulted in HUD's insuring the loans for excessive amounts and assuming an increased risk estimated at nearly \$175,000. All the loans were made to the same nonprofit corporation. The Mortgagee Review Board needs to take appropriate action to reduce HUD's liability based on the information contained in the audit. (Report No. 97-CH-221-1010)

Real Estate Asset Manager

Jason Properties, Inc., a real estate asset manager (REAM) under contract to manage single family properties for HUD's TULSA, OK Office, has not paid for clean-up of houses as required by its contracts. Instead, the REAM has passed these costs on to HUD. An OIG review of a citizen's complaint disclosed that the REAM had complete control over what contractors did and how invoices were prepared. Also, Government Technical Representatives in the Tulsa Office did not require work to be itemized on invoices so that it could be compared to the work authorized. The audit recommended that HUD require invoices from contractors to list each work item completed and the HUD approved price, and that the REAM reimburse HUD for costs paid for services not authorized. (Report No. 97-FW-123-0801)

An OIG review of the sale of real estate owned (REO) properties by the HUD PHOENIX, AZ Office revealed problems affecting HUD's administration of its contract with Real Estate Asset Management, Inc. As a result, HUD paid for work not performed and FHA insurance was provided for properties with minimum property standards violations and/or health and safety hazards. The audit recommended that the REO's monitoring process be strengthened, that realty specialists receive training, and that all proposed contract changes and areas of major contract noncompliance be directed to the HUD Contracting Office. In addition, if the contractor does not comply, HUD should consider administrative sanctions. (Report No. 97-SF-123-0802)

Further audit work in the Phoenix Office disclosed that HUD's current policy on REO sales, which allows insured mortgages to be based on the sales price even if greater than the property's appraised value, has resulted in higher insured mortgages than HUD allows under other single family sales where HUD is not the seller. This policy increases HUD's insurance risk and victimizes low- and moderate-income first-time homebuyers who pay excessive prices for the properties. A review of 29 REO properties found that the properties were sold for more than 110 percent of their appraised value. Borrowers interviewed did not fully understand that they had paid from \$9,200 to \$28,000 more than the fair market value of the properties. Twenty-eight of these sales were to low- and moderate-income or first-time homebuyers and 24 percent of the mortgages are



already in default or foreclosure. The audit recommended that HUD adopt policies which limit the amount of FHA insurance available on REO sales to a realistic percentage of HUD's appraised value of the property, as is currently done when HUD is not the seller. (Report No. 97-SF-123-0002)

Direct Sales Program

An OIG audit determined that Developing Economic and Better Living, Inc., a private nonprofit organization in CHICAGO, IL, purchased properties at a 30 percent discount under HUD's Single Family Direct Sales Program and did not comply with program requirements. The audit was conducted to address concerns about program irregularities reported after a monitoring review by the Illinois State Office.

Our audit found that the organization sold 10 homes for amounts greater than allowed on the same day it purchased the homes from HUD, violated conflict of interest requirements, did not ensure that home purchasers met program qualifications, and did not have a functional accounting system to track and record property costs. In addition to recommending corrective actions for these deficiencies, the audit recommended that HUD consider imposing administrative sanctions against all officers of the organization. (Report No. 97-CH-229-1007)

Sales of HUD Acquired Properties

An OIG audit of a contract to provide closing agent services for HUD acquired properties in CAMDEN, NJ, disclosed that William Antinore, the closing agent, wrote checks from the escrow account for his personal use and did not deposit all the funds resulting from the sale of HUD owned properties into the escrow account. Antinore also made fictitious entries on the settlement statements and diverted funds associated with these entries to his own use. A review of records revealed that funds in excess of \$130,000 were missing. The OIG believes these events were allowed to occur because the HUD Camden Area Office ceased on-site monitoring of the agent in late 1993 due to staff shortages. The audit recommended that HUD seek restitution of the misappropriated funds, notify homebuyers to review their records and advise HUD of any discrepancies in their closings, and contract out the on-site monitoring function to independent public accountants if HUD does not have sufficient staff. The closing agent subsequently pled guilty to theft of government property. (Report No. 97-NY-222-1004)

Multifamily Housing Programs

In addition to multifamily housing projects with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages. It also subsidizes rents for low-income households living in multifamily housing, finances the construction or rehabilitation of rental housing, and provides supportive services for the elderly, mortgage insurance for cooperative housing projects, federal grants for housing projects for the handicapped, and mortgage insurance to finance or rehabilitate nursing and care facilities. During this reporting period, in addition to its Operation Safe Home equity skimming work, the OIG reviewed low-income housing tax credits, an



Low-Income Housing Tax Credits

inappropriate rent increase at a multifamily project, nursing home operations, and the use of Earthquake Loan Program funds.

An OIG audit of the Low-Income Housing Tax Credits (LIHTC) Program, performed at four state credit agencies in MISSOURI, OHIO, ALABAMA, and PENNSYLVANIA, found that while HUD provided state credit agencies with guidance for performing subsidy layering reviews on projects using FHA insurance, the guidelines were needlessly complicated and difficult to understand. In addition, the Department has not provided these agencies with guidance for performing subsidy layering reviews on projects using funding from the Office of Community Planning and Development, including the HOME and Community Development Block Grant Programs. Nevertheless, the audit found that the four states generally adopted standards recommended by the National Council of State Housing Agencies (NCSHA) to limit assistance, control development costs, and prevent windfall profits for developers. We concluded that NCSHA's standards accomplish the same thing as HUD's subsidy layering guidelines. However, states were not mandated to adopt the standards.

The audit, intended to determine how efficiently state credit agencies have developed low-income housing funded with LIHTC and other types of HUD financial assistance, was proposed by the President's Council on Integrity and Efficiency.

The audit recommended that, since states have not been mandated to adopt NCSHA's standards, HUD's Offices of Housing, Public and Indian Housing, and Community Planning and Development work with NCSHA to draft legislation for mandatory parameters for developer and contractor fees and profits that will have the same effect as subsidy layering reviews. (Report No. 97-KC-117-0001)

Inappropriate Rent Increase

In November 1996, the HUD Rhode Island State Office (RISO) approved \$1.1 million in Section 8 rents for the repair of Melrose Apartments in PROVIDENCE, RI. An OIG audit found that Section 8 rents were increased in excess of 500 percent of fair market rents without establishing adequate controls to assure that the additional funds would be used for the purposes intended. As a result of our audit findings, HUD headquarters notified the RISO in May 1997 to immediately reverse the approved rent increase. By that time, Melrose Apartments had already received \$794,214 of the increased rents. At the time of our audit, \$536,530 of the funding remained to be accounted for by the owner.

The audit recommended that HUD require the owner/agent to immediately account for the funds disbursed to date and justify the reasonableness of the costs already incurred for repair. (Report No. 97-BO-111-0805)

Nursing Home Operations

The owners of the Lafayette Villa Nursing Home in NORFOLK, VA, improperly used \$832,562 for unreasonable operating expenses that generally benefitted the owners and family members. An OIG audit, conducted at the request of the Multifamily Division Director in the HUD Virginia State Office, disclosed that the expenditures included salary related expenses for the owners, who are also the officers of the corporation, life insurance premiums, accounting services, questionable mortgage and repair expenses, college tuition for an owner's son, personal vehicle expenses, personal credit card purchases, calling card phone



charges for an owner's son, and questionable legal fees. The improper cash disbursements resulted in insufficient cash to pay operational expenses and \$96,154 in late fees and finance charges. The audit also found that the owners did not maintain proper books and accounts for the mortgaged portion of the nursing home, and made improper loans totaling \$246,035.

The audit recommended that the owners justify to what extent the questionable disbursements can be applied to the non-mortgaged and HUD insured mortgage portion of Lafayette Villa's operations and submit the justification to HUD; stop using project funds to pay non-project expenses and making loans to shareholders; and establish a separate accounting system that will record the status of operations for the mortgaged property. (Report No. 97-PH-212-1808)

At the request of HUD's Multifamily Asset Management Branch, the OIG reviewed the operations of the Elmira Jeffries Nursing Home in PHILADELPHIA, PA. The project is owned by Temple University Hospital and currently managed by Greater Philadelphia Health Service Corporation. The review disclosed that Temple/Greater Philadelphia Health have greatly improved operations at the project since 1994. New patient service revenue has increased significantly, and the condition of the books and records has greatly improved. The only notable questionable disbursement was a series of payments totaling \$640,000 that were considered unsupported. Temple, however, has agreed to credit Elmira Jeffries for these payments, including interest. Due to the noticeable improvement in management of the project, the audit recommended that the transfer of physical assets and the refinancing of the bond issuance for the project be approved as quickly as possible to take advantage of the current favorable market rates. (Report No. 97-PH-212-1811)

Use of Earthquake Loan Program Funds

The owner of Granada Gardens, a 169-unit project in GRANADA HILLS, CA, improperly used \$322,432 in leftover funds from HUD's Earthquake Loan Program (HELP) that were earmarked for the project's earthquake related financial deficit arising from vacancy losses. An OIG audit reported that the owner used the funds rather than returning them to HUD to prepay part of the HELP loan, as required by regulations. Those HUD funds would not have been necessary had the owner returned residents to their units when the units became available for re-occupancy. Instead, the owner purposely delayed the residents' return, resulting in lost rental revenue. The owner also failed to prepay a portion of the loan with money received in a property tax refund.

The audit recommended that the owner be required to prepay nearly \$300,000 of the HELP loan. (Report No. 97-SF-219-1002)

Community Planning and Development Programs

The Office of Community Planning and Development (CPD) administers programs that provide financial and technical assistance to states and communities for activities such as community development, housing rehabilitation, homeless shelters, and economic and job development. Grantees are responsible for



planning and funding eligible activities, often through subrecipients. During this reporting period, OIG audits focused on various grant programs and the Homeless Program.

Grant Programs

The Community Development Block Grant (CDBG) Program provides annual grants to entitled communities to carry out a wide range of community development activities directed toward neighborhood revitalization, economic development, and improved facilities and services. Participants in the HOME Program may use funds for tenant-based assistance, housing rehabilitation, assistance to first-time homebuyers, new construction, and relocation. The HOPE Program provides homeownership opportunities for eligible families to purchase local government owned single family properties. The Section 108 Loan Guarantee Assistance Program allows communities entitled to CDBG grants a means to finance up-front, certain large scale projects beyond the scope that can be financed by annual grants.

The Municipality of MAYAGUEZ, PR (grantee), incurred more than \$4.7 million of ineligible costs and \$2.2 million of unsupported costs in administering its CDBG and Section 108 Loan Guarantee Assistance Programs. An OIG audit found that the grantee did not adequately plan or monitor its Section 108 activities to ensure completion; CDBG funds of more than \$1.4 million were improperly used to pay the salaries of municipal employees; and the grantee charged \$441,800 for unnecessary engineering services and incurred other questionable costs.

The audit recommended that HUD require the grantee to reimburse the ineligible costs and determine the eligibility of the unsupported costs. Strong administrative sanctions should also be imposed if the grantee cannot demonstrate significant improvements in its operations. (Report No. 97-AT-241-1003)

An OIG audit disclosed that the BUFFALO, NY Neighborhood Revitalization Corporation (BNRC), a not-for-profit development corporation and subrecipient of Buffalo's CDBG and HOME Programs, did not meet the City Properties Rehabilitation (CPR) Program's objective of restoring and returning properties to Buffalo's tax rolls while creating homeownership opportunities for low- and moderate-income families; did not complete rehabilitation work in a timely fashion; sold properties to families whose incomes were too high to qualify for the program; and incurred excessive rehabilitation costs. In addition, the BNRC did not make effective use of the Section 203(k) Loan Program. Lender services were not solicited and evaluated, 203(k) loan financing was used in inappropriate situations, and 203(k) loan funds were used to pay unallowable fees. As a result, the mortgage financing costs to homebuyers and the HOME funded subsidies were inflated.

The audit recommended that BNRC be required to implement an adequate operating plan outlining how the CPR Program's objectives will be met, and comply with HUD regulations. HUD should also determine the amount of ineligible and unnecessary fees paid with 203(k) loan funds and assure that homebuyers' mortgages are properly credited for those amounts. (Report No. 97-NY-255-1005)



The City of SAVANNAH, GA, and Neighborhood Housing Services, Inc. (NHS) need to improve their administration of HUD programs. An OIG review of the city's CDBG and HOME Programs and NHS's HOPE 3 Program disclosed a number of deficiencies. NHS did not maintain formal accounting records to identify costs and revenues for each HUD assisted and non-HUD activity, and both NHS and the city lacked control over parts of their HUD programs; NHS used nearly \$130,000 in program funds to pay unallowable and unsupported costs; NHS borrowed restricted funds, including \$194,300 from HUD programs, which may adversely impact its ability to continue operations; NHS improperly retained \$172,485 in CDBG and HOME program income which should have been returned to the city or deposited in a special account for reuse; and NHS's procurement and contract administration functions were deficient.

Among other things, the audit recommended that NHS implement an adequate financial management system, all ineligible costs be reimbursed to the programs, and the allowability of all unsupported costs be determined. (Report No. 97-AT-244/255/256-1808)

The HUD NORTHWEST Office of Native American Programs (Northwest Office) generally followed appropriate regulations when processing FY 1996 HOME grant applications. However, an OIG audit, conducted following a complaint of alleged grant processing irregularities, identified errors significant enough to affect the award of a grant. In rating "the quantity of housing need," as required by the 1996 Notice of Funding Availability for Indian applicants under the HOME Program, the Northwest Office used a substitute for documentation of eligibility. As a result, an ineligible applicant was awarded a 1996 HOME grant of \$818,570. Although the total number of errors was small, the effect was significant. For future applications, the Northwest Office needs to ensure that screening performed by staff is reviewed for accuracy, and staff understand the Notice of Funding Availability rating requirements prior to rating applications. (Report No. 97-SE-155-0801)

An OIG audit, performed at the request of the Office of CPD, disclosed that Hough Area Partners in Progress, a subrecipient of the City of CLEVELAND, OH, did not fully comply with federal regulations regarding the CDBG and Empowerment Zone Programs. Hough did not use some CDBG funds it received from the City of Cleveland to pay third parties, as intended, because it did not maintain an adequate system of internal controls. Also, payments made with CDBG funds from January 1995 to December 1996 were not adequately supported. As a result of unsupported disbursements, HUD had less assurance that Hough paid only for eligible and reasonable costs. Since March 1996, when it hired a local certified public accounting firm as its fiscal officer, Hough has improved its system of internal controls.

The audit report recommended that the city provide a proper accounting or reimburse the CDBG Program for funds received but not properly spent. (Report No. 97-CH-241-1011)



Homeless Program

HUD makes grants for programs that meet the immediate and long-term needs of the homeless. These programs must include support services that enable homeless families to break the cycle of homelessness and live independently.

An OIG review of seven of ten transitional housing grants in NEW ENGLAND found that eligible individuals were receiving intended program benefits, HUD funds were being adequately controlled, and grantees' accounting systems were sufficient to account for the receipt and use of HUD funds.

This review was performed in response to a request from the Director, Office of CPD, in the HUD Massachusetts State Office. Nationally, about \$800 million is spent on Homeless Programs annually to provide housing and services. Since 1987, about 230 grants have been awarded to grantees in the New England States under the jurisdiction of the Massachusetts Office. The CPD Director had advised that his office did not have the resources necessary to review each of these grants. He expressed concerns that grantees might not be serving the intended beneficiaries, controlling expenditures with adequate accounting systems, or providing matching shares when required by the grant. (Report No. 97-BO-151-0806)



Investigations

In addition to its Operation Safe Home responsibilities, the Office of Investigation pursues allegations of irregularities or abuses in HUD's programs and activities, as well as violations of law or misconduct on the part of HUD participants and beneficiaries. During this reporting period, investigative efforts resulted in cash recoveries of over \$300,000 and court ordered restitution of about \$5 million, while fines levied exceeded \$201,500. In addition, 199 persons were indicted, 172 persons were convicted, and 340 years of prison sentences were imposed as a result of investigative operations.

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

- The founder of a mental health foundation pled guilty to 40 counts of mail and wire fraud, theft, false statements, and tax evasion after defrauding HUD and other agencies of at least \$5 million in funds designated for the homeless, handicapped and teenaged mothers.
- A housing inspector and two contractors were suspended from participating in HUD programs for falsely certifying that contracted renovation work on 45 rental properties was performed in a professional manner.
- A HUD developer/former public official was sentenced to 10 months in prison and ordered to pay \$300,000 in fines and restitution for diverting the proceeds of a \$250,000 development loan for his own use.
- Two individuals were sentenced to a total of 17 months incarceration and ordered to pay \$11,000 in restitution for their involvement in a false repair estimate scheme that resulted in a \$400,000 loss to HUD.
- A real estate developer was sentenced to 34 months in prison and ordered to pay \$10,000 in restitution for an equity skimming scheme involving single family mortgages.



Single Family Housing Programs

OIG investigations continued to uncover instances of wrongdoing by mortgagee personnel and real estate brokers in the origination of single family loans, including the Section 203(k) Program. In addition, we found instances of fraud and bribery and cases in which speculators and investors engaged in strawbuying and equity skimming schemes. A strawbuyer is paid to act as the buyer of a property and then transfers the property to a speculator who eventually defaults on the mortgage. Equity skimming is the practice of taking rent receipts but not making the mortgage payments.

Loan Origination

In LONG ISLAND, NY, Buovodantona (aka Anthony) Aliperti, a HUD developer/former public official, was sentenced to 10 months in prison, 4 years supervised release, and \$300,000 in fines and restitution. Mr. Aliperti was convicted on charges of diverting the proceeds of a \$250,000 development loan for a HUD approved single family development to his personal use, and filing false corporate income tax returns with the IRS. The loan subsequently went into foreclosure. This was a joint investigation by the FBI, IRS, OIG, USPS, and the U.S. Attorney's Office.

Veronica and Cassie Brewer of DALLAS, TX, were sentenced for their part in a loan origination fraud scheme. Veronica Brewer, who previously pled guilty to false statements, mail fraud, and fraudulent use of a social security number, was sentenced to 2 13-month prison terms to run concurrently. This will be followed by 36 months probation. No restitution was ordered due to her inability to pay. Cassie Brewer, who previously pled guilty to mail fraud and the fraudulent use of a social security number, was ordered to serve 27 months in prison and 36 months probation upon release, and pay \$7,000 in restitution to HUD. An investigation by the FBI and the OIG disclosed that the individuals obtained identification documents using a false name, applied for an FHA insured mortgage using the false documents, purchased a residence, defaulted on the loan, and declared bankruptcy in order to discharge the debt.

Karl Stehlin, a real estate broker in TAMPA, FL, was sentenced to 30 months imprisonment and 3 years supervised release, fined \$6,000, and ordered to pay \$45,171 in restitution. Mr. Stehlin was previously convicted of one count of conspiring to defraud HUD and the Department of Veterans Affairs (DVA), and six counts of making false statements to defraud the United States. He conspired with mortgagors and mortgagee officials to fraudulently sell FHA insured and DVA guaranteed properties by assisting mortgagors in submitting false mortgage applications. There have been several other defendants in this case. The investigation was conducted jointly by the HUD and DVA OIGs, IRS, and the FBI.

Edward D. Kennedy, a ST. LOUIS, MO real estate agent, was sentenced to 6 months in prison, 1 year probation, and ordered to pay \$10,000 in restitution to HUD and a \$50 assessment fee. He created a fictitious nonprofit company known



as the Catholic Mission. He then provided down payments in the form of gift letters on behalf of the buyers of several properties. Kennedy obtained more than \$250,000 in sales proceeds from these transactions. The loss to HUD was \$40,000. This was a joint FBI/OIG investigation.

Thomas Vaughn, a LONG ISLAND, NY attorney, was sentenced in a mortgage fraud and tax evasion scheme to 1 year confinement and 5 years probation and ordered to make \$200,000 in restitution. He, along with 14 others, was part of a \$7 million HUD insured and conventional mortgage fraud conspiracy. Their actions ultimately led to the failure of a bank and a mortgage company, and significant losses to HUD and the Resolution Trust Corporation. This OIG initiated investigation was conducted jointly with the USPS, IRS and FBI.

Following an investigation in BALTIMORE, MD, by the FBI and OIG, Mark Feinberg, the former president of Consumer First Mortgage Company, an FHA approved mortgagee, was convicted of defrauding two banks. He filed false financial reports to obtain \$5 million in credit extensions to which the company was not entitled, and filed a false financial report with FHA misrepresenting the company's net worth, therefore allowing the company to continue originating FHA mortgages.

Wendell Chick, a NORFOLK, VA real estate speculator, pled guilty to federal charges of wire fraud and conspiracy to engage in unlawful monetary transactions for his role in masterminding a scheme involving nearly \$3 million dollars in fraudulent loans. Of the 34 loans, 19 were insured by HUD and 10 were guaranteed by DVA. Although the remaining loans were reported to be HUD insured, the loan packages were never submitted to HUD by the lender for endorsement. Most of the loans are presently in default.

Mr. Chick's scheme involved purchasing run down properties and, after performing superficial repairs, selling them to various "straw" companies he controlled. He then recruited unsuspecting buyers for the properties and assisted them in obtaining mortgages through fraudulent means, including paying off the buyers' debts and providing them with purchase funds through phony gift letters and fictitious car sales to explain the buyers' sources of funds.

As part of his plea, Mr. Chick agreed to forfeit over \$2.7 million in assets to the government, including properties, vehicles, and bank accounts, and to cooperate in the investigation of others involved in the scheme. The investigation was conducted by the FBI, and DVA and HUD OIGs.

A BROOKLYN, NY civil engineer, Edny Dharamdeo Kumar, pled guilty to one count of mail fraud after he was arrested by OIG Agents and U.S. Postal Inspectors. Mr. Kumar was sentenced to time served, as he had been incarcerated for 6 months since the time of his arrest, and ordered to pay \$31,000 in restitution to the defrauded mortgage company. The Guyanese national conspired with his girlfriend to circumvent a foreclosure of his property by having the home falsely appraised for a highly inflated value. He then "sold" the house to his girlfriend and helped create bogus W-2s and verifications of employment in order to secure an FHA insured mortgage loan of \$162,730 to "purchase" the property. The



property was later destroyed in an arson-for-profit insurance fraud scheme. His ex-wife and daughter were residing in the home at the time.

Francie Sedlak Randall, a FT. WORTH, TX real estate investor, pled guilty to making false declarations in bankruptcy petitions following an OIG investigation. Ms. Randall filed for bankruptcy on four occasions and hid her bankruptcies from HUD by using false information on each petition, including false social security numbers and variations on the spelling of her name.

An ALEXANDRIA, VA tax preparer, Juan Carlos Estrada, pled guilty to one count of making false statements and was sentenced to 3 months incarceration. A joint investigation by an FBI/OIG Task Force disclosed that he allegedly prepared false tax returns and profit and loss statements for several mortgagors. The mortgagors then used the false documents to fraudulently obtain FHA insured mortgages.

In ST. LOUIS, MO, Genice Barnes, a tax preparer and bookkeeper, was indicted on charges of submitting false statements to HUD. She allegedly provided applicants for FHA insured mortgages with false W-2 forms, pay stubs and employer identification numbers in order to conceal poor credit histories. This investigation was conducted jointly by the HUD and Social Security Administration OIGs.

Section 203(k)

Stephney Allen and George Savage were sentenced in BALTIMORE, MD, to a total of 17 months incarceration, 5 months home detention with electronic monitoring, and 4 years supervised release, and were ordered to pay \$11,000 in restitution for their involvement in a scheme to defraud HUD and mortgage lenders. They submitted false repair estimates and other documentation to obtain at least 15 HUD insured loans under the Section 203(k) Program, 5 of which were third party purchases. Rehabilitation work subsequently performed on the properties was done for about one-third of the cost, and the properties eventually went into foreclosure, resulting in a \$400,000 loss to HUD. The investigation by the FBI and OIG also disclosed that the defendants were receiving Section 8 funds and rent money after the date of default. Ironically, one of the renters was a HUD employee who brought the matter to the attention of the OIG when he saw a copy of the foreclosure letter pertaining to the house he was renting. In addition, Ms. Allen and Mr. Savage acted as real estate broker, contractor and financial consultant in the third party purchase situations, targeting either first time homebuyers or the elderly. They coerced the homebuyers to use their contracting company to complete rehabilitation work, and forced them to sign a power of attorney in order to obtain the draw checks. The defendants then forged the signatures of the homebuyers and used the draw money for their own personal benefit.

NORFOLK, VA investor Edward Flanagan, who previously pled guilty to conspiracy to defraud the government, was sentenced to 24 months imprisonment and 3 years probation and ordered to pay \$14,000 in restitution to HUD. He admitted conspiring with his former employers, a group of property speculators involved in over 100 questionable Section 203(k) loans, to submit false statements concerning his employment, income, and indebtedness to obtain 12 203(k) loans.



Equity Skimming and Strawbuying

All of his properties have been foreclosed, and losses to HUD are expected to exceed \$350,000. This investigation was conducted by a Task Force of Agents from the FBI and HUD and DVA OIGs.

In BALTIMORE, MD, six individuals were indicted, including John Baumgarten and his two sons, for allegedly conspiring to distribute cocaine. The government is concurrently moving to seize, under criminal forfeiture laws, 27 properties, 20 boats/cars, and over \$3 million in cash owned by the various defendants. Many of the real properties were targeted for rehabilitation under the Section 203(k) Program, and there is evidence that drug proceeds were laundered through some of those properties.

As a result of the same investigation, Jesus Ibarra Rodriguez was sentenced to 78 months incarceration to be followed by 4 months supervised probation. He was previously found guilty of conspiracy to distribute and possession with intent to distribute cocaine. The INS was also requested to begin deportation proceedings. This was a joint investigation by the FBI, DEA, OIG, IRS Criminal Investigation Division, and the Anne Arundel County Police concerning narcotics trafficking and fraud in the Section 203(k) Program.

As a result of an OIG investigation, Larry Davis, a DALLAS, TX real estate developer, was sentenced to 34 months in prison and 3 years probation following release, and ordered to pay \$10,000 in restitution. Mr. Davis was convicted earlier this year of single family equity skimming. He assumed non-qualifying FHA insured properties, collected monies from sellers, buyers, and renters of the properties, and failed to make the mortgage payments. Evidence indicated that Mr. Davis used the monies collected to support a lavish lifestyle.

A NORFOLK, VA real estate investor, Sanford Kreisler, who arranged for his wife to obtain fraudulent Section 203(k) loans for 6 properties, was sentenced to 3 months imprisonment and 3 years supervised release, and was fined \$5,000. Mr. Kreisler circumvented the equity investment requirement by purchasing the properties through strawbuyers, then selling the properties to his wife at inflated prices. His wife obtained over \$500,000 in 203(k) mortgages based on the inflated prices. He also acted as the general contractor for renovations to the properties. All of the mortgages are delinquent and renovations to 4 properties have not been completed since the closings 4 years ago. This was a joint FBI/OIG investigation.

The former NEW YORK, NY office manager for the San James Realty Company was arrested by federal agents in Houston, TX, following a warrant issued in New York for her part in a conspiracy to embezzle HUD funds. While employed at the realty company, she and her co-conspirators allegedly stole over \$102,578 from the Grand Street assisted housing development's project operating accounts by writing checks made payable to herself and three other persons. The office manager negotiated the checks and then altered them once they returned to her office from the bank by placing the names of vendors, contractors and the U.S. Postal Service on the checks. As a result of this joint HUD Fraud Task Force investigation conducted by the OIG and the FBI, three residents of the Grand Street development and the former office manager of the previous management agent for



the development have been arrested and charged with defrauding HUD and its programs.

Leroy Haynes, a closing attorney in SHREVEPORT, LA, entered into a settlement agreement with HUD and was ordered to pay \$130,000 in restitution. The agreement was the result of a False Claims Act suit filed against the attorney in May 1995. The attorney was previously convicted on criminal charges for falsifying loans in a strawbuying scheme. This was an FBI/OIG investigation.

Section 8 Rental Assistance Program

Although most rental assistance recipients use their assistance for its intended purpose, OIG investigations have found that some circumvent program regulations by obtaining assistance under false pretenses. These cases may be investigated by Task Forces or individual Special Agents.

Jausita L. Hills, a former IRS bankruptcy examiner in CHICAGO, IL, was sentenced to 14 months in jail to be followed by 36 months supervised probation. While employed by the IRS in Chicago, She submitted four consecutive annual Section 8 Program recertification forms stating that she was unemployed. Those false certifications resulted in Section 8 payments totaling in excess of \$28,000. During the same time period, Ms. Hills purchased a new automobile and went to college. This was a joint OIG/IRS investigation.

In ATLANTA, GA, Marilyn Powell Arinze, a Section 8 resident, was sentenced to 27 months imprisonment and 3 years supervised release, and ordered to pay \$15,000 in restitution to HUD. She fraudulently obtained subsidies for four different Section 8 apartments under fictitious names in Tennessee and Georgia. In addition, she created false birth certificates to qualify for the subsidies and received food stamps and welfare benefits at each of the units. This investigation was conducted by the USPS, and the OIGs from the Departments of HUD, Agriculture, and Health and Human Services.

Linda R. Coles, a federal employee and former Section 8 recipient in GREENBELT, MD, was sentenced to 5 years probation and 6 months home confinement with electronic monitoring, and was ordered to pay restitution of \$22,739. She pled guilty to making false statements to receive Section 8 rental subsidies. This was an OIG investigation.

A MEMPHIS, TN Section 8 resident, Patricia Euell, who was previously indicted along with her two daughters for failing to report employment income from the IRS, was sentenced to 4 years supervised release and ordered to pay \$6,420 in restitution. Ms. Euell had been receiving Section 8 assistance for over 7 years. The fraud was detected following a tip from another IRS employee. A review of her Section 8 file disclosed that she was underreporting her family income by declaring that her two adult daughters, Yolanda and Tonita, had zero income. As part of the plea agreement, the two daughters will be recommended



for pretrial diversion. The investigation was conducted by the OIG and IRS Inspection Service.

Paul Dodson, a former HUD assisted resident in ANCHORAGE, AK, pled guilty to concealing his employment income to benefit from more than \$26,000 in rental assistance to which he was not entitled. The plea follows an April 1997 charge that Mr. Dodson made false statements to the Alaska Housing Finance Corporation. This matter was brought to HUD's attention by the Office of the Attorney General for the State of Alaska, which had successfully obtained a civil judgment against Mr. Dodson for more than \$105,000, including the \$26,000 in rental assistance benefits, and \$75,000 in punitive damages. The OIG coordinated the matter with the U.S. Attorney.

In SEATTLE, WA, Vicki Calahan, a former HUD assisted resident, pled guilty to making false statements about her income to the Seattle Housing Authority. An OIG investigation determined that she concealed her employment at a local title company on her initial application and three subsequent annual recertifications, and received \$21,833 in overpaid rental assistance.

Laurie Peach from ST. LOUIS, MO, was indicted on 17 felony counts following a joint investigation by the FBI, USPS, and HUD and Social Security Administration OIGs. Ms. Peach allegedly submitted a fraudulent application for Section 8 assistance to the Lincoln County Housing Authority, thereby defrauding HUD of approximately \$6,000. She falsely claimed that she had several dependents living with her, and that their father was deceased. Prior to this federal indictment, Ms. Peach was convicted on a state felony charge for theft of approximately \$7,000 in a "surrogate mother" scheme perpetrated against a California couple. She turned herself in to the U.S. Marshal.

A LONG BEACH, NY Section 8 landlord was arrested by OIG and the Special Investigations Bureau of the Nassau County District Attorney's Office on charges of rent gouging. The victim is an 81 year-old widow, a Section 8 recipient, whose only income is Social Security and a small pension. The landlord forced her to pay an additional \$117 per month over the amount of her contracted rent agreement, totaling some \$3,400 since 1993.

After a recertification of the recipient by the local housing agency determined that she was overcharged, the OIG and District Attorney's Office set up a "sting" of the landlord. In a recorded telephone conversation between the victim and the landlord, the landlord threatened the victim with eviction, demanded a false receipt claiming that he returned the \$3,400 that he had overcharged her to show HUD and the local housing agency, and demanded additional cash over the monthly \$117 amount.

A career criminal in NEW YORK, NY, was arrested at his residence on charges that he attempted to defraud the Section 8 Program. The individual, who is an illegal alien with an extensive criminal record including robbery and attempted rape, used a fraudulent U.S. Virgin Islands birth certificate and a fictitious date of birth and social security number to apply for Section 8 assistance. Because the fraud was caught early, HUD suffered no dollar loss. This



Fraud Task Force Members Honored

was a HUD Fraud Task Force investigation conducted jointly by the FBI and the OIG.

In SYRACUSE, NY, the U.S. Attorney for the Northern District of New York advised that a civil settlement in the amount of \$135,000 had been reached with Interstate Realty Management, Inc. (IRM), in lieu of a civil lawsuit under the False Claims Act. Denise Bleiler and Paul Olivier, two former IRM employees, were previously convicted of submitting false documentation to HUD to receive housing assistance payments for vacant apartments. IRM previously refunded HUD approximately \$150,000 for these overpayments. This was an OIG/FBI investigation.

A criminal complaint and summons were filed against a former on-site manager of a SAN FRANCISCO, CA HUD insured multifamily apartment complex that received Section 8 benefits. Between January 1991 and February 1995, the individual endorsed approximately \$72,000 in money orders intended for rent and cashed them for personal use. The summons was served on the defendant by OIG Agents.

An OIG Special Agent was among seven Officers from the HUD Fraud Task Force selected by the American Police Hall of Fame to receive its Merit Award Medal for Excellent Arrests. OIG was the lead agency on the Task Force comprised of representatives from the FBI, USSS, USPS, and the Social Security Administration and Department of Labor OIGs.

Crimes investigated by the Task Force included fraud, theft, embezzlement, bribery, forgery, and public corruption. As a result of their efforts, 58 people were arrested and/or indicted, 51 convicted, and 31 suspended or debarred. Over \$1.3 million were obtained through fines, court ordered restitution, asset forfeitures and Program Fraud Civil Remedies Act penalties.

Community Planning and Development Programs

CPD Programs are designed to provide neighborhood revitalization, improved community facilities and services, and assistance for the homeless. OIG investigations of these programs disclosed cases of mail and wire fraud, obstruction of a federal audit, false statements, diversion of grant funds, conspiracy, embezzlement, and money laundering.

Two individuals pled guilty to submitting false statements to HUD. Developer Leonard Briscoe paid a second individual, Roy Gunter, about \$30,500 per month to act as the site supervisor for the construction of Wedgewood Apartments, an Urban Development Action Grant (UDAG) project in RIVIERA BEACH, FL. A reasonable rate would have been about \$7,000 per month. Wedgewood Apartments was a 520-unit apartment complex with a budget of \$20.2 million. Mr. Briscoe ultimately claimed and received various funding for costs of \$24.4 million.



Following an OIG audit and investigation, which began in 1987, the Assistant U.S. Attorney (AUSA) accepted the case. The case was then transferred from the West Palm Beach U.S. Attorney's Office to the Independent Counsel who was investigating the "HUD scandals." In 1993, the Independent Counsel obtained a conviction of Mr. Briscoe on two counts of paying an illegal gratuity to a former HUD official and the case then reverted back to the West Palm Beach U.S. Attorney's Office. In November 1995, the AUSA tried to prosecute Mr. Briscoe, but the case was held up for an argument by Briscoe that he could not be tried again due to a double jeopardy issue. The issue was ultimately resolved, leading to the two guilty pleas.

Dorothy Rivers, founder and president of the CHICAGO, IL Mental Health Foundation, pled guilty to 40 counts of mail and wire fraud, theft of funds from organizations receiving federal funds, obstruction of a federal audit, false statements, tax evasion, and failure to file tax returns. In 1988 and 1989, the Foundation received two Transitional Housing Grants from HUD totaling \$5.3 million, in addition to funding from city and state programs. Ms. Rivers defrauded HUD and these agencies of at least \$5 million in public grant funds earmarked for the homeless, handicapped and teenaged mothers. She spent the money on items such as personal mortgage payments and loans, political campaign contributions, furs, clothing and a luxury vehicle. The obstruction of a federal audit charge stemmed from her refusal to open her books and records to OIG auditors. This audit/investigation was conducted by the OIG, IRS, USPS, and the Department of Justice.

A NEW YORK State Assemblyman and two directors of a not-for-profit HUD grantee were charged in a multi-count indictment with diverting more than \$660,000 in grant funds received from HUD and other federal and state agencies. One of the directors was also charged with filing false income tax returns with the IRS. The not-for-profit and a related organization have received \$7.1 million in special purpose grants from HUD since 1993. The funds, authorized by special Congressional appropriations, were intended to create and administer business outreach centers in targeted neighborhoods, and serve elderly Holocaust survivors and immigrants. Some of the diverted grant funds were used to pay the Assemblyman's personal and political expenses, including tuition expenses, fund raising dinners, and trips to Israel and France. The organizations drew down their funds by telephoning into HUD's Line of Credit Control System, which transferred the money directly into their bank accounts. The directors then diverted the funds into a bogus company. This was a joint investigation by the OIG, IRS, USPS, the New York City Department of Investigation, and the U.S. Attorney's Office.

In PHILADELPHIA, PA, Roberta Williams, the former relocation supervisor for the Logan Assistance Corporation, a Community Development Block Grant (CDBG) Program subgrantee, was sentenced to 6 months home detention to be followed by 3 years supervised probation, and ordered to pay \$1,800 in restitution to various homeowners and the local Office of Housing and Community Development. Although Ms. Williams was liable for at least \$54,000 in restitution, her financial condition limited her ability to pay. She previously pled guilty to accepting bribes from a second defendant, a speculator, to force homeowners to purchase homes that were owned by the speculator. The



homeowners had been ordered by the city to be relocated from homes that were sinking. Many of the replacement homes did not meet local code requirements, thereby causing the relocatees to subsequently expend personal funds for needed repairs. This investigation was conducted jointly by the FBI, IRS, and OIG Offices of Audit and Investigation.

In PHILADELPHIA, PA, Samuel Smith, the former president of National Temple Nonprofit Corporation, now known as North Philadelphia Housing Management, a CDBG subrecipient, was sentenced to 21 months confinement and 3 years supervised release, ordered to pay \$25,000 in restitution, and fined \$500. The sentence followed Mr. Smith's conviction of conspiring to defraud HUD by making false statements on loan origination documents for a \$47,125 FHA insured mortgage. The mortgage went into default, resulting in a \$51,200 loss to HUD. He was also convicted of misappropriating \$13,200 in travel funds. This investigation was conducted by the FBI and the OIG Offices of Audit and Investigation.

The executive director of a homeless provider in BATON ROUGE, LA, was indicted on 38 counts of mail fraud, false statements, embezzlement, false statements to a financial institution, money laundering, engaging in monetary transactions in property derived from unlawful activity, and income tax evasion. The indictment resulted from a joint investigation by the FBI, OIG Offices of Audit and Investigation, and Louisiana State Police which disclosed that the executive director leased, rented, and sold properties leased from HUD under the Homeless Initiative Program to unqualified individuals. She also made and caused others to make false statements which were then mailed to the HUD New Orleans Office. In addition, the investigation revealed that she converted several properties to her personal use.

In PHILADELPHIA, PA, Montgomery County Housing Services (MCHS) inspector Philip Montefiore and contractors Richard and Alfonzo Gallo were suspended from participating in any HUD funded programs by HUD's Office of Program Enforcement. The suspensions were based on grand jury indictments for falsification of documents and mail fraud. During the course of renovating over 45 rental properties, the Gallos certified they performed all contracted renovation work in a professional manner while they actually performed substandard work or no work at all. They received over \$500,000 in HUD funds through MCHS, which distributed the federal funds from the CDBG Program by grant or no-interest loans based on falsified inspection reports. This was a joint FBI/OIG investigation.

Ronald Serency, an MCHS contractor, has paid the U.S. Attorney's Office a \$9,000 fine and penalty pursuant to a civil prosecutive settlement agreement. The contractor violated provisions of the False Claims Act by submitting false billing information to the MCHS for low- and moderate-income housing renovation work that was never performed or was performed in a substandard manner. This case was investigated by the OIG Offices of Investigation and Audit.



Legislation, Regulations and Other Directives

Making recommendations on legislation, regulations and policy issues is a critical part of the OIG's responsibility under the Inspector General Act. This responsibility has taken on added dimension at HUD because of the dynamics of its rapidly changing program and management environment. During this 6-month reporting period, the HUD OIG reviewed 168 legislative, regulatory, funding notice, and other HUD directive proposals. This Chapter highlights some of our concerns and recommendations.



Legislation

Native American Housing Assistance Act

On March 12, 1997, HUD's Inspector General testified before the Senate Committee on Indian Affairs and the Senate Committee on Banking, Housing, and Urban Affairs, concerning reported fraud, abuse, and mismanagement in the Department's Native American Housing Programs. In conjunction with these hearings, the Inspector General agreed to provide recommendations to strengthen the newly enacted Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA), as a means of ensuring better accountability by grant recipients under the Act.

We commented on our concerns about the potential capacity of HUD to implement NAHASDA's enforcement provisions when recipients fail to comply substantially with provisions of the Act. We proposed an amendment to the Act authorizing HUD to immediately terminate, reduce, or condition a recipient's funding, without having to await completion of the Act's required hearing process.

We proposed language to strike the Act's provision requiring that HUD impose sanctions on recipients only after it has determined that the recipient "has failed to comply substantially with any provision of the Act." Our proposal would provide the Department more flexibility to impose sanctions for any noncompliance, as long as the noncompliance concerns a major provision of the Act, "as determined by the Secretary."

In addition, we determined that the NAHASDA statute contained a possible loophole in that it allowed HUD to avoid taking the Act's enforcement measures if the Department determined that the recipient's misuse of funds was not a pattern or practice constituting willful noncompliance with the Act's provisions, but, rather, was a result of the limited capability or capacity of the recipient. In these situations, HUD is required to provide technical assistance to such recipients to increase their capability and capacity. We proposed that the Act be amended to provide for a 1-year time limitation on HUD's technical assistance. Under our proposed amendment, the recipient would be required to correct any cited noncompliance with the Act within this 1-year period. If corrective action acceptable to HUD is not taken within this 1-year period, HUD would be required to take one or more of the enforcement actions stated in the Act.

We also proposed that the Act's "tribally designated housing entities" (primarily Indian housing authorities) be considered as "non-federal entities" for the purposes of audits under the Single Audit Act, thereby making such entities the focus of these audits rather than the tribal recipients. We proposed an amendment to the Act authorizing HUD to arrange for, and pay the costs of, any audits and to make any additional reviews and audits of recipients it deems necessary. We believe this would significantly improve the quality and effectiveness of non-federal audits of recipients of HUD's Indian housing block grant assistance.



Another concern was the Act's "housing plan" requirement. As a condition for receiving housing assistance, recipients are required to submit a multi-year housing plan to HUD that meets both the Department's and the Act's requirements. However, the Act permits these requirements to be waived in whole or in part if HUD determines that a recipient has not complied or cannot comply with such requirements due to circumstances beyond its control. Inasmuch as the Indian housing plan is a cornerstone of the Act, we proposed that this broad waiver provision be narrowed to permit waivers only in truly extreme circumstances and for limited periods of time.

In view of the extensive housing assistance needs of low-income Indian families, we were concerned about the potential for misuse of grant funds in conjunction with the Act's provision which authorizes grant recipients to provide homeownership assistance to non-low-income Indian families. We proposed that the Act be amended to require recipients to demonstrate in their housing plans that a clear need exists to assist such non-low-income Indian families.

On October 9, 1997, the Chairman, Senate Committee on Indian Affairs, introduced S. 1260, which provided technical corrections to the NAHASDA statute. Most of our major proposed amendments were incorporated in S. 1260, which is still awaiting Senate approval.

Section 8 Contract Rents

A serious weakness in the Section 8 Program is that HUD cannot reduce excessive contract rents when it determines that market rents for comparable unassisted units are below the rents established through HUD's Fair Market Rents/Annual Adjustment Factors, or when rent computational errors have occurred. Section 8(c)(2)(C) of the United States Housing Act of 1937 has been interpreted to prohibit all reductions of contract rents. These excessive contract rents serve only to enrich landlords at taxpayers' expense. According to HUD estimates, about 65 percent of the Section 8/FHA loan portfolio is currently subsidizing rents that are substantially above market.

We believe that the current statutory prohibition on reducing Section 8 contract rents is inconsistent with recent amendments to Section 8 which have placed ceilings on adjustments and renewals of contract rents. Therefore, we proposed an amendment which would authorize HUD to reduce adjusted contract rents that exceed HUD's Fair Market Rents for comparable unassisted dwelling units in the marketplace.

As of the close of the semiannual reporting period, the Congress had not initiated action on our proposed amendment.

Bankruptcy Code's Automatic Stay Provisions

The "One Strike and You're Out" initiative to rid public and assisted housing of violent criminals and drug dealers has been adversely affected by the automatic stay provisions of the Bankruptcy Code. Residents who face eviction for any kind of lease violation, including "One Strike and You're Out" type violations, may easily obtain an automatic stay of state court eviction proceedings merely by filing for bankruptcy protection and claiming that their residential leases are property of their estate.

We proposed that section 362(b) of the Bankruptcy Code be amended to add an exception to the automatic stay provision for eviction proceedings against a debtor and/or member of the debtor's household initiated as a result of lease violations, as described in sections 6(1)(5) and 8(d)(1)(B)(iii) of the United States



Legal Services Corporation Representation

Housing Act of 1937, which relate to any criminal activity by residents of public and other federally assisted housing that threatens the health, safety, or right to peaceful enjoyment of the premises by other residents.

As of the close of the semiannual reporting period, the Congress had not initiated action on our proposed amendment.

The Omnibus Consolidated Rescissions and Appropriations Act of 1996 prohibited the Legal Services Corporation (LSC) from using appropriated funds to provide financial assistance to any person or entity that defends a person in a proceeding to evict the person from a public housing development if (1) the person has been charged with the illegal sale or distribution of a controlled substance; and (2) the person's illegal drug activity threatens the health or safety of another resident or an employee of the agency. The FY 1997 Appropriations Act for the LSC retained this prohibition through reference.

We believe that this prohibition on LSC representation would be more effective if it were made consistent with the "One Strike and You're Out" initiative. We proposed that either the LSC's FY 1998 appropriations statute, or its basic statute, i.e., the Legal Services Corporation Act, prohibit legal assistance with respect to any proceeding or litigation initiated as a result of lease violations described in the United States Housing Act of 1937.

As of the close of the semiannual reporting period, the Congress had not initiated action on our proposal.

Notices of Funding Availability (NOFAs)

Community Partnerships

This NOFA makes available over \$6 million in program and technical assistance funds to approximately seven communities for the purpose of creating neighborhood based programs to move families residing in public housing and surrounding neighborhoods from welfare to self-sufficiency. This initiative is being sponsored jointly by the Departments of HUD, Health and Human Services, and Agriculture, as well as the Boys and Girls Clubs of America. HUD is contributing \$2.5 million to this effort pursuant to its \$60 million FY 1997 appropriation.

In reviewing HUD's draft NOFA, we recommended that HUD management (1) define the specific responsibilities of the Federal Interagency Coordinating Committee and co-partner agencies in overseeing the joint initiative; (2) clarify the extent of eligible beneficiaries by defining "surrounding neighborhood;" and (3) discuss how applicants are to demonstrate that targeted residents are affected by welfare reform legislation. We also recommended that HUD execute a written agreement with its co-partner agencies, outlining the responsibilities of each agency in accomplishing the objectives of the joint initiative.

HUD published its final NOFA in the Federal Register on July 29, 1997, which incorporated our recommended changes.



Capacity Building for Community Development and Affordable Housing

This NOFA announced the availability of \$30.2 million to help develop the capacity and ability of community development corporations and community housing development organizations to undertake community development and affordable housing projects and programs. We nonconcurred with HUD's proposed Federal Register notice which stated that the Emergency Supplemental Appropriations Act made it clear that the funding was to be divided equally among the identified support organizations. We pointed out that the Act did not explicitly state that funds must be divided equally among the named entities.

We noted that the Secretary has the authority to determine the requirements for allocating funds in carrying out the provisions of the Act, and an equal distribution would be permissible. However, we noted that an equal distribution may not be in keeping with the spirit of the HUD Reform Act, which requires that funds be reserved and obligated pursuant to competition. We also noted that an equal distribution may be inappropriate given the size and capacity of each organization.

Our nonconcurrence on this NOFA remained unresolved at the close of this reporting period.

Regulations

Native American Housing Assistance Act

The Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) was signed into law on October 26, 1996. NAHASDA streamlines the process for providing federal housing assistance to Native Americans by eliminating several separate housing assistance programs and replacing them with a single block grant program. The Act repeals the Indian housing provisions of the United States Housing Act of 1937, as well as several related assistance programs authorized in three other statutes. Section 106(b) of the Act requires HUD to develop final regulations through negotiated rulemaking procedures, and to issue such regulations no later than September 1, 1997, for effect not later than the effective date of the Act (October 1, 1997). However, as of October 31, 1997, HUD had not yet issued its final rule; therefore, implementation of the Act was still pending.

Not only does the NAHASDA statute represent a major change in the way HUD provides housing assistance to Native Americans, it also comes on the heels of reported fraud, abuse, and mismanagement in HUD's Indian Housing Programs (see Legislation section of this Chapter). Consequently, during the current semiannual reporting period, we provided HUD management in excess of 100 written comments and suggestions to improve its proposed rule. We also met with HUD officials on several occasions to discuss our comments and concerns, as well as other related issues.

One of our major concerns with the proposed rule involved how recipients would be authorized to draw down their housing block grant funds. Tribal recipients contend that under self-determination and self-governance contracts, federal policy allows tribes to receive lump sum distributions of their program funds and to retain any interest they earn on such funds before expending the



funds for program purposes. Our position is that standard U.S. Treasury Department policies should be applied to any drawdowns of NAHASDA funds. Treasury's policy is that cash advances to a recipient organization are to be limited to the minimum amounts needed by the recipient, and are to be timed to coincide with the actual immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. Consequently, we recommended that HUD refer this matter to the Treasury Department for advice and guidance.

Another of our major concerns involved remedies for a recipient's noncompliance with provisions of the Act. HUD can take action against a recipient if it determines that the recipient "has failed to comply substantially" with any provision of the Act. We recommended that HUD provide criteria and guidance in its rule to facilitate the Department's determination of what constitutes "substantial noncompliance" in given cases. We believe that, without such criteria and guidance, HUD's enforcement actions could be viewed as arbitrary and capricious. We also furnished HUD suggested criteria, and provided examples of how the criteria would apply in particular situations.

In addition, we recommended revisions to the proposed rule to strengthen other provisions, such as those relating to conflicts of interest, grantee performance objectives, grantee accountability, Indian housing plans, eligibility for housing assistance, and audits of recipients.

We also expressed concern that the NAHASDA proposed rule did not address the Act's requirements consistently. In some cases, the rule referred back to the statute for guidance, while in other instances, the rule addressed the statute's requirements incompletely.

The Negotiated Rule Committee was scheduled to hold a final round of meetings during October 27-29, 1997. At that time, the Committee expected to approve its final report for submission to the Secretary.

***Public/Private
Partnerships
for
Mixed-Finance
Development***

This interim rule is intended to streamline HUD's requirements for the mixed-finance method of developing public housing units. Under this development method, a PHA may provide grant funds to a non-PHA entity (owner/entity), and the owner/entity can then use the funds alone or in combination with other sources of public or private financing, to develop and manage the resulting public housing units. The rule also authorizes an owner/entity of a development containing public housing units and units not assisted under the 1937 Act to deviate, under certain circumstances, from HUD's standard public housing requirements.

This is the third Departmental clearance of this rule. The rule was initially placed in Departmental clearance in November 1996. We nonconcurrented on two separate occasions during the current semiannual reporting period. We commented that the rule appeared to exceed statutory requirements because it added qualifying language that was not explicitly stated in the statute. HUD disagreed with our interpretation of the law and left the rule intact with respect to the disputed language.

In addition, we recommended that residents who are required to move from mixed-finance developments as a result of reduced PHA operating subsidies or because of changes in applicable laws be given a first preference to reoccupy



vacant units if such units are restored to low-income use at a later date. HUD agreed with our recommendation.

We also recommended that the rule require that the owner/entity's alternative management plan specifically address the process that will be followed by the owner/entity in deviating from standard public housing requirements for only a "portion" of the development's public housing units, and to explain how the units would be selected. We further recommended that owner/entities be required to use PHAs' waiting lists in addition to their own, prior to admitting non-low-income families to reside in their units. HUD agreed with our recommendations.

As of October 31, 1997, the Department had not yet published its interim rule in the Federal Register.

Section 8 Admission and Occupancy Policies

This final rule amends the "One Strike and You're Out" admission and occupancy requirements for the Section 8 Rental Certificate, Rental Voucher, and Moderate Rehabilitation Programs. The rule makes certain applicants ineligible for admission or terminates assistance because of prior eviction or drug abuse. The draft final rule requires that PHAs establish standards for denying housing assistance to users of controlled substances or abusers of alcohol. We recommended that the rule also require PHAs to establish similar standards for terminating or denying housing assistance to family members engaged in violent criminal activity (including spousal abuse). We also provided comments to HUD management to clarify certain aspects of the final rule.

HUD management generally agreed with our comments and incorporated the necessary changes in its final rule. As of October 31, 1997, the final rule had not yet been published in the Federal Register.

Risk Sharing

On August 19, 1997, OIG nonconcurred on a proposed interim rule that will implement two new programs: (1) a single family mortgage insurance risk sharing program for state and local housing finance agencies (HFAs); and (2) a single family mortgage insurance risk sharing demonstration program for private mortgage insurance companies (PMIs).

We commented that the proposed interim rule is contrary to both the Administrative Procedures Act and HUD's rulemaking policy, which require public notice and an opportunity for comment in advance of the implementation of substantive policies unless the implementing agency "for good cause" finds that notice and comment are "impracticable, unnecessary, or contrary to the public interest." The proposed interim rule cites no evidence that the two new programs will fill an unserved housing niche, and, since the statutes cited as authorizing the two new programs are each in excess of 13 years old, giving the public 60 days to comment on the program cannot be said to be the cause for delay.

Our second concern is that the proposed interim rule does not sufficiently define the two new programs. Although the authorizing statutes indicate that HUD, by regulation, should spell out the parameters of risk sharing and reinsurance agreements, the proposed rule makes important issues, such as the structure and the sharing of risk, subject to negotiation between HUD and HFAs or PMIs. The Office of Housing indicated that the proposed interim rule was intentionally made vague so that the Office of Housing would have the flexibility to negotiate creative risk sharing agreements. A front-end risk assessment of the program determined that the "lack of written policies and procedures" was an inherent



risk, and the program structure was assessed "unsatisfactory." It was recommended that "written policies should be developed to govern all program phases (agreement, program administration, monitoring and compliance)."

Third, we believe the PMIs' demonstration program should be limited to two regions. The authority for the demonstration program provides that "the Secretary shall limit the demonstration program under this section to not more than two administrative regions...." However, the proposed interim rule does not limit the demonstration program to two regions "because the regional structure no longer exists." While it is true that HUD no longer calls its 10 mid-level organizational divisions "regions," the authorizing legislation would be equally satisfied if HUD limited the PMIs' demonstration to any two of HUD's 10 existing mid-level organizational divisions.

The nonconcurrence on this issuance remains unresolved and has been referred to the Deputy Secretary.

Mortgage Insurance Program Streamlining

The proposed rule would streamline HUD's Single Family Mortgage Insurance Program regulations by removing provisions that are duplicative and unnecessary and simplifying the organization and wording of the text. The changes are being made to comply with the President's regulatory reform initiatives.

The OIG nonconcurred in the issuance of the proposed rule because parts deleted are required by law or were to be replaced by future guidance. The proposed rule is still in the clearance process. A revision based on our nonconcurrence is currently under review to determine if our comments were adequately addressed.

Risk Sharing for Hospitals

The Office of Housing placed this final rule into clearance on July 7, 1997. The rule implements risk sharing of mortgage insurance to finance the new construction or rehabilitation of hospitals or improvements to hospitals. This program is structured under existing mortgage insurance authority, and would provide a new form of credit enhancement for constructing and rehabilitating hospitals.

The rule does not provide sufficient detail on the basic requirements of the program in many critical areas. The Office of Housing has indicated that instead of developing and including program requirements in the regulations, risk sharing requirements for lenders will later be developed during negotiations with lenders and included in the individual risk sharing agreements. Such an approach violates the authorizing legislation for the program and circumvents the rulemaking process by precluding OIG and the public from reviewing and commenting on the proposed program in a substantive way.

The authorizing legislation for the risk sharing program requires the Secretary to establish program provisions pursuant to regulations, in addition to including such provisions in the contract of coinsurance. The final rule has virtually no provisions setting forth lender requirements, program eligibility, delegation of functions, applicable underwriting and servicing standards, regulatory agreement requirements, capital and reserve requirements, recordkeeping, record retention, financial reporting and audit requirements, scope and nature of sanctions, and reinsurance. The rule indicates that to keep the



program flexible, the risk sharing agreement between HUD and the lender is to provide for these requirements.

The rule also does not incorporate program monitoring or mortgagee compliance requirements as provided for in the applicable authorizing statute for the coinsurance of mortgages. The rule contains one sentence on program monitoring and compliance which states "The Commissioner will monitor the performance of the mortgagee for compliance with the provisions of this subpart."

Developing program requirements on a case-by-case basis, and incorporating these requirements into the risk-sharing agreement, serve to circumvent the rulemaking and statutory requirements. The regulations should provide for a program design including the basic controls and balances needed to minimize risk and take into account past coinsurance and hospital experiences. If justifiable exceptions arise, the regulations can be waived and appropriately published in the Federal Register. By allowing an already risky program to be operated by other than federal agencies with almost no regulatory parameters further heightens the risks of the hospital program.

The OIG nonconcurrency on this issuance remains unresolved and has been referred to the Deputy Secretary.

Other HUD Directives

Mortgages with Flexible Subsidy Loans

We nonconcurred on this Notice, which clarifies HUD's terms and conditions governing the prepayment of mortgages on certain subsidized projects which have received flexible subsidy assistance. Receipt of flexible subsidy assistance commits the owner to continue use of the project as low- and moderate-income housing for a term equivalent to that of the original mortgage.

The use agreement the owners would sign when prepaying the mortgage would require that admission to the project be limited to new residents having a low- or moderate-income which does not exceed the limits set forth therein, i.e., 20 percent of the units would be given to applicants less than or equal to 50 percent of the area median income, 40 percent of the units to applicants at or below 60 percent of the median, and 40 percent of the units at or below 80 percent of the median. Our concern is that this policy does not go far enough in implementing FHA's policy promoting mixed income housing.

While we understand and agree with the policy to preserve affordable housing, we hold that more is not always better, that is, the housing must first work in the community and for the residents. As set forth in FHA's own Mixed-Income Housing Underwriting Guidelines, the intentional mixing of incomes and working status of residents, if done with care, can enhance the quality of life for residents while improving the economic viability of the project and strengthening neighborhoods. FHA's goals, through its Mixed-Income Housing Initiative, are to strengthen neighborhoods and projects by providing for the development of new mixed-income properties and conversion of existing housing to mixed-income.



We contend that the principles that drive the Mixed-Income Initiative should also be utilized in setting the policy for establishing use agreements for projects with flexible subsidy whose mortgages are being prepaid.

The OIG nonconcurrency on this issuance remains unresolved and has been referred to the Deputy Secretary.

Section 236 Excess Income

Section 221(c) of the Department's FY 1997 Appropriations Act provides "a project owner with a mortgage insured under this section may retain some or all of such excess charges for project use if authorized by the Secretary and upon such terms and conditions as established by the Secretary." This Notice implements this provision of the Act.

OIG nonconcurred on this Notice because the parameters for the use of excess income are too broad and subject to abuse or mismanagement, especially without requiring prior HUD approval. Also, the Notice is inappropriately being applied to Section 236 projects that have HUD held or noninsured mortgages.

The OIG nonconcurrency on this issuance remains unresolved.

Preservation Projects

OIG nonconcurred in the revisions to Handbook 4350.3, Occupancy Requirements of Subsidized Multifamily Housing Programs, because of the permitted resident screening criteria and the income mix of residents occupying preservation projects. The permitted screening criteria state that owners should consider at least the resident's ability to pay the rent, comments from the former landlord, and the use of illegal drugs. Resident selection is a critical factor in the success of any rental property and the standards set forth in the Handbook should be employed at a minimum. These factors should be made mandatory rather than optional as the Handbook currently states.

The OIG nonconcurrency on this issuance remains unresolved.

Field Consolidation Plan

The Office of Single Family Housing proposed to consolidate all field operations into three Homeownership Centers to be located in Denver, Atlanta, and Philadelphia. The consolidation plan also called for a reduction in staff of approximately 1,000 employees.

The OIG nonconcurred in the consolidation plan because no analysis was performed to determine required staffing targets. The OIG believed that an analysis was needed to determine whether proposed staffing levels matched the anticipated workload. The Office of Single Family Housing advised that the Denver Center was used as a model to determine staffing as well as estimates based on redesigned processes.

Single Family Housing did not provide an analysis that was acceptable to the OIG's concerns. The plans were changed to include an additional Homeownership Center in Santa Ana, CA, as part of HUD's 2020 Management Reform Plan. Also, the Department decided that reorganizations/consolidations were not to be placed in Departmental clearance. Consequently, the Department has moved forward without addressing the OIG's nonconcurrency.



Audit Resolution

Audit resolution is the process whereby OIG and HUD management agree to needed changes and timelines for action, based on audit recommendations. Through this process, we hope to gain measurable improvements in HUD programs and operations. The overall responsibility for assuring that agreed upon changes are implemented rests with HUD managers. In addition to this Chapter on audit resolution, see Appendix 2, Tables A and B.



Delayed Actions

OIG has taken some important steps to improve the audit resolution process. First, our Southeast/Caribbean District is conducting a pilot project in which they are not specifying recommendations in draft reports. Instead, HUD management is being asked to propose recommendations to resolve the identified deficiencies. Additionally, in memoranda transmitting draft reports to HUD management, all OIG District Audit Managers are encouraging management to propose alternative recommendations to better address the problems. OIG has also reemphasized the importance of HUD program representatives attending our exit conferences on external audits. The Deputy Secretary endorsed this approach and stressed its importance in a September 25, 1997 memorandum to Principal Staff.

We hope these changes will help to avoid future delays in implementing corrective action. This Chapter describes some of the more significant issues where actions on audits have been delayed.

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

Issued January 29, 1993. Our report recommended repayment of more than \$22 million of ineligible expenditures to the city's Community Development Block Grant (CDBG) Program. At the close of our last semiannual reporting period, management demanded a \$5 million repayment and deferred repayment of the remaining \$17 million pending further review. On July 11, 1997, the city agreed to repay \$4.5 million over 5 years. One month later, the city made its first payment of \$900,900.

The remaining \$17 million involves the inappropriate use of CDBG funds to pay for liability insurance for employees involved in the city's property management program. The Office of Community Planning and Development (CPD) in headquarters found it was appropriate to pay the insurance, but hired a consultant to review the reasonableness of the costs. The report, submitted to CPD in September 1997, concluded that the insurance expenditures were reasonable, but raised two areas of concern. First, they questioned an apparent \$80,000 overpayment of a short-rate cancellation penalty. Second, they reported \$1.2 million in premiums could be saved by recomputing the insurance policies at renewal. CPD is assessing the information in the report to determine whether any repayment to the CDBG Program should be sought. (Report No. 93-NY-241-1002)

***City of
Baltimore,
CDBG
Program***

Issued March 4, 1992. Our audit disclosed \$6.78 million of ineligible and unsupported costs. On February 14, 1997, the city was notified that the Department proposed to reduce the city's FY 1997 grant by over \$6 million for costs disallowed by the audit. A preliminary hearing was held and the Deputy Assistant Secretary for Grant Programs and the Deputy General Counsel have continued to negotiate with city officials. However, the fiscal year has now ended and this issue is still not resolved. (Report No. 92-PH-241-1003)



***City of
Los Angeles,
CDBG
Program***

Issued September 17, 1993. The City of Los Angeles's records did not demonstrate that \$12,608,117 disbursed for its housing rehabilitation projects during the year ended June 30, 1992, met its stated national objective. Twelve months after report issuance, HUD management and OIG agreed to allow all but \$3,138,838 of the questioned disbursements. If the grantee could not substantiate the questioned costs, they were to be returned. The city claimed problems recovering from the January 1994 Northridge earthquake, and that the resultant increase in staff workload slowed its response to HUD. OIG staff reviewed documentation provided in June 1997 to support the disallowed costs, but further documentation that was requested has not been provided. Of the remaining 13 recommendations with corrective action pending, HUD management has information to close 7. Additional documentation is required before HUD can decide whether the other six recommendations can be closed. (Report No. 93-SF-241-1012)

***City of East
Cleveland,
CDBG
Program***

Issued October 17, 1995. The city's Housing Rehabilitation Program did not achieve its primary objective of correcting code violations. As a result, some homeowners lived in substandard homes where violations posed a danger to their health and safety. Five months after the audit, management agreed that defective and duplicate work totaling over \$55,000 and ineligible and unsupported costs of \$42,657 needed to be repaid. Further, the city could not document that activities performed by subrecipients and other city departments during 1993 and 1994, totaling over \$360,000, were eligible activities under the program; management also agreed that this needed to be supported or repaid.

The city has now promised to submit documentation by October 31, 1997, supporting the eligibility of the \$360,000 in subrecipient costs. The city has also promised to complete, by December 1997, the repair of defects identified during our audit at no cost to the program or homeowner. Also, HUD anticipates an agreement with the city for a repayment plan for the ineligible and unsupported costs by December 1997. (Report No. 96-CH-241-1002)

***City of
Huntington, WV,
CDBG
Program***

Issued on July 10, 1992. The city (grantee) did not administer the Special Economic Development Revolving Loan Fund Program according to federal regulations and guidelines. As a result, the grantee awarded ineligible and unsupported loans to borrowers. Specific problems indicate the grantee did not support achievement of national program objectives, conduct on-site monitoring of borrowers, ensure that funding provided to borrowers was necessary and appropriate, document the eligibility of borrower loan expenditures, or follow its own program guidelines when processing loan applications. We recommended that the grantee repay \$2,175,000 from non-federal funds and review loan files with a total outstanding loan balance of \$2,482,225 for compliance with CDBG and grantee regulations and requirements.

These issues were referred to the headquarters Office of CPD by the field office; a decision has not yet been made. (Report No. 92-PH-241-1009)



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

Issued February 23, 1996. The Housing Authority of the City of Las Vegas (HALV) used federally assisted low-rent funds to support other non-assisted housing projects. We first reported this practice more than 8 years ago. In 1989, we reported that HALV had misused over \$6 million. Three years later, in 1992, we showed that HALV continued to improperly use federal funds, increasing amounts due to over \$6.5 million. Seven years later, in 1996, we found that the improper practices continued, increasing the ineligible expenditures to over \$7 million.

In February 1997, HUD management and HALV finally negotiated a two phase repayment plan. The first phase requires HALV to repay approximately \$3.3 million by selling miscellaneous properties and contributing other funding. The second phase calls for the sale of four non-aided senior housing projects to repay the remaining \$3.8 million toward the total \$7.2 million owed by HALV. To date, \$1,387,638 has been repaid to HUD with the proceeds from sales of real estate assets. In October 1997, HALV proposed a new repayment plan. The new plan requires HALV to continue selling its non-HUD properties so it can repay the \$1.5 million it owes to HUD. Also, HALV would repay its own low-rent program \$230,000 a year for 15 years until it pays a total of \$3.5 million. OIG is reviewing the proposal. (Report Nos. 89-SF-209-1004, 93-SF-209-1801, and 96-SF-204-1003)

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

Issued March 27, 1992. The audit of FHA's FY 1996 financial statements discussed problems that have been reported since the audit of FHA's FY 1991 financial statements. The audit continues to recognize that FHA needs to improve accounting and financial management systems. Specifically, the recommendations required FHA to implement a systems integration strategy that would address its accounting and reporting needs.

FHA, in its latest action plan, states that it is waiting for the Department to select its general ledger package and that this will have to be modified to meet FHA's reporting requirements. The planned completion date for this action is June 1999. A reliable general ledger supported by integrated "feeder" systems is basic to any reporting by FHA. While actions by FHA's current Comptroller indicate that FHA is taking a more proactive approach to this issue, resolution of this material weakness is long overdue. (Report No. 92-TS-119/129-007)

***Audits of
HUD's
FYs 1991 - 1996
Financial
Statements***

First issued June 30, 1992. HUD has been preparing financial statements under the requirements of the Chief Financial Officers Act for 6 fiscal years, beginning with FY 1991. Various internal control weaknesses have been reported in these audits. In large part, the most recent (FY 1996) audit results are consistent with results from prior years. HUD has been taking actions to address the weaknesses reported, and in some instances has made progress in correcting them. Although there has been some progress, weaknesses continue with respect to the need to (1) upgrade financial management systems, particularly those impacting multifamily housing programs; (2) correct resource management shortcomings; (3) ensure that housing subsidies are based on correct tenant income; and (4) more effectively monitor program recipients.

Corrective action plans have continued to change over the last 6 years. The Department's newest effort to address the weaknesses is through the HUD 2020 Management Reform Plan. Our concerns with the Reform Plan are discussed in Chapter 1.

DARTS

Issued December 16, 1994. Since our last Semiannual Report to the Congress, the Chief Financial Officer (CFO) has taken a position that the last four open audit recommendations related to debt collection are no longer valid for the current operation of the Departmental Accounts Receivable Tracking/Collection System (DARTS), and has requested that we close the recommendations. The CFO explained that due to the many reorganizational and operational changes that have taken place in the Department since January 1997, the debt collection recommendations are invalid. In the closure request, the CFO noted that the current plan for debt collection is the utilization of the Debt Collection Subsidiary Tracking System (DCSTS) instead of DARTS. Further, both DARTS and DCSTS are considered to be interim systems to be absorbed by the CFO's processing program accounting system by the year 2000. We requested and are awaiting receipt of the supporting documentation before we can decide whether or not to close the recommendations. (Report No. 95-IS-166-0001)

Referral of Audit Recommendations Because of Disagreement

Housing Authority of the City of Atlanta

Issued March 11, 1994. The Housing Authority of the City of Atlanta (HACA) increased the salaries of its top staff by \$339,429. The increase exceeded salary rates established by HACA's comparability study. Moreover, OMB Circular A-87, Cost Principles for State and Local Governments, requires that salaries be reasonable and supportable. It points out that compensation surveys that provide data representative of the labor market involved will be an acceptable basis for evaluating reasonableness. We recommended that HUD management instruct HACA to recover the salary costs in excess of the comparability study. The Acting Assistant Secretary for Public and Indian Housing waived the Annual Contributions Contract requirements for salary comparability and ruled that HACA's actions fulfilled the requirements of the Circular, and there was no legal basis to require HACA to repay salary costs in excess of the salary comparability study. We believe HACA should provide supportable evidence that the salaries are reasonable and comparable to the applicable labor market and that any excess amounts should be repaid.

This report was issued over 3 years ago and has not been resolved. The present executive director and her key staff are currently being paid salaries that may not be in line with comparables. This matter was referred to the Deputy Secretary on February 10, 1997. (Report No. 94-AT-201-1012)



**Bond
Refundings
of Section 8
Projects**

Issued October 30, 1992, and April 30, 1993. In our last Semiannual Report to the Congress, we identified these as two reports for which we reopened seven recommendations because corrective actions were not implemented. The recommendations in these audit reports provided HUD opportunities for saving Section 8 subsidies of approximately \$278 million. Since our last Semiannual Report, we have reached agreement with management on all but two of the seven recommendations.

We reported that two of three state housing finance agencies (HFAs) reviewed had violated regulations by collecting both an administrative fee and an override on the bonds. The administrative fees collected duplicated the compensation allowed under the override. The Office of Housing's current position is to prevent HFAs from collecting both fees on future deals; however, HFAs will be allowed to continue to collect both fees on previous deals if they request a waiver and justify keeping both fees. We believe that HFAs that violated regulations by collecting both an administrative fee and an override created a valid debt to HUD. We believe it would be inappropriate to grant HFAs waivers on the basis that monies obtained by violating regulations are now committed for legitimate purposes. Also, waivers to those HFAs would be unfair to those HFAs that abided by the regulations. This matter is being referred to the Deputy Secretary. (Report Nos. 93-HQ-119-0004 and 93-HQ-119-0013)

**Rehabilitation
Mortgage
Insurance
Program**

Issued February 6, 1997. Our nationwide review of the Section 203(k) Program disclosed numerous abuses by investors and an inordinate rate of default on their loans. Because of the serious potential drain on the insurance fund due to these types of loans, we proposed that HUD no longer allow investors to participate. HUD placed a temporary moratorium on investor participation. Meanwhile, HUD management has designed numerous additional controls to prevent future investor abuses.

HUD now wishes to lift the moratorium and add more controls to the program. However, we believe that HUD lacks the ability and resources to ensure the controls are working, and that they will eventually be compromised. HUD should ban investors from 203(k) just as it has done in other single family programs.

On June 9, 1997, this matter was referred to the Deputy Secretary. No decision has yet been made. (Report No. 97-AT-121-0001)

**Memphis
Housing
Authority
(MHA)**

Issued January 13, 1997. The MHA is and has been unable to provide decent, safe, and sanitary housing for its residents. Buildings, grounds, and individual dwelling units are seriously deteriorated, and ineffective maintenance has been a long-standing problem. These conditions are identical to those disclosed in a 1983 audit of the MHA (Report No. 83-AT-201-1039). Prior efforts by HUD, audits by OIG, and management reforms at the MHA have not been effective in reversing the trend. We recommended that HUD declare the MHA in substantial default and privatize or jointly manage MHA's maintenance and modernization operations.

HUD disagreed with our recommendations and proposed allowing the MHA to continue with its current plans for improvement. On July 21, 1997, the Acting Assistant Secretary for Public and Indian Housing stated that the MHA was taking positive steps to improve the management of its maintenance and modernization operations, and they should be provided time to make the improvements. On



August 1, 1997, we referred the recommendations to the Deputy Secretary. On September 11, 1997, the Inspector General met with the Deputy Secretary and the Acting Assistant Secretary to work out the resolution. The Acting Assistant Secretary proposed a solution that was acceptable to us; however, this resolution has never been implemented. (Report No. 97-AT-201-1001)

***Riverside
South
Apartments***

Issued February 21, 1997. OIG reviewed an application submitted by the developer of Riverside South Apartments for mortgage insurance on a \$356 million loan. We concluded that the FHA should not take the risk of insuring the proposed mortgage. Our reasons were threefold. First, out of the 1,663 residential units to be developed, only 333 of the units would have represented low- and moderate-income housing. In essence, for each \$1 million of insuring authority devoted to this development, one unit of low- and moderate-income housing would have been produced. Second, immediately following the endorsement of the mortgage, nearly one-fourth of the security for the mortgage, which constituted a park and a pier, would have been given to the City of New York. Consequently, in the case of default, a potential significant loss to the FHA insurance fund was a practical certainty. Third, there was a question whether the Congress authorized FHA to insure a park and pier. The Assistant Secretary for Housing-Federal Housing Commissioner disagreed with our conclusions, and we have reached an impasse over implementation of our recommendations. This matter is being referred to the Deputy Secretary. (Report No. 97-NY-112-0802)

***HUD
Relationships
with
Nonprofit
Organizations***

Issued August 8, 1996. This report found that HUD needs to improve its management controls concerning its relationships with nonprofit organizations. For example, HUD has not developed an inventory of nonprofit organizations with which it deals and for which it provides funds, does not require proof and verification of the tax status of nonprofit organizations, and does not have clear procedures for dealing with nonprofit organizations. On January 30, 1997, we referred this report to the Deputy Secretary, since we had received no proposed management decision from responsible HUD officials. On June 23, 1997, the Deputy Secretary responded and we agreed on one of the four issues in the report; however, on October 20, 1997, we requested additional information on the three issues that remain unresolved. (Report No. 96-HQ-176-0802)



APPENDIX 1 - AUDIT REPORTS ISSUED

Internal Reports

Audit Reports

Housing

97-SF-123-0002

Sales of HUD-Owned Properties, Single Family Real Estate Owned Branch, Arizona State Office, September 4, 1997.

Audit-Related Memoranda

97-AT-121-0803

Review of HUD Procedures for Approval of Section 203(k) Program Consultants, August 27, 1997.

97-BO-101-0804

Interim Report, Public Housing Drug Elimination Program, New Haven, CT, June 2, 1997.

97-BO-111-0805

Section 8 Rent Increase Melrose Apartments, Providence, RI, June 25, 1997.

97-SF-123-0802

Monitoring of Real Estate Management Contract, Real Estate Owned Branch, July 23, 1997. Questioned: \$3,960.

CPD

Audit-Related Memoranda

97-BO-151-0806

Vulnerability Assessment, Transitional Housing Programs, July 3, 1997.

97-SE-155-0801

Review of NONAP FY 1996 Processing of HOME Grant Applications, August 15, 1997.

Administration

Audit Reports

97-DP-166-0001

HUDCAPS Access Controls Need Improvement, September 30, 1997.

97-PH-163-0001

HUD Contracting, September 30, 1997.

97-PH-163-0002

Memorandum of Agreement, HUD and Department of the Army, September 30, 1997. Questioned: \$94,862.

Audit-Related Memoranda

97-FW-163-0801

Real Estate Asset Manager, Tulsa, OK, May 6, 1997. Questioned: \$8,146.

Miscellaneous

Audit Reports

97-FO-177-0003

Audit of FY 1996 Consolidated Financial Statements, U.S. Dept. Of Housing and Urban Development, April 10, 1997.

97-FW-174-0001

Fair Housing and Public Housing Offices, Beaumont, TX, June 3, 1997.

External Reports

Housing

Audit Reports

97-AT-211-1004	Cooper-Holt Manor, Multifamily Rental Housing Mortgage Insurance Program, Jacksonville Beach, FL, August 12, 1997. Questioned: \$258,142; Unsupported: \$37,824.
97-AT-202-1005	Housing Authority of the City of Durham, Public Housing Programs, Durham, NC, September 24, 1997.
97-CH-229-1007	Developing Economical and Better Living, Inc., Single Family Direct Sales Program, Chicago, IL, May 22, 1997. Questioned: 241,411, Unsupported: \$241,411.
97-CH-202-1008	Indianapolis, IN Public Housing Agency, Low-Income Housing Program, June 12, 1997. Questioned \$141.
97-CH-221-1010	Major Mortgage Corporation, Section 203(k) Rehabilitation Home Mortgage Insurance Program, Livonia, MI, September 17, 1997.
97-DE-207-1003	Turtle Mountain Housing Authority, Housing Development Program, Belcourt, ND, May 21, 1997.
97-FW-209-1002	Austin, TX Housing Authority, Section 8 Program, Administrative Practices, Procurement & Maintenance, July 7, 1997.
97-FW-211-1003	Medlock Southwest Management Corporation, Multifamily Management Agent, Lubbock, TX, August 26, 1997. Questioned: \$1,223,430; Unsupported: \$195,765.
97-FW-204-1004	Galveston, TX Housing Authority, Low-Rent Program, Procurement, Cash Management, Drug Elimination Grant, September 3, 1997. Questioned: \$163,540; Unsupported: \$46,500; Better Use: \$102,000.
97-NY-222-1004	Audit of Contract No. 035-93-001 to Provide Closing Agent Services for Sales of HUD Acquired Properties, Buffalo, NY, May 30, 1997.
97-NY-206-1006	Troy Housing Authority - Low-Rent Housing Program, Troy, NY, September 29, 1997. Questioned: \$4,500.
97-PH-212-1007	Princeton Lakes Apartments, Multifamily Mortgagor Operations, Virginia Beach, VA, June 4, 1997. Questioned: \$126,534, Unsupported: \$4,796.
97-SE-207-1002	Mutual Help Homeownership & Low-Rent Development Program, Coos Bay, OR, April 22, 1997. Questioned: \$799,510.
97-SE-207-1003	Southern Puget Sound Inter-Tribal Indian Housing Authority, Shelton, WA, April 15, 1997. Questioned: \$661,771.
97-SE-207-1004	Dujardin Property Management, Inc., Multifamily Management Agent, Everett, WA, May 1, 1997. Questioned: \$41,841.
97-SF-219-1002	Granada Gardens, Use of HUD's Earthquake Loan Program (HELP) Funds, Granada Hills, CA, April 14, 1997. Questioned \$322,432; Unsupported: \$36,221.
97-SF-212-1003	Huron Plaza and Sunridge Apartments, Multifamily Mortgagor Operations, Fresno, CA, May 12, 1997. Questioned: \$505,604; Unsupported: \$364,708.
97-SF-229-1004	Oakbrook Village/Village Landing I & II, Campus No. 1 & 2 Subdivisions, Single Family Operations, Merced, CA, June 3, 1997.
97-SF-203-1005	Limited Review of Contract Rents, Section 8 HAP Program, San Diego Housing Commission, San Diego, CA, July 29, 1997.

Audit-Related Memoranda

97-AT-205-1806	Limited Review of Martin Street Plaza, Atlanta, GA, April 17, 1997. Questioned: \$1,944,925; Unsupported: \$1,876,099.
97-AT-202-1807	Cullman Housing Authority, Survey of Activities, Cullman, AL, April 30, 1997.
97-AT-207-1809	Mowa Choctaw Housing Authority, Review of Development Activity, Mt. Vernon, AL, May 12, 1997. Questioned: \$1,820,403; Unsupported: \$1,820,403.
97-AT-222-1813	Review of Activities Relating to Daniel T. Canada and Canada & Associates, Greensboro, NC, August 6, 1997.

97-AT-201-1814
 97-BO-209-1802
 97-BO-209-1803
 97-CH-211-1803
 97-CH-211-1804
 97-CH-214-1805
 97-DE-207-1803
 97-FW-201-1806
 97-FW-206-1807
 97-FW-202-1808
 97-PH-211-1807
 97-PH-212-1808
 97-PH-212-1811
 97-SF-201-1803

Housing Authority of the City of Atlanta, Assessment of Progress, Atlanta, GA, August 8, 1997.
 New Bedford Housing Authority Drug Elimination Program, New Bedford, MA, July 9, 1997.
 Fall River Housing Authority Drug Elimination Program, Fall River, MA, July 9, 1997.
 Ridgewood Hills, Ltd./Terra Management Co., Multifamily Mortgagor Operations, Cincinnati, OH, April 2, 1997.
 Colonial Park Apartments, Multifamily Equity Skimming, Park City, IL, May 27, 1997.
 Choice Properties & Village Square Apartments, Multifamily Equity Skimming, Troy, MI, July 15, 1997.
 Turtle Mountain Housing Authority, Management of Cash Assets, Belcourt, ND, June 11, 1997.
 New Orleans Housing Authority, Review of Maintenance Overtime, New Orleans, LA, April 4, 1997.
 Starr County Housing Authority, Survey of Operations, Rio Grande City, TX, June 18, 1997. Questioned: \$177,426; Unsupported: \$3,612.
 Review of Expenditures, Tenant Opportunities Program Grants, Galveston, TX, September 29, 1997.
 Fairview Apartments & Fairmount Apartments, Survey of Multifamily Mortgagor Operations, Meadville, PA, May 8, 1997.
 Lafayette Villa Nursing Home, Mortgagor Operations, Norfolk, VA, May 28, 1997. Questioned: \$832,562; Unsupported: \$832,562.
 Elmira Jeffries Nursing Home, Multifamily Mortgagor Operations, Philadelphia, PA, August 21, 1997. Questioned: \$641,478; Unsupported: \$641,478.
 Selection of Developer for the Hayes Valley HOPE VI Development, San Francisco, CA, August 1, 1997.

CPD

Audit Reports

97-AT-241-1003
 97-CH-241-1011
 97-NY-255-1005

Municipality of Mayaguez, CDBG and Section 108 Loan Guarantee Assistance Programs, Mayaguez, PR, July 1, 1997. Questioned: \$6,949,811; Unsupported: \$2,224,877; Better Use: \$3,365,180.
 Hough Area Partners In Progress, Inc., CDBG Program, Empowerment Zone Program, Cleveland, OH, September 24, 1997. Questioned: \$13,274; Unsupported: \$13,274.
 Buffalo Neighborhood Revitalization Corp., City Properties Rehabilitation Program, Buffalo, NY, June 30, 1997.

Audit-Related Memoranda

97-AT-244-1808
 97-AT-248-1810
 97-AT-248-1811
 97-AT-248-1812
 97-AT-248-1815
 97-AT-248-1816
 97-AT-248-1817
 97-AT-255-1818
 97-PH-241-1805
 97-PH-241-1806
 97-PH-241-1809
 97-PH-255-1810

City of Savannah and Neighborhood Housing Services, Inc., CDBG, HOME and HOPE 3 Programs, Savannah, GA, May 5, 1997. Questioned: \$504,255; Unsupported: \$442,951.
 Accounting System Evaluation, Our Common Welfare, Inc., Supportive Housing Program, Decatur, GA, May 29, 1997.
 Accounting System Evaluation, Calvary Refuge, Inc., Supportive Housing Program, Forest Park, GA, August 1, 1997.
 Accounting System Evaluation, The House of T.I.M.E., Inc., Supportive Housing Program, Columbus, GA, August 5, 1997.
 Accounting System Evaluation, Chatham-Savannah Authority for the Homeless, Supportive Housing Program, Savannah, GA, August 11, 1997.
 Accounting System Evaluation, S.H.A.R.E. House Inc., Supportive Housing Program, Douglasville, GA, August 12, 1997.
 Accounting System Evaluation, Union Mission, Inc., Supportive Housing Program, Savannah, GA, August 12, 1997.
 State of Mississippi HOME Program, New Construction Activities, Jackson, MS, September 17, 1997.
 Penn Hills CDBG Program, Survey of Operations, Penn Hills, PA, April 11, 1997. Questioned: \$11,030.
 Survey of CDBG Program, Erie, PA, April 25, 1997.
 O'Connor Square Townhouses, Pittsburgh, PA, June 27, 1997.
 West Virginia Housing Development Fund, HOME Program, Charleston, WV, August 20, 1997.

Administration

Audit Reports

97-CH-262-1009

Advisory Report on Final Cost Submitted by Community Program Development Corporation, St. Louis, MO, September 11, 1997.
12 Audits Issued by Other Federal Auditors.

Miscellaneous

Audit-Related Memoranda

97-DE-301-1802

Council for Concerned Citizens, Fair Housing Initiatives Program Grantee, Great Falls, MT, May 30, 1997.

TABLE A
AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH
NO MANAGEMENT DECISION AT 9/30/97

APPENDIX 2

*Significant Audit Reports Described in Previous Semiannual Reports

Report Number & Title	Reason for Lack of Management Decision	Issue Date/ Target for Management Decision
*94AT1012. Housing Authority of the City of Atlanta, GA, Public Housing Management Operations.	OIG disagrees with program office position. Matter was referred to the Deputy Secretary.	03/11/94/ 09/30/97
*96HQ0802. HUD Relationships with Nonprofit Organizations.	Report issued to HUD General Counsel and Deputy Secretary. Agreement was reached with the Deputy Secretary on one of the four issues. OIG and management continue to work together to resolve the three remaining issues.	08/08/96/ 09/30/97
*93HQ0004. Bond Refundings of Section 8 Projects.	Of five recommendations reopened on January 22, 1997, two remain unresolved. OIG disagrees with the Assistant Secretary for Housing. Matter is being referred to the Deputy Secretary.	01/22/97 05/22/97
97AT1001. Memphis Housing Authority.	Agreement has been reached with the Acting Assistant Secretary for Public and Indian Housing; however, resolutions not yet finalized.	01/13/97 05/13/97
97AT0001. Section 203(k) Rehabilitation.	Report referred to Deputy Secretary on June 30, 1997. OIG has not received a response.	02/06/97 06/06/97
97NY0802. Riverside South Apartments.	OIG disagrees with the Assistant Secretary for Housing. Matter is being referred to the Deputy Secretary.	02/21/97 05/22/97

TABLE B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS
WHERE FINAL ACTION HAS NOT BEEN COMPLETED AS OF 9/30/97

Report Number	Report Title	Issue	Decision	Final Action
91TS0001	Limited Review of HUD's Process for Determining Undue Concentration of Assisted Persons	10/19/90	10/01/91	Note 1
92PH1003	Baltimore MD Community Development Block Grant Program	03/04/92	06/23/92	Note 2
92TS0007	Audit of Fiscal Year 1991 Financial Statements, Federal Housing Administration	03/27/92	09/29/92	06/03/99
92TS0011	Audit of Fiscal Year 1991 HUD Consolidated Financial Statements	06/30/92	09/30/94	Note 2
92PH1009	Huntington WV Community Development Block Grant Program	07/10/92	11/07/92	Note 1
92SF1009	San Francisco CA Housing Authority, Low-Income Public Housing Program	09/10/92	01/08/93	Note 1
93HQ0004	Interim Audit of Bond Refundings of Section 8 Projects	10/30/92	10/26/93	Note 2
93CH1003	Cuyahoga Metropolitan Housing Authority, Low-Income Housing Program, Cleveland OH	11/17/92	04/05/93	12/31/98
93HQ0005	Limited Review of HUD's Management and Control of Staff Resources	03/08/93	09/30/93	Note 2
93FO0003	Audit of Federal Housing Administration's Fiscal Year 1992 Financial Statements	04/30/93	03/31/94	12/31/98
93FO0004	Audit of HUD's Fiscal Year 1992 Consolidated Financial Statements	06/30/93	03/31/94	03/30/98
93SF1012	Los Angeles CA Community Development Block Grant Program	09/17/93	09/30/94	Note 1
93FW1016	Anthony and Associates, Inc.	09/28/93	12/10/93	01/31/98
94AT1012	Housing Authority of the City of Atlanta GA Public Housing Management Operations	03/11/94	Note 3	
94FO0002	Audit of Fiscal Year 1993 Financial Statements - Federal Housing Administration	06/08/94	09/12/94	Note 1
94FO0003	Audit of Fiscal Year 1993 HUD Consolidated Financial Statements	06/30/94	01/27/97	Note 2
95NY1001	1199 Housing Corporation, Multifamily Mortgagor Operations, New York NY	01/24/95	09/15/95	Note 2
95PH1003	Fayette County Housing Authority, Management Operations, Uniontown PA	02/08/95	09/06/95	Note 1
95FO0003	Audit of the Federal Housing Administration's Fiscal Year 1994 Financial Statements	05/19/95	03/15/96	Note 2
95BO1004	Woodview Apartments Multifamily Mortgagor Operations, East Haven CT	05/31/95	11/22/95	06/15/98
95CH1009	Alliance Mortgage Corporation, Single Family Mortgage Insurance Program, Villa Park IL	08/08/95	11/30/95	06/30/99
95CH1012	Madison County Housing Authority, Safeguarding Monetary Assets and Inventory, Collinsville IL	09/22/95	01/19/96	Note 2
95PH1012	Monumental Management, Inc., Multifamily Mortgagor Operations, Baltimore MD	09/29/95	02/07/96	Note 2
96CH1001	Benton Township Housing Commission, Low-Income Housing Program, Benton Harbor MI	10/05/95	01/29/96	Note 1
96SE0001	Section 232 Nursing Homes, Americana and Monticello Hall	11/13/95	06/24/96	Note 2
96SF1002	Pascua Yaqui Housing Authority, Tucson AZ	02/13/96	06/11/96	Note 2
96DE1003	City Wide Mortgage, Nonsupervised Mortgagee, Smyrna GA	03/08/96	06/12/96	Note 2
96PH1016	Montgomery County Department of Housing Services, Residential Rehabilitation Programs, Norristown PA	05/20/96	09/17/96	12/31/97
96AT1821	Puerto Rico Public Housing Administration, Comprehensive Grant and Drug Elimination Programs, San Juan PR	06/26/96	12/10/96	Note 2
96SF1005	All Indian Pueblo Housing Authority, Albuquerque NM	07/08/96	11/19/96	Note 2
96PH1019	Oakmont North Apartments, I, II, and III, Multifamily Mortgagor Operations, Norfolk VA	07/31/96	08/09/96	Note 2
96PH1020	Herring Manor, Multifamily Project Operations, Wilmington DE	08/13/96	12/06/96	12/06/97

TABLE C
INSPECTOR GENERAL ISSUED REPORTS WITH
QUESTIONED AND UNSUPPORTED COSTS AT 9/30/97
(DOLLARS IN THOUSANDS)

APPENDIX 2

Reports	Number of Audit Reports	Questioned Costs	Unsupported Costs
A1 For which no management decision had been made by the commencement of the reporting period	18	5,861	3,964
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	7	9,391	3,248
A3 For which additional costs were added to reports in beginning inventory	—	787	213
A4 For which costs were added to non-cost reports	2	148	111
B1 Which were issued during the reporting period	24	17,351	8,783
B2 Which were reopened during the reporting period	—	—	—
Subtotals (A+B)	51	33,538	16,319
C For which a management decision was made during the reporting period	27 ¹	10,702	8,309
(1) Dollar value of disallowed costs:			
• Due HUD	6 ²	444	343
• Due Program Participants	23	5,599	3,661
(2) Dollar value of costs not disallowed	15 ³	4,659	4,305
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	9	10,179	2,871
E For which no management decision had been made by the end of the reporting period	15 [40] ⁴	12,657 [11,491] ⁴	5,139 (4,340) ⁴

¹ 1 audit report also contains recommendations that funds be put to better use.

² 2 audit reports also contain recommendations with funds due program participants.

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

⁴ The figures in brackets represent data at the recommendation level as compared to the report level. See Table D for Explanation.

Report Number	Report Title	Issue	Decision	Final Action
96PH1021	Emerald Properties Management Co., Inc., Multifamily Mortgagor Operations, Bethesda MD	08/15/96	11/15/96	10/16/97
96FO0003	HUD Fiscal Year 1995 Financial Statements	08/16/96	02/12/97	06/30/99
96FW1002	Credit Finance Corporation, Multifamily Management Agent, Dallas TX	08/19/96	10/17/96	11/01/97
96NY1005	City of Camden NJ Community Development Programs	09/06/96	01/03/97	01/03/98
96SF1808	Pascua Yaqui Neighborhood Association, Inc., Tenant Opportunities Program, Tuscon AZ	09/20/96	01/23/97	Note 2
96FW1003	Little Flower Estates, Multifamily Insured Project, Ponchatoula LA	09/23/96	03/14/97	01/15/99
96AT1826	Limited Review of Cobb County HUD Program Operations, Marietta GA	09/24/96	02/05/97	12/31/97
96FW1004	Espanola, NM Procurement of Fee Accounting Services for Low-Rent and Section 8 Programs	09/27/96	01/24/97	01/23/98
96DP0002	Multifamily Information Systems	09/30/96	03/31/97	Note 2
96SF1006	Christian Church Homes, Management Agent, Oakland CA	09/30/96	03/03/97	12/31/97
97CH1001	Franklin County Housing Authority, Comprehensive Review, West Frankfort IL	10/03/96	10/23/96	Note 2
97PH1001	Charlottesville VA CDBG Program	10/18/96	12/17/96	Note 2
97BO1801	Equity Skimming Review, Boston MA	11/18/96	03/11/97	05/01/99
97PH1002	Newport News General Hospital, Section 242 Hospital Program, Newport News VA	12/09/96	03/26/97	03/25/98
97CH1003	Columbus OH Metropolitan Housing Authority, Comprehensive Improvement Assistance & Grant Programs	12/18/96	04/16/97	05/31/98
97PH1003	Washington County Housing Authority, Management Operations, Washington, PA	12/23/96	04/03/97	03/25/98
97SF1001	Shade Tree Apartments, Multifamily Mortgagor Operations, Sacramento CA	12/24/96	04/18/97	12/30/97
97BO0002	HUD's Public Housing Development Program Acquisition Method, Boston MA	01/07/97	05/07/97	04/30/98
97AT1001	Memphis TN Housing Authority	01/13/97	Note 3	
97PH1004	Philadelphia PA Housing Authority, Assessment of Progress	01/14/97	05/05/97	03/31/99
97PH1005	Thomas Tarantino, Multifamily Project Operations, Philadelphia PA	01/17/97	05/16/97	12/31/97
97AT1002	City of Gulfport MS, Community Development Block Grant Program	01/27/97	05/21/97	04/30/98
97PH1006	Luzerne County Housing Authority, Management Operations, Kingston PA	01/30/97	05/16/97	10/31/97
97NY1001	Pilgrim Village Associates, Multifamily Project Operations, Buffalo NY	01/31/97	05/28/97	05/27/98
97KC0801	Multifamily Housing Programs, Multi-District Review of Excess Insurance Proceeds	02/05/97	07/16/97	03/31/98
97AT0001	Section 203(k) Rehabilitation Mortgage Insurance Program	02/06/97	Note 3	
97FW1001	Houston TX, Community Development Block Grant Program, Procurement for Rehab of Multifamily Projects	02/14/97	06/02/97	06/02/98
97CH1006	Pontiac, MI Housing Commission, Low-Income Housing Program	02/18/97	03/17/97	03/14/98
97AT0002	Tenant Opportunity Program, Grantees of Atlanta Housing Authority Developments, Atlanta GA	02/21/97	06/18/97	01/31/98
97NY0802	Riverside South Apartments, New York NY	02/21/97	Note 3	
97BO0803	Review of Multifamily Enforcement Actions, Connecticut State Office, New Haven CT	02/26/97	06/24/97	01/31/98
97SE1001	Mutual Help Development, Marysville WA	02/27/97	08/05/97	02/01/98
97NY1002	Montgomery County Community Development Program, Fonda NY	03/14/97	07/23/97	07/23/98
97BO0003	Processing of 48 Defaulted Single Family Mortgages, New Haven CT	03/25/97	07/07/97	11/30/97

AUDITS EXCLUDED:

- 21 audits under repayment plans
- 32 audits under formal judicial review, investigation, or legislative solution

NOTES:

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

TABLE D
INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS
THAT FUNDS BE PUT TO BETTER USE
AT 9/30/97
(DOLLARS IN THOUSANDS)

Reports		Number of Audit Reports	Dollar Value
A1	For which no management decision had been made by the commencement of the reporting period	1	1,105
A2	For which litigation, legislation or investigation was pending at the commencement of the reporting period	1	546
A3	For which additional costs were added to reports in beginning inventory	—	169
A4	For which costs were added to non-cost reports	—	—
B1	Which were issued during the reporting period	2	3,467
Subtotals (A + B)		4	5,287
C	For which a management decision was made during the reporting period	1 ¹	1,274
(1)	Dollar value of recommendations that were agreed to by management	2 ²	100
	• Due HUD	1	1,275
	• Due Program Participants		
(2)	Dollar value of recommendations that were not agreed to by management	—	—
D	For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	1	546
E	For which no management decision had been made by the end of the reporting period	2 [9] ³	3,467 [3,467] ³

¹ 1 audit report also contains recommendations with questioned costs.

² 1 audit report also contains recommendations with funds due program participants.

³ The figures in brackets represent data at the recommendation level as compared to the report level.

EXPLANATIONS OF TABLES C AND D

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

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

APPENDIX 3

Profile of Performance
April 1, 1997, through September 30, 1997

Audit and White Collar Crime Investigative Results	Audit	Investigation	Combined Total	FY 1997
Cash Recoveries	\$15,206,808	\$322,018	\$15,528,826	\$31,855,878
Seizures and Other Recoveries		\$3,646,237	\$3,646,237	\$5,664,237
Court Ordered: Restitution Fines Levied		\$5,032,213 \$201,594	\$5,032,213 \$201,594	\$8,939,510 \$490,592
Commitments to Recover Funds	\$19,099,401		\$19,099,401	\$35,219,815
Cost Efficiencies: Identified Sustained	\$396,244 \$1,274,526		\$396,244 \$1,274,526	\$662,049 N/A
Indictments		199	199	270
Convictions		172	172	314
Years of Prison Sentences		365	365	844
Years of Suspended Sentences/Probation		54/529	54/529	76/889
Administrative Actions Against Persons/Firms Doing Business with HUD	21	70	91	107
Subpoenas Served	53	50	103	178
Operation Safe Home Violent Crime Investigative Results			This Reporting Period	FY 1997
Arrests			1,486	3,032
Search Warrants			172	342
Cash Seized			\$850,149	\$1,141,940
Drugs Seized			\$3,633,315	\$5,350,841
Weapons Seized			235	422

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1-800-304-9597 by TDD
202-708-4829 by fax

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

via the internet: www.hud.gov/oig/oighot.html

or contacting your local HUD OIG District Office:

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

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

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

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

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

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

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

Rocky Mountains District
First Interstate Tower North
633 17th Street
Denver, CO 80202-3607
Tele: 303-672-5449
fax: 303-672-5006
States: CO, MT, ND, SD, UT, WY

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

Northwest/Alaska District
Seattle Federal Office Building
909 1st Ave.
Seattle, WA 98104-7000
Tele: 206-220-5380
fax: 206-220-5160
States: AK, ID, OR, WA

Capital District
451 7th St. SW
Washington, DC 20410-4500
Tele: 202-708-0387
fax: 202-708-4039
States: DC metropolitan area

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U.S. Department of Housing and Urban Development
Office of the Inspector General
Semiannual Report to the Congress

September 1997



HUD-1694-IG