



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

October 1, 1980 to March 31, 1981

Pursuant to Public Law 95-452

Number 5

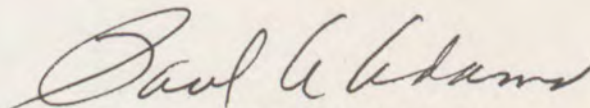


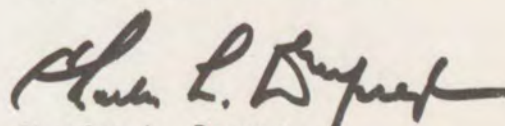
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20410
April 30, 1981

TO : Samuel J. Pierce, Jr., Secretary, S
FROM : Paul A. Adams, Office of Inspector General, ZD
SUBJECT: Semiannual Report on Activities of Office of Inspector General

Pursuant to section 5(b) of the Inspector General Act of 1978, I respectfully submit our semiannual report on the activities of the Office of Inspector General for the period October 1, 1980 to March 31, 1981.

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


Deputy Inspector General


Charles L. Dempsey
Inspector General Designate

FOREWORD

This report, consisting of 10 sections and five appendices, is the HUD Office of Inspector General's fifth semiannual report to Congress since enactment of the Inspector General Act of 1978 (Public Law 95-452).

The report addresses each reporting requirement in the Inspector General Act, the Supplemental Appropriations and Rescission Act of 1980, Appropriations Act for 1981 relating to HUD and other independent agencies and other Congressionally requested information. The report also provides other relevant information on HUD Office of Inspector General activities and accomplishments during the current semiannual reporting period October 1, 1980 to March 31, 1981.

Various terms and activities mentioned in the report are more fully explained in Appendix 1.

TABLE OF CONTENTS

	<u>Page</u>
PROFILE OF OPERATING RESULTS.....	i
SUMMARY.....	ii
BACKGROUND.....	xi
I. DESCRIPTION OF SIGNIFICANT PROBLEMS, ABUSES AND DEFICIENCIES AND RECOMMENDATIONS FOR CORRECTIVE ACTION DURING THE CURRENT REPORTING PERIOD.....	1
A. Significant Audit and Investigation Work.....	1
1. Widespread Deficiencies in Community Development Block Grant Rehabilitation Activities.....	1
2. Serious Property Disposition Contracting Deficiencies.....	3
3. Audit and Investigation Activities in Puerto Rico.....	4
4. Community Development Block Grant Program-- City of New York, New York.....	6
5. Administration of Section 236 and Section 8 Programs by the Michigan State Housing Development Authority--Lansing Michigan.....	7
6. Section 236 Tax and Utility Subsidy Settlement.....	8
7. Inspection Procedures for Multifamily Projects During Construction.....	8
8. Delano Village--New York, New York.....	9
9. Low-Rent Housing, Mutual-Help and Mutual- Help Homeownership Opportunity Programs of the Oglala Sioux Housing Authority, Oglala Sioux Tribe--Pine Ridge, South Dakota.....	10
10. Community Development Block Grant Program--City of Rochester, New York.....	11
11. Section 8 Housing Assistance Payments Program As Administered by the Housing Authority of New Orleans--New Orleans, Louisiana.....	12

TABLE OF CONTENTS

	<u>Page</u>
12. Community Development Block Grant Program--City of Parkin, Arkansas.....	13
13. Woodhaven Gardens--Philadelphia, Pennsylvania.....	14
14. Lakeshore Towers (Also known as Gordon Glen Manor)--Gainesville, Florida.....	14
B. Other Significant Trends and Concerns.....	15
1. Inadequate Monitoring of Program Participants.	15
2. Review of the Effectiveness of the Section 223(f) Existing Multi- family Mortgage Insurance Program.....	17
3. Section 108 Loan Guarantee Program-- City of Detroit, Michigan.....	18
II. UNRESOLVED SIGNIFICANT RECOMMENDATIONS DISCLOSED IN PRIOR SEMIANNUAL REPORTS.....	19

HOUSING

A. Philadelphia Housing Authority--City of Philadelphia, Pennsylvania.....	19
B. Administration of Section 236 and Section 8 Programs by the New Jersey Housing Finance Agency--Trenton, New Jersey.....	19
C. Single Family Acquired Property Sales, Pricing and Delays in Closing.....	20

COMMUNITY PLANNING AND DEVELOPMENT

A. Community Development Block Grant Program-- City of New York, New York.....	20
B. Community Development Block Grant Program-- City of Los Angeles, California.....	21
C. Community Development Block Grant Program-- City of Philadelphia, Pennsylvania.....	21
D. Model Cities and Community Development Block Grant Programs--City of New Orleans, Louisiana....	22

TABLE OF CONTENTS

	<u>Page</u>
E. Community Development Block Grant Program-- City of Yonkers, New York.....	22
F. Community Development Block Grant Program-- City of Scranton, Pennsylvania.....	23
<u>ADMINISTRATION</u>	
A. Examination of Selected FHA Insuring Fund Accounts	24
B. Review of Annual Contribution for Assisted Housing.....	24
III. SUMMARY OF INVESTIGATION CASES AND PROSECUTIVE ACTIONS DURING THE SEMIANNUAL REPORTING PERIOD.....	25
A. Investigation Cases Opened.....	25
B. Pending Cases.....	26
C. Cases Referred for Prosecution.....	26
D. Prosecutions and Convictions.....	27
E. Description of Selected Prosecutive Actions During Reporting Period.....	28
IV. REVIEW OF LEGISLATION AND REGULATIONS.....	33
A. Possibility of Reducing Cost of Government's Borrowing by Investing Excess Monies in Revolving Funds or Returning Such Funds to the Treasury.....	33
B. Legislation Prohibiting Federal Housing Assistance for Certain Classes of Aliens.....	33
V. UNREASONABLE REFUSAL OR NON-PROVISION OF REQUESTED INFORMATION OR ASSISTANCE.....	35
VI. SUMMARY OF SUBPOENAS ISSUED.....	36

TABLE OF CONTENTS

	<u>Page</u>
VII. IMPLEMENTATION OF OTHER LEGISLATIVE AND CONGRESSIONAL DIRECTIVES.....	37
A. Resolution of Audit Findings.....	37
B. Collection of Delinquent Debts.....	40
C. Procurement Management and Consultant Services Controls.....	45
D. Year-End Spending.....	46
E. Excessive Cash Drawdowns by Program Recipients.....	47
F. Single Audit in Federal Assistance Programs	49
G. Improving Management Concern Over Fraud and Waste.....	49
VIII. COOPERATIVE EFFORTS WITH FEDERAL AND STATE AGENCIES.....	51
A. Cooperative Audit and Investigation Activities in Puerto Rico.....	51
B. Coordination with Immigration and Naturalization Service on Federal Assistance to Certain Classes of Aliens.....	51
C. Review of Suspension and Debarment Processes in Federal Housing Programs.....	52
D. Investigative Coordination with Department of Agriculture and Department of Health and Human Services.....	52
E. Cooperation in Implementing Attachment P of OMB Circular A-102.....	53
F. Joint Financial Management Improvement Program Task Force on Federal Executive Reporting on Internal Controls in Government.....	53

TABLE OF CONTENTS

	<u>Page</u>
IX. FRAUD CONTROL EFFORTS.....	54
A. Committee on Fraud, Waste, and Mismanagement.....	54
1. Fraud Vulnerability Assessment System.....	54
2. Revisions to Basic Regulatory and Management Agent Agreements.....	55
3. Review of HUD's Monitoring of Program Participants.....	55
4. Review of HUD's Overall Fraud Control Program.....	56
5. State and Local Issues.....	56
B. Implementation of Management Control Assessment System.....	57
C. Employee Awareness Program.....	57
1. Fraud Information Bulletins.....	57
2. Fraud Alert Memorandums.....	58
3. Fraud Training Course.....	58
4. Video Tape Training.....	58
D. Hotline Activities.....	59
1. Establishment of Systems and Procedures.....	59
2. Hotline Workload.....	59
3. Hotline Actions Taken.....	60
X. AUDIT REPORTS ISSUED DURING THE CURRENT REPORTING PERIOD.....	61
A. Reports Issued by the Office of Inspector General.....	61
B. Distribution of Audit Time.....	71
C. Use of Non-Federal Auditors.....	71
D. Audit Reports Prepared by Other Agencies.....	72

TABLE OF CONTENTS

APPENDICES

- Appendix 1 - Description of Major Terms
- Appendix 2 - Fraud Information Bulletin 81-1,
Procurement- Contract Award Process
- Appendix 3 - Fraud Information Bulletin 81-2,
Multifamily Mortgagor Operations
- Appendix 4 - Fraud Information Bulletin 81-3,
Procurement--Contract Administration
- Appendix 5 - Description of Findings--CDBG Program,
City of New York, New York

PROFILE OF OPERATING RESULTS

October 1, 1980 To March 31, 1981

	<u>Amount</u>	<u>Page Reference</u>
Audit Activities		
• Cash Recoveries (OIG and Non-Federal Audits)	\$ 14.2 million	39
• Dollar Value of Reported Deficiencies and Questionable Items (OIG and Non-Federal Audits)	\$363.6 million	38
• Internal Audit Reports Issued	63	61
• External Audit Reports Issued	261	61
• Non-Federal and Other Agency Reports Accepted	2,348	71
• Audit Findings Issued	4,929	40
• Audit Findings Closed	4,318	40
• Number of Unresolved Audit Findings (3/31/81)	3,251	40
• Dollar Value of Unresolved Audit Findings (3/31/81)	\$282.5 million	38
• Mortgagees Sanctioned as a Result of OIG Referrals to HUD's Mortgagee Review Board	3	N/A

Investigation Activities		
• Investigation Cases Opened	1,089	25
• Investigation Cases Pending (3/31/81)	2,166	26
• Investigation Cases Referred for Prosecution	277	26
• Persons/Firms Indicted	85	27
• HUD Employees Indicted	3	27
• Persons/Firms Convicted	50	27
• HUD Employees Convicted	1	27
• Total Fines Levied	\$ 77,800	28
• Total Years of Prison Sentences	29 1/2	28
• Cash Recoveries from Investigations	\$268,700	N/A
• Standards of Conduct Briefings	6	N/A

Fraud Control Activities		
• Management Control Assessments Monitored	41	57
• Fraud Vulnerability Assessments Monitored	2	54
• Fraud Awareness Directives Issued	4	57
• Special Fraud Control Projects Undertaken in Cooperation with HUD's Committee on Fraud, Waste and Mismanagement	4	54
• Hotline Calls Received	114	59
• Hotline Calls Processed and Closed	130	60

Other Activities		
• Operational Survey Reports Issued	2	N/A
• Proposed Legislative Bills and Regulations Reviewed	103	N/A

SUMMARY

I. SIGNIFICANT PROBLEMS, ABUSES, DEFICIENCIES AND RECOMMENDATIONS

Of those matters reported to HUD management during the semiannual reporting period October 1, 1980 to March 31, 1981, the matters shown below are considered significant.

- Widespread Deficiencies in Community Development Block Grant Rehabilitation Activities

page 1

On November 7, 1980, we issued the report on our operational survey of Community Development Block Grant rehabilitation activities. In performing the survey, entitlement grantees and cases were selected for review through the use of statistical sampling; accordingly, our survey results were projected on a nationwide basis.

Our survey disclosed that possible indicators of irregularities and/or abuses, and weaknesses in administrative practices existed at 773 or 82 percent of grantees nationwide. Almost one-third of the rehabilitation costs contracted for, or about \$106 million, was spent on properties which, after rehabilitation, still had at least one serious violation of HUD's housing quality standards which affected the health and safety of the occupants. It was also projected that 395 or 42 percent of the grantees included unneeded rehabilitation work on properties totaling about \$16.8 million; and that 42 percent of such properties still had at least one violation of HUD's housing quality standards after rehabilitation was completed.

- Serious Property Disposition Contracting Activities

page 3

We completed our nationwide audit of HUD's property disposition contracting activities which involve annual expenditures of about \$100 million. Our audit disclosed that such activities were not always conducted by HUD field offices in a manner which provided for maximum open and free competition. Also, we found that 87 of 152 or 57 percent of the repair specifications that we reviewed were not prepared in sufficient detail and preciseness for contractors to submit uniform bids; and cost estimates were not always prepared or adequately supported.

Additionally, HUD field offices were approving an excessive number of contract modifications; not assuring that contractors completed repair work by the contract completion dates; and not thoroughly and timely performing inspections to detect significant work deficiencies by contractors. Because of these deficiencies, payments may have been made for work which was not performed or was substandard, and excess costs may have been incurred.

We attributed the adverse conditions reported to the fact that HUD's property disposition contracting staff lacked sufficient technical knowledge of contracting requirements and field offices' management staffs failed to exercise effective supervisory control over the property disposition function.

● Intensive Audit and Investigation Activities in Puerto Rico page 4

At March 31, 1981, our intensive audit and investigation work was continuing in Puerto Rico in cooperation with the Department of Justice and the Veterans Administration. Our efforts, initiated at the request of HUD's Government National Mortgage Association (GNMA), have disclosed an improper diversion of funds totaling about \$1.5 million in GNMA-owned mortgage-backed security pools and \$1.7 million of monies in these pools owned by a private firm. In order to effect reimbursement and restitution of the monies involved, HUD is expected to file a law suit against the involved principals.

We also conducted 13 special audits of mortgagee origination practices in Puerto Rico. These special audits, eight of which were coordinated with the Veterans Administration, have disclosed: over 200 individual single family mortgage loans insured by HUD or guaranteed by the Veterans Administration which were based upon false information; the use of straw or fictitious buyers; questionable payments to third parties; and simulated sales. To date, sanctions have been taken by HUD against ten of the mortgage companies involved and indictments have been returned charging three officials of a real estate firm with conspiracy and two other real estate brokers with submission of false statements.

Additionally, we performed an in-depth audit of a HUD-insured hospital in Puerto Rico. Our audit has disclosed that the Mortgagor mismanaged the hospital and frequently disregarded HUD regulations. Also, uneconomic and imprudent management decisions by the Mortgagor have contributed to the hospital's financial insolvency.

● Community Development Block Grant Program--
City of New York, New York page 6

A non-Federal audit of New York City's Community Development Block Grant Program disclosed that, of \$179.3 million of costs charged to the City's Program during the audit period, \$116 million or about 65 percent were disallowed or considered questionable since such costs were either unreasonable, improperly charged to the Program or failed to comply with the Program's intent. Moreover, numerous public service programs which were supposed to benefit the residents of specific targeted geographical areas were being used to a large degree to benefit individuals outside the targeted areas. In addition, poor planning and monitoring resulted in the City's failure to spend nearly \$300 million or over one-half of available program funds.

● Administration of Section 236 and Section 8
Programs by the Michigan State Housing
Development Authority--Lansing, Michigan page 7

Our audit report disclosed that the Michigan State Housing Development Authority's questionable practice of including a contingency reserve as part of a project's development costs will ultimately result in excess subsidy payments by HUD of about \$60 million over the life of the Section 8 projects' mortgages. A similar finding was made during the last semiannual reporting period in conjunction with our audit of the New Jersey Housing Finance Agency.

● Section 236 Tax and Utility Subsidy Settlement

page 8

The Section 236 Tax and Utility Subsidy Program required HUD to pay a subsidy to owners of Section 236 multifamily projects in order to reduce the rising costs of utilities and property taxes. Class action lawsuits against HUD resulted in an out-of-court settlement whereby HUD agreed to provide \$60 million for distribution to tenants residing in Section 236 projects during the period February 1975 through September 1977. Based on our review of the settlement distribution and sample testing of claims, we estimated that about \$770,000 in overpayments may result due to tenants' providing incorrect rent subsidy data on their claim forms.

● Inspection Procedures for Multifamily Projects
During Construction

page 8

This audit, performed in the Atlanta Region, disclosed that HUD inspections were not adequate to ensure that the construction of multifamily projects is in accordance with HUD-approved plans and specifications. During our inspections of 16 projects, 608 deficiencies were noted which were not detected and reported by HUD inspections, but which should have been. Of the deficiencies noted, 103 were considered to be especially significant because they might adversely affect the health and safety of the residents, the structural integrity of the buildings, or result in increased maintenance costs that could adversely impact on the solvency of the projects.

● Delano Village--New York, New York

page 9

Our audit disclosed that the Mortgagors violated their contractual agreement with HUD by not depositing about \$1.2 million in rents and other project receipts in the projects' bank accounts. In addition, improper advances and distributions amounting to over \$2.1 million were made to the Mortgagors. As a result, approximately \$3.3 million of diverted project funds were not available for the payment of the mortgages' principal and interest resulting in the default of five of the projects' seven mortgages and their subsequent assignment to HUD.

● Oglala Sioux Housing Authority--Pine Ridge, South Dakota

page 10

Our audit disclosed that the Housing Authority deviated significantly from its contracts with HUD with respect to the operation of its Low-Rent, Mutual-Help and Mutual-Help Homeownership Opportunity Programs. Because of this poor performance, the Housing Authority was in serious financial difficulty and the continuation of its programs was in jeopardy.

Although HUD requires that the operations of the Housing Authority's projects be financed through rent collections, our audit disclosed that the Housing Authority was using substantial amounts of project development funds to finance the operating expenses of its projects. Moreover, the Housing Authority's operations for the two-year audit period resulted in a deficit of about \$245,000 even after HUD awarded the Housing Authority additional operating subsidies of over \$1.6 million during this period. Much of the



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

Report to Congress by the Office of Inspector General,
for the Period Ending March 31, 1981

The Office of Inspector General is responsible for audit, investigation, fraud control and designated security services relating to the programs and operations of the Department. The management of the Department of Housing and Urban Development has been a continuing source of Congressional concern, and the Reagan Administration is committed to a program of reform and systematic improvement. Beginning early in the year, steps have been taken to remedy overall management problems, including the formulation of concrete plans to implement the recommendations of the Committee on Fraud, Waste, and Mismanagement. The Under Secretary has responsibility for managing these efforts, and is working with the Inspector General and each office within the Department to make needed changes. Further, the Department cooperates with the Inspector General on all issues, and will continue to provide requested information and suggest possible areas for investigation.

Comments on a few specific problem areas reported by the Inspector General follow.

Collection of Delinquent Debts

The Department recognizes the continuing problems in the collection of delinquent debts. In March of this year, a Special Task Force was established to develop a comprehensive HUD Debt Collection Program designed to correct these long-term inefficiencies by introducing, where possible, loan servicing methods common to the private sector, standardizing write-off policy and procedures to minimize debt losses and accurately reporting Departmental assets on a more timely basis. The Under Secretary has identified more than 30 recommendations for improved debt collection policy and procedures to be studied and implemented as appropriate.

Widespread Deficiencies in Community Development Block Grant Rehabilitation Activities

The Department agrees with a majority of the findings in the OIG report relating to local delivery of Community Development Block Grant (CDBG) rehabilitation, including deficiencies in grantee performance with regard to documentation of initial inspections, work write-ups, and repairs required in contracts. At the same time, however, and consistent with current Administration policy, the Department rejects the notion that additional Federal intervention through regulations would improve program performance and efficiency. The Department strives to allow for maximum flexibility on the part of CDBG localities while assisting them in developing their capacity through technical assistance and monitoring. The Department believes such activities are the most appropriate means for alleviating the deficiencies cited by the OIG.

Further, it is important to understand that the Department does not require that properties receiving CDBG assistance meet HUD's housing quality standards. This is because it is believed that such a policy could prohibit selective assistance to households for critical repairs, and discourage any assistance to units where full rehabilitation to standards would be prohibitive. Weatherization, for example, could not be undertaken as a selective program for many units unless other deficiencies were also corrected. The Department recognizes that one effect of this policy is that some properties still have at least one serious violation of HUD's housing quality standards after rehabilitation, and prohibits the counting of such units toward achievement of goals in Housing Assistance Plans.

Serious Property Disposition Contracting Activities

As a result of the Inspector General's disclosure of serious deficiencies in HUD's property disposition contracting activities, the Department has begun a series of correctional steps, and agreed to the Inspector General's further recommendations on March 18, 1981. Remedial action is underway.

Administration of Section 236 and Section 8 Programs by the Michigan State Housing Development Authority - Lansing, Michigan

State housing finance agencies have traditionally played an independent role in the administration of HUD programs. Because they are independent agencies, and because they assume or share with the Department the burdens of program administration, project financing and risk of failure, HUD has given State agencies significant latitude in delivering its programs.

The appropriate balance between State agency discretion and HUD oversight is one which is difficult to achieve.

Specifically in the Lansing, Michigan case, it is important to realize Michigan planned for and obtained HUD approval on funding interest bearing Development Cost Escrow (DCE) accounts out of mortgage proceeds initially. While the Department agrees excess subsidies have been paid on Section 236 projects, the Department will not seek recoupment because of its prior approval. Additionally, if the Department accepted Michigan's certification as to rent reasonableness (in which Section 8 subsidies are based), there is no reason to question this prior acceptance. Therefore, the Department will seek no recoupment on this issue.

As there has been no new funding for the Section 236 program since 1973, the Department does not propose to prepare written development procedures. Also, since the Section 8 program is controlled by comparability and rent reasonableness tests, it seems unnecessary to develop additional procedures prohibiting the funding of reserve accounts out of mortgage proceeds.

Inspection Procedures for Multi-family Projects During Construction

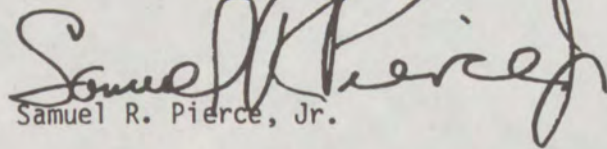
A response to this audit has been prepared and will be forwarded to the Inspector General shortly. As one remedy for this problem, the Department is considering a system of annual or semi-annual Notices of common construction deficiencies to be brought to the attention of the inspection staff.

Technical Clarification

The Department has furnished the Inspector General with technical clarification of specific issues in the Report, especially relating to collection of delinquent debts.

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18



Samuel R. Pierce, Jr.



THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

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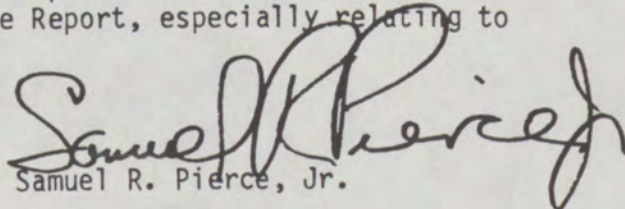
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Samuel R. Pierce, Jr.

deficit was due to the Housing Authority's failure to collect rents from tenants. In this regard, the balance of rents due from tenants at the close of the audit period amounted to over \$845,000. This amount did not include about \$202,000 of uncollected rents that were written off during the audit period.

We also reported that the Housing Authority had to severely curtail its housing maintenance programs, thereby resulting in many of the dwellings' falling below the HUD standards for decent, safe and sanitary housing. Additionally, management and control systems recommended or required by HUD had, in most cases, either not been established, were improperly maintained, or were not effectively used by the Housing Authority in its administrative decisions.

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

page 11

Based on our audit, we disallowed and questioned the eligibility of about \$4.7 million of the City of Rochester's Community Development Block Grant Program costs. Other deficiencies we reported concerned the Grantee's rehabilitation loan program and included a lack of fiscal control and accountability, failure to prepare compliance inspection reports, and weaknesses in contracting procedures.

- Section 8 Housing Assistance Payments Program
as Administered by the Housing Authority of
New Orleans--New Orleans, Louisiana

page 12

We reviewed the books and records of the Housing Authority of New Orleans pertaining to its Section 8 Housing Assistance Payments Program for existing housing as it related to various transactions with the owner of Delta Towers Apartments. Our audit disclosed that the Housing Authority incurred overcharges of about \$173,000 during Delta Towers' first year of operation under the Section 8 Program. We estimated that during the 42-month period covered by our audit, the overcharge will have exceeded \$590,000. The overcharge resulted because the Housing Authority determined that Delta Towers was eligible to rent its units at a higher rate than permitted under program regulations.

- Community Development Block Grant Program--
City of Parkin, Arkansas

page 13

Our audit disclosed that the City of Parkin, Arkansas, mismanaged its Community Development Block Grant Program and did not substantially meet the objectives as stated in its grant application. We reported disallowed and questionable costs totaling nearly \$783,000. The Grantee expended about \$472,000 for rehabilitating private properties. However, the work performed was generally poor in quality, incomplete and obtained at excessive costs. Further, the houses that were rehabilitated failed to meet the Grantee's adopted standards.

● Woodhaven Gardens--Philadelphia, Pennsylvania

page 14

Our audit report disclosed about \$1.3 million of costs which were either ineligible or of questionable eligibility. Among these costs were unauthorized disbursements of project funds that were contrary to contractual agreements with HUD and the Management Agent for the Woodhaven Gardens project.

● Lakeshore Towers (Also Known As
Gordon Glen Manor)--Gainesville, Florida

page 14

Based on our audit, we found that the subject multifamily Mortgagor used project operating funds of \$116,800 to pay non-project and questionable project operating costs while the mortgage was in default. These costs adversely affected the Mortgagor's ability to meet its mortgage obligations and contributed to the default of the mortgage. Additionally, the Mortgagor leased units to the prior owner but failed to collect \$81,926 in rents. The Mortgagor also deposited \$87,202 in two project savings accounts and did not remit these funds to HUD even though it was contractually required.

● Inadequate Monitoring of Program Participants

page 15

Despite the importance of HUD's monitoring of program participants, we continued to identify instances of inadequate monitoring by HUD during the semiannual reporting period. Several of our audits disclosed instances where important activities could have been carried out more effectively had HUD exercised better monitoring. This problem has been discussed in all of our prior Semiannual Reports.

● Review of the Effectiveness of the Section 223(f)
Existing Multifamily Mortgage Insurance Program

page 17

In our audit report, issued during the prior semiannual reporting period, we stated that the Section 223(f) Program was not effectively meeting the objectives intended by the Congress. However, our recommendations for changes in the Program were not concurred in by the HUD Assistant Secretary for Housing--Federal Housing Commissioner. We believe the legislative history of this Program indicates that it was conceived with the idea that it could enable the preservation and conservation of the housing stock and liquidation of balloon payments without increasing monthly housing costs. HUD's Office of Housing disagrees and believes that increasing monthly housing costs is allowable.

● Section 108 Loan Guarantee Program--City of
Detroit, Michigan

page 18

Our limited review of the Section 108 Loan Guarantee Program, City of Detroit, disclosed the questionable use of Community Development Block Grant Program funds for Loan Guarantee activities. This Program authorizes the Secretary to guarantee and make commitments to guarantee the notes or other obligations issued by units of general local governments for the purpose of financing acquisition or rehabilitation of real property. By using Community Development Block Grant funds, the City has been able to avoid

interest expenses normally associated with notes or other obligations issued to finance the subject activities. By deferring the use of approved loans, net borrowing costs of the Department of the Treasury are increased. We were assured by HUD program officials that similar requests would no longer be approved.

II. UNRESOLVED SIGNIFICANT RECOMMENDATIONS DISCLOSED IN PRIOR SEMIANNUAL REPORTS page 19

Our Semiannual Report describes significant findings and recommendations from 16 audit reports which were described in previous Semiannual Reports and, which were still in the process of being resolved at March 31, 1981. Unresolved and/or unrecovered costs associated with these reports amounted to over \$88 million at March 31, 1981.

III. SUMMARY OF INVESTIGATION CASES AND PROSECUTIVE ACTIONS page 25

During the semiannual reporting period, we opened 1,089 new investigation cases involving HUD personnel and/or persons or firms doing business with HUD. In addition, we referred 277 investigation cases for prosecutive consideration, including five cases relating to HUD employees. Fifty-three percent of these cases concerned false statements. Prosecution was declined in 314 investigation cases during the reporting period (includes cases from prior reporting periods). Investigation cases involving HUD resulted in 88 indictments and 51 convictions of persons/firms having business with the Department.

IV. REVIEW OF LEGISLATION AND REGULATIONS

During the semiannual reporting period, our office reviewed 39 proposed new legislative bills or revisions to existing bills and 64 proposed new regulations or revisions to existing regulations. Noteworthy matters are shown below.

- Possibility of Reducing Cost of Government's Borrowing by Investing Excess Monies in Revolving Funds or Returning Such Funds to the Treasury page 33

In our report on investment authority and practices with respect to HUD's revolving funds, we stated that the Department could have realized interest income of about \$19 million over a one-year period had estimated excess monies in certain revolving funds been temporarily invested. Based on the findings in our report, we are suggesting that legislative authority may be required for Federal agencies' to invest excess monies in revolving funds. An alternative would be to require agencies to return excess revolving funds' monies to the Department of the Treasury. These practices could reduce the government's cost of borrowing. We are pursuing these matters further to determine the feasibility of our proposals.

● Prohibition of Federal Housing Assistance to Certain Aliens page 33

We are suggesting that existing and proposed legislation concerning the prohibition of Federal assistance to aliens be clarified to explain whether the prohibition applies to future applications for assistance or to those who are already receiving assistance. Also, we are recommending the imposition of sanctions on violators such as requiring restitution of any Federal funds received and subjecting those who fail to make restitution to deportation under the Immigration and Nationality Act.

V. UNREASONABLE REFUSAL OR NON-PROVISION OF REQUESTED INFORMATION OR ASSISTANCE page 35

There were no instances reported to the HUD Secretary during the semiannual reporting period wherein information or assistance requested by our office was unreasonably refused or not provided. Our report, however, discusses the status of two instances reported in the prior Semiannual Report which involved the refusal of information to non-Federal auditors engaged in auditing HUD-funded entities.

VI. SUMMARY OF SUBPOENAS ISSUED page 36

During the semiannual reporting period, we found it necessary to exercise our subpoena authority with respect to seven persons or firms. Four of the subpoenas were issued in conjunction with an investigation, while three were issued to require the production of records necessary to perform audits. In six cases, the use of our subpoena authority resulted in obtaining the necessary records or documents, although on two occasions it was necessary to seek enforcement of the subpoenas from the appropriate United States District Court. We are still attempting to serve one of the subpoenas.

VII. IMPLEMENTATION OF OTHER LEGISLATIVE AND CONGRESSIONAL DIRECTIVES

The Supplemental Appropriations and Rescission Act of 1980 and accompanying Senate report, and the Appropriations Act for 1981 relating to HUD and other independent agencies, provide for the reporting of certain information in the Inspector General's Semiannual Report. Highlights of the information reported are shown in the following subsections.

● Resolution of Audit Findings page 37

At the beginning of the semiannual reporting period, there were 2,960 open audit findings in the Department's Audits Management System. During the semiannual reporting period, we issued 4,929 audit findings and closed 4,318 audit findings. In addition, 320 issued audit findings were referred back to our Office of Audit for disposition. At March 31, 1981, the balance of open audit findings was 3,251.

Cash recoveries from resolved audit findings amounted to about \$14.2 million, while audit findings reported to HUD management disclosed about \$363.6 million of costs applicable to such matters as waste, program abuse, program noncompliances, and questionable items. Costs associated with audit findings in the amount of about \$52.5 million were concurred in by HUD management; similar costs amounting to about \$282.5 million were unresolved at March 31, 1981.

- Collection of Delinquent Debts

page 40

HUD's delinquent debt at March 31, 1981, was reported by the Office of the Assistant Secretary for Administration at about \$434 million, exclusive of monies due as a result of sustained audit findings. At the beginning of the semiannual reporting period, HUD's outstanding debt (not delinquent) was estimated at about \$10 billion.

The Secretary recently established a Special Task Force to review HUD loan servicing and debt collection policies and practices. The Task Force has been charged with the responsibility of developing a comprehensive HUD debt collection program to sharply improve the Department's effectiveness in the debt collection area. In addition, our office has scheduled an audit of HUD's claims collection procedures for the second half of fiscal year 1981.

- Procurement Management and Consultant Services Controls

page 45

During the semiannual reporting period, several important efforts were initiated, continued or completed by our office regarding the Department's controls over procurement and consultant services. These included: (1) completion of field work for an audit of HUD's use of consultant services contracts; (2) conduct of a formal evaluation of HUD's procurement management control plan and an assessment of the progress being made in implementing the plan; and (3) strengthening of OIG oversight of consulting services contracts and contract modifications.

- Year-End Spending

page 46

Our office has initiated an audit of HUD's year-end spending practices. The objectives of the audit are to identify indications of fiscal year 1980 year-end spending surges in specific HUD programs; determine the adequacy of HUD's plans to curb current year-end spending; and evaluate the Department's efforts to comply with legislative and OMB requirements relative to year-end spending. The audit is expected to be completed by the close of the next semiannual reporting period.

- Excessive Cash Drawdowns by Program Recipients

page 47

During the semiannual reporting period, non-Federal audit reports continued to disclose adverse conditions involving program recipients' letter-of-credit practices. The conditions primarily related to funds being drawn down, but not disbursed timely, and funds being drawn down and invested, rather than being used for operating purposes.

● Single Audit in Federal Assistance Programs

page 49

Although the single audit approach, as provided for in Attachment P of OMB Circular A-102, was published on October 22, 1979, the Department has not acted to identify the HUD programs affected and has not begun the necessary regulatory revisions to ensure grantees properly implement and adhere to the single audit requirements. We are endeavoring to work closely with the current HUD administration to accelerate Departmental progress in this area and are also working closely with other Offices of Inspector General and OMB in the development of basic instructions for implementing cognizant agency responsibilities under Attachment P.

● Improving Management Concern Over Fraud and Waste

page 49

Several measures were initiated or continued by our office during the semiannual reporting period which were aimed at enhancing employees' awareness and concern in reducing waste and fraud. These included expansion of our fraud training programs to include HUD program personnel, participation in the development of a video tape on HUD's program to combat fraud and program abuse, standards of conduct briefings, and issuance of fraud awareness directives for employees.

VIII. COOPERATIVE EFFORTS WITH FEDERAL AND STATE AGENCIES

page 51

During the semiannual reporting period, we participated in several special cooperative efforts with other Federal and state agencies, covering such matters as improper mortgagee origination practices, Federal assistance to nonimmigrant student aliens, suspension and debarment processes in Federal housing programs, potential housing and food stamp fraud, implementation of the single audit approach, and reporting on agencies' internal controls.

IX. FRAUD CONTROL EFFORTS

page 54

During the semiannual reporting period, the Office of Inspector General carried out several important fraud control activities. These included: (1) the coordination and participation in the activities of HUD's Committee on Fraud, Waste, and Mismanagement, including the initiation and/or completion of four major Committee-sponsored projects; (2) the coordination of activities relating to HUD's new management systems designed to shut off opportunities for fraud and abuse in all new or substantially revised programs (Fraud Vulnerability Assessment System) and to evaluate controls in HUD's existing programs (Management Control Assessment System); (3) the maintenance of systems for receiving and processing HUD employee hotline calls and GAO hotline complaints; and (4) the carrying out of an employee awareness program to alert Office of Inspector General and program personnel to fraud and program vulnerabilities.

X. AUDIT REPORTS ISSUED DURING THE CURRENT REPORTING PERIOD

page 61

During the current reporting period, we issued 63 internal audit and survey reports and 261 external audit and accounting system evaluation reports. We also reviewed and accepted 2,334 audit reports prepared by non-Federal auditors and accepted 14 audit reports prepared by other Federal agencies.

BACKGROUND

ESTABLISHMENT

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

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

ROLE AND AUTHORITY

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

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

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

RELATIONSHIP TO OTHER PRINCIPAL HUD OFFICES

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

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

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

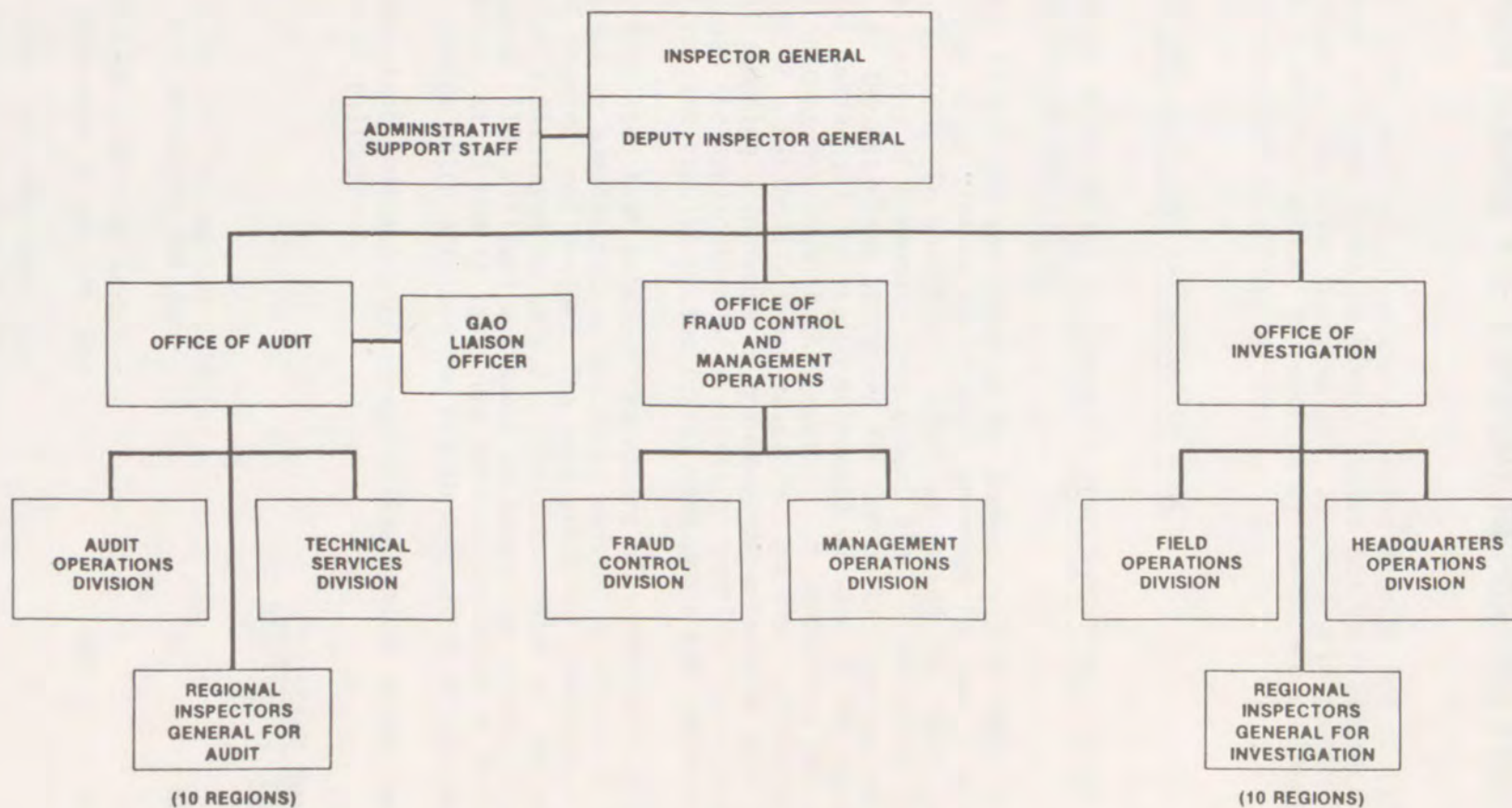
ORGANIZATION AND STAFFING

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

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

As of March 31, 1981, the OIG had an on board strength of 485 permanent full-time employees. This was 35 positions below the authorized ceiling of 52 positions. The OIG has not been able to hire up to its ceiling because of the governmentwide hiring freeze which has been in effect since March 1980. The OIG staff ceiling of 520 permanent full-time employees is distributed as follows.

		<u>On Board</u>		<u>Ceiling</u>
Inspector General		17		17
(Immediate Office)	(6)		(6)	
(Administrative Support)	(11)		(11)	
Office of Audit		344		376
(Headquarters)	(55)		(55)	
(Field)	(289)		(321)	
Office of Investigation		103		104
(Headquarters)	(18)		(20)	
(Field)	(85)		(84)	
Office of Fraud Control and Management Operations		<u>21</u>		<u>23</u>
Totals		<u>485</u>		<u>520</u>



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

Sections 5(a)(1) and 5(a)(2) of the Inspector General Act of 1978 provide for a description of significant problems, abuses and deficiencies relating to the operations of the Department, as well as applicable recommendations made to achieve corrective action, as reported by the Office of Inspector General during the six-month reporting period.

A. SIGNIFICANT AUDIT AND INVESTIGATION WORK

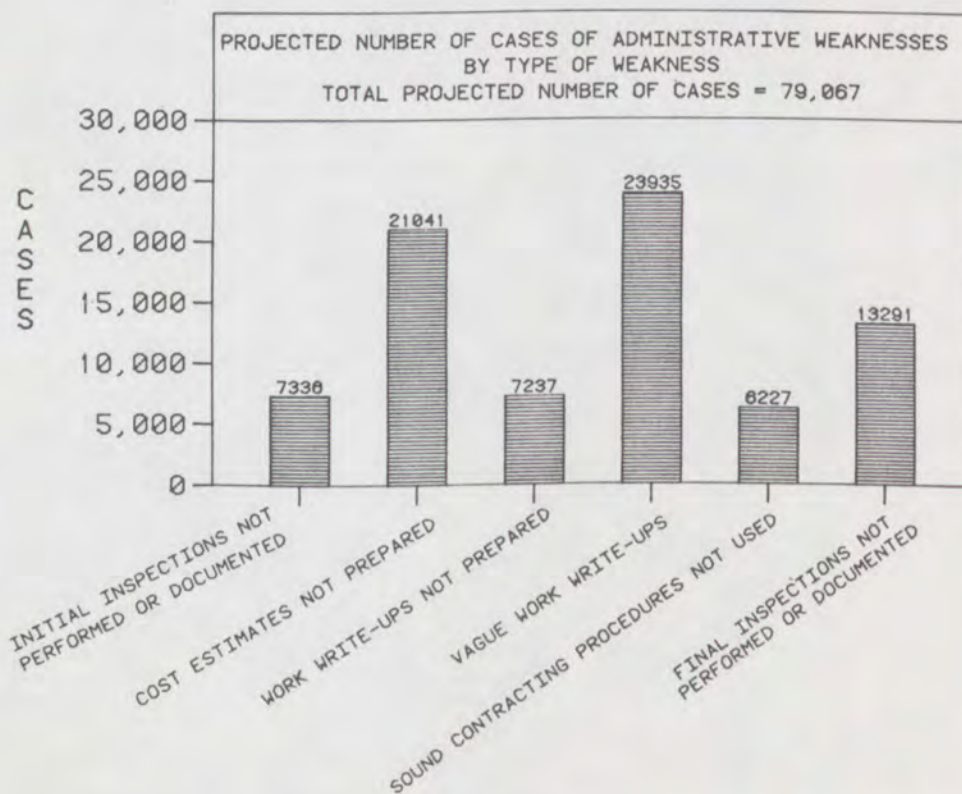
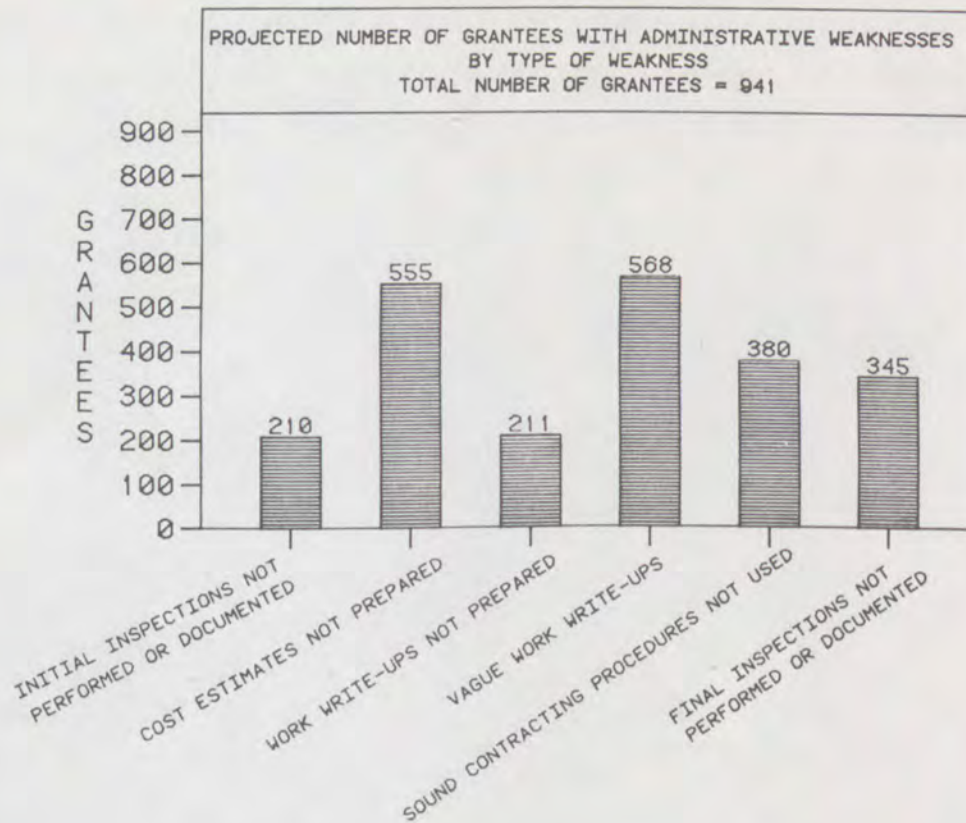
1. WIDESPREAD DEFICIENCIES IN COMMUNITY DEVELOPMENT BLOCK GRANT REHABILITATION ACTIVITIES

An estimated \$1 billion was budgeted for Community Development Block Grant rehabilitation activities by entitlement grantees for the 12 months ending September 30, 1980. On November 7, 1980, we issued the report on our special operational survey of Community Development Block Grant rehabilitation activities to the Assistant Secretary for Community Planning and Development. In our prior Semiannual Report, we commented on some of the results of our field work in conjunction with this survey. In conducting the survey, we used the services of a nationally known research firm with considerable expertise in statistical sampling. Inasmuch as grantees and properties were selected for review through the application of statistical sampling techniques by this research firm, the results of the survey were projected nationwide.

Our survey disclosed that possible indicators of irregularities and/or abuses, and weaknesses in administrative practices existed at 773 or 82 percent of entitlement grantees nationwide. The more prevalent administrative weaknesses are graphically displayed on page 2. Almost one-third of the costs contracted for nationwide (\$106 million) was spent on properties which, after rehabilitation, still had at least one serious violation of HUD's housing quality standards which affected the health and safety of the occupants.

The more prevalent indicators of irregularities and/or abuses noted during the survey were as follows:

	<u>Projected Number</u>	
	<u>Grantees</u>	<u>Cases</u>
• Contractors billed and paid for work which was not done	625	10,203
• Grantees certified work was done when it was not done	595	9,930
• Grantee and contractor may have collaborated to arrive at excessive costs of work	61	1,185



Another projection was that 395 or 42 percent of the grantees included a total of about \$16.8 million of unnecessary rehabilitation work on properties. Forty-two percent of such properties still had at least one violation of HUD's housing quality standards after the rehabilitation work was completed.

We recommended that the Assistant Secretary for Community Planning and Development (CPD) establish minimal administrative requirements to be followed by all grantees to ensure efficient and effective administration of rehabilitation programs. Specifically, we recommended that: (1) all rehabilitated properties be required to meet minimal property standards, with the exception of minimal repair programs, e.g., emergency repairs or winterization; (2) specific administrative requirements be developed, including requirements for initial property inspections, work write-ups, cost estimates, final inspections and sound contracting procedures; and (3) grantees be required to correct all housing quality standards violations before approving general property improvements, and a limit be set for general property improvements.

During the current reporting period, one finding was closed based on the corrective action taken; seven findings were open at March 31, 1981 due to the CPD staff's disagreement with our recommendations.

The CPD staff continues to disagree with our conclusions that administrative procedures and program limitations are needed. They generally propose more monitoring by HUD staff, increased availability of training and technical assistance for grantees, evaluations by outside consultants, and sanctions against those grantees found to be deficient in meeting their program objectives. While the CPD staff's proposed actions should help to improve the administration of the program, such actions would not replace the need for guidance to grantees. Because probably about one-half of the grantees will not be the subject of monitoring visits or outside evaluations, some administrative requirements are necessary.

Because of the disagreement between the Assistant Secretary's office and our office, we referred our report, on March 4, 1981, to the HUD Headquarters Audits Review Group for resolution (see page 37).

2. SERIOUS PROPERTY DISPOSITION CONTRACTING DEFICIENCIES

In our prior Semiannual Report, we indicated that there were serious deficiencies in HUD's property disposition contracting activities and that, as a result, we had commenced a nationwide audit of such activities covering 13 HUD field offices (property disposition contracting activities involve annual expenditures of about \$100 million). Reports were issued for each audit location. We used professional fee inspectors to render opinions on the adequacy of work specifications and to determine whether the contract work was satisfactorily performed. In February 1981, we transmitted the results of our audit to the Assistant Secretary for Housing--Federal Housing Commissioner for comment.

Our audit disclosed that the field offices' property disposition contracting activities were not always conducted in a manner which provided for maximum, open and free competition. We found that 87 of 152 or 57 percent of the repair

specifications reviewed were not prepared in sufficient detail and preciseness for contractors to submit uniform bids. Contract files were not documented when required; cost estimates were not prepared or were missing from contract files; cost estimates were not always supported; and required cost estimates were not prepared for contract modifications exceeding \$10,000. Without clear and concise repair specifications and adequate cost estimates, there was no assurance that costs for repair work were reasonable.

We also found that field offices did not follow prescribed procedures and regulations to assure that adequate competition was achieved. Moreover, contracting officers did not always: (1) make the required written determination when less than three bids were received; (2) advertise in the Commerce Business Daily and public places as required; and (3) allow the required minimum time for submission of bids.

The field offices also deviated from management controls prescribed in HUD handbooks and the Federal procurement regulations in the award of negotiated, noncompetitive contracts. Nonadherence to controls may have reduced the integrity of the contract negotiation process and resulted in higher costs to the government for goods and services. For instance, one contractor made a \$90,000 profit on a noncompetitive negotiated contract awarded by the HUD Boston Area Office even though the contractor had no staff and performed almost no work. Instead, the contractor subcontracted all the work to another contractor and kept \$90,000 as profit.

Additionally, the field offices were approving an excessive number of contract modifications; not assuring that the contractors completed repair work by the contract completion dates; and not thoroughly and timely performing inspections to detect significant work deficiencies by contractors. Consequently, payments may have been made for work which was not performed or was substandard; and excess costs may have been incurred due to contract modifications and delays in completing repair work.

We attributed these adverse conditions to the fact that the property disposition contracting staff lacked sufficient technical knowledge of contracting requirements and field offices' management staffs failed to exercise effective supervisory control over the property disposition procurement function.

We recommended that the Assistant Secretary for Housing--Federal Housing Commissioner provide greater organizational independence for the contracting functions, develop training programs for the property disposition contracting staff, and increase supervisory control over contracting by requiring reports on reviews made, deficiencies found, and corrective actions taken. The Assistant Secretary agreed to our recommendations on March 18, 1981. Corrective action is in process.

3. AUDIT AND INVESTIGATION ACTIVITIES IN PUERTO RICO

GNMA Mortgage-Backed Security Pools--Diversion of Funds

As reported in our previous Semiannual Report, we conducted an intensive audit involving James T. Barnes and Company of Puerto Rico. This audit resulted from a specific request made by the Government National Mortgage Association (GNMA).

In February 1981, we issued our audit report on James T. Barnes and Company of Puerto Rico. The report disclosed actions taken by directors and/or officers of the Company wherein they withheld information concerning the source of over \$3 million in insurance claims paid by the Federal Housing Administration (FHA) and the Veterans Administration (VA) on foreclosed mortgages, and diverted these funds for company use. These payments should have been passed through to the investors of the affected GNMA mortgage-backed securities pools as required by the Guaranty Agreement between the issuer and GNMA. Consequently, GNMA was required to pass through to investors nearly \$1.5 million, which has not been recovered. The \$1.7 million balance of the diverted funds represents amounts which should have been paid to Banco De Ponce for mortgage pools sold by the issuer to Banco De Ponce.

We also found that the issuer of the GNMA mortgage-backed securities was an affiliate of James T. Barnes and Company. This affiliate included companies under common management and/or ownership. In addition, we found that officials of the issuer transferred certain assets belonging to the issuer to another member of the affiliate. As part of the settlement of pending litigation between the affiliates and Banco De Ponce, the latter agreed to deliver to the Midland Mortgage Corporation three mortgages belonging to the issuer which they were holding as collateral.

We recommended that GNMA attempt to recover its loss by: (1) seeking indemnification from the Puerto Rican-American Insurance Company for a \$1 million bond issued in favor of the issuer naming GNMA as loss payee; (2) seeking indemnification from the issuer and/or its officers and directors for the balance of the loss not collected from the Puerto Rican-American Insurance Company; (3) seeking indemnification from the affiliates if recovery from the insurance company and/or the issuer and/or its officers and directors is not feasible; and (4) seeking to recover the transferred assets or their fair market value from Midland Mortgage Corporation.

Based on our audit findings and the refusal of James T. Barnes and Company and the Puerto Rican-American Insurance Company to reimburse GNMA for its losses, HUD's Office of General Counsel notified GNMA in March 1981 that it would recommend to the Department of Justice that it file a law suit on GNMA's behalf as soon as possible.

Questionable Mortgagee Origination Practices

In our previous Semiannual Report, we stated that we had completed 13 special audits of mortgagee origination practices in Puerto Rico as a direct result of our audit of James T. Barnes and Company of Puerto Rico. These special audits, eight of which were coordinated with the Veterans Administration (VA) because of the involvement of VA-guaranteed as well as FHA-insured loans, disclosed questionable loan origination practices.

The above practices included: over 200 individual single family mortgage loans insured by HUD or guaranteed by the VA which were based upon false information; false certifications submitted on mortgage loan applications, employment verifications, sales contracts, and settlement statements; the use of straw or fictitious buyers; questionable payments to third parties; and simulated sales.

Based on our findings, sanctions were taken by HUD's Mortgagee Review Board against ten of the mortgage companies. In addition, as a result of our findings, a 32-count indictment was returned on January 8, 1981, charging three officials of a real estate firm in Puerto Rico with conspiracy and aiding in the submission of false statements to HUD and the VA. Not guilty pleas were entered on January 15, 1981; trial is scheduled for June 15, 1981.

Two other real estate brokers were also charged with submission of false statements to the Federal Government. One broker, charged on two counts on January 28, 1981, was arraigned and pled not guilty, but subsequently changed his plea to guilty. He was sentenced to three years probation. The other broker, charged on February 19, 1981, pled guilty to one count and was also sentenced to three years probation. Additional information will be presented to the Federal Grand Jury in April and May and indictments may be sought against other realtors.

Additional investigations have been initiated by us on matters which the Justice Department and the Assistant United States Attorney determined did not warrant prosecution. These efforts are intended to establish sufficient evidence to support administrative sanctions by the Department.

Audit of Hospital de Nuestra de Guadalupe--Hato Rey, Puerto Rico

On July 9, 1980, we began an in-depth audit of Hospital de Nuestra de Guadalupe, Hato Rey, Puerto Rico. In order to protect HUD's interest, we subpoenaed the records of the Hospital and several other firms that have had business dealings with the Hospital.

Our audit has disclosed that the Mortgagor mismanaged the Hospital and frequently disregarded various regulatory provisions. Also, uneconomic and imprudent management decisions fostered excessive costs, failed to generate income from appropriate sources, and led to the Mortgagor's financial insolvency.

Our audit and investigation efforts have been coordinated with the Department of Justice.

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

An audit of New York City's Community Development Block Grant (CDBG) Program covering the period July 1, 1977 through February 28, 1979 was performed by the City's Office of the Comptroller and monitored by our New York Regional Audit Office. The resulting audit report was brought to the attention of the Assistant Secretary for Community Planning and Development. In our Semiannual Report for the period October 1, 1979 to March 31, 1980, we reported on the results of the initial audit of the City's CDBG Program. That audit resulted in disallowing and/or questioning the eligibility of about \$61 million of program costs incurred by the City (page 20). As in the prior audit report, the current report also disclosed serious fiscal and management problems in New York City's CDBG Program. Many of the adverse conditions disclosed by the prior audit continued during the current audit period.

Appendix 5 provides a summary of the more significant adverse conditions found during the current audit. Some brief highlights of these conditions are as follows:

- Of \$179.3 million of costs charged to the City's CDBG Program during the current audit period, \$116 million or about 65 percent were disallowed or considered questionable since such costs were either unreasonable, improperly charged to the CDBG Program or failed to comply with the intent of the CDBG Program.
- Numerous public service programs which were supposed to benefit the residents of specific targeted geographical areas were being used to a large degree to benefit individuals outside the targeted areas, who otherwise may not have been eligible program participants.
- Poor planning and monitoring resulted in the City's failure to spend nearly \$300 million or over one-half of available program funds despite the need for vital improvements to the City's parks, recreation facilities, streets and sewer projects. In fact, since the start of the City's CDBG program in 1975 through February 28, 1977, no costs had been incurred by 55 of the City's programs for which \$33 million had been allocated.

In a November 1980 letter to the HUD Area Manager concerning the subject audit, we stated that there was a need for immediate corrective action, especially with respect to the programs operated by the City's Department of Housing Preservation and Development or HPD (\$64.6 million of the disallowed or questionable costs were attributed to HPD). Because of HPD's historic failure to expeditiously implement effective corrective action, we questioned whether HPD had the continuing capacity to carry out its programs in compliance with CDBG regulations.

We recommended that, unless necessary corrective actions are expeditiously and effectively implemented, serious consideration should be given to terminating or substantially reducing HPD's programs as well as other programs of the City which are financed with CDBG funds.

Corrective actions on the audit findings had not been completed as of March 31, 1981. Under the Department's Audits Management System (AMS), HUD management has until May 31, 1981, to act on the report.

5. ADMINISTRATION OF SECTION 236 AND SECTION 8 PROGRAMS BY THE MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY--LANSING, MICHIGAN

We completed an audit of the Section 236 Multifamily Housing Program and the Section 8 New and Substantial Rehabilitation Programs, as administered by the Michigan State Housing Development Authority. In our prior Semiannual Report, we reported the results of a similar audit of the New Jersey Housing Finance Agency.

Our report, dated January 2, 1981, disclosed that the Housing Development Authority required, in most cases, that part of each project's mortgage be used to fund a contingency reserve which would be used for project operations and capital improvements. However, inasmuch as this reserve did not represent an actual project cost, we concluded that it should be deleted from the mortgage amount when calculating applicable subsidy or contract rents. Including the reserve as a development cost will result in excess subsidy payments by HUD of about \$43 million over the life of the mortgages. When an annual adjustment factor of five percent is applied to the Section 8 projects, the total excess subsidy over the life of the projects will amount to about \$60 million.

We recommended that HUD revise its regulations and develop written procedures to prohibit state agencies from funding reserve accounts out of mortgage proceeds. The subject findings had not been resolved at March 31, 1981. The resolution of such findings is contingent on the resolution of our findings concerning the New Jersey Housing Finance Agency (see page 19).

6. SECTION 236 TAX AND UTILITY SUBSIDY SETTLEMENT

The Section 236 Tax and Utility Subsidy Program required HUD to pay a subsidy to owners of Section 236 multifamily projects in order to reduce the rising costs of utilities and property taxes. Class action lawsuits against HUD resulted in an out-of-court settlement whereby HUD agreed to provide \$60 million for distribution to tenants residing in Section 236 projects during the period February 1975 through September 1977.

We performed a review of the Section 236 Tax and Utility Subsidy Settlement Distribution. An interim report on our review was issued on August 1, 1980. The results of our audit disclosed that significant overpayments were being made to tenants under the settlement distribution. As of January 30, 1981, approximately 115,000 claims in the amount of \$34 million had been paid to tenants. An estimated 35,000 more claims worth \$11 million were to be paid during April 1981. Of the estimated \$11 million yet to be distributed to claimants, we estimated, on the basis of our sample testing of claims, that approximately \$770,000 in overpayments may result because of tenants' providing incorrect rent subsidy data on their claim forms which will not be detected when reviewing the claim forms.

We recommended that HUD's Office of Housing pursue with the Court and the plaintiffs the collection of information on tenants' receiving other rent subsidies to be used in processing remaining claims. However, in March 1981, the Court ruled against HUD's request to permit the collection of additional information for use in reviewing the remaining unpaid claims.

7. INSPECTION PROCEDURES FOR MULTIFAMILY PROJECTS DURING CONSTRUCTION

HUD inspections of insured multifamily housing projects during construction are made to evaluate the architect's performance, to ensure construction is in accordance with the contract documents, and to report on compliance with prevailing wages and other requirements. In 1978, HUD adopted improved procedures to correct problems which surfaced because of a project which had to be demolished shortly after its construction. This project, known as Rockdale

Apartment, was built in Atlanta between 1968 and 1972 with a HUD-insured mortgage of \$3,899,400. In 1974, the mortgage was declared in default and the project was later demolished. In four years, the value of this project, in which HUD had invested about \$5 million, was reduced to the value of the land on which it was constructed. Rockdale Apartments attracted the interest of the House Committee on Banking, Finance and Urban Affairs, Subcommittee on Housing and Community Development. The Subcommittee held a hearing concerning the Rockdale problems on February 22, 1978.

We undertook an audit in the Atlanta Region as a follow-up to the Rockdale events in order to evaluate whether HUD procedures and practices have become more effective in detecting poor construction work and obtaining correction by contractors. Based on our review, we reported that HUD inspections were not adequate to ensure that the construction of multifamily projects is in accordance with HUD-approved plans and specifications. During our inspections of 16 projects, 608 deficiencies were noted which should have been detected and reported by HUD inspections, but were not detected and reported. Of the deficiencies noted, 103 were considered to be especially significant because they might adversely affect the health and safety of the residents, the structural integrity of the buildings, or result in increased maintenance costs that could adversely impact on project solvency. Examples of these significant construction deficiencies included: (1) broken or missing structural supports; (2) inadequate foundations; (3) failure to use fire-retardant material in critical areas; and (4) improper installation of electrical wiring.

The poor quality of HUD inspections can be attributed to: (1) a lack of adequate supervisory reviews of inspectors' work; (2) the need for more specific guidelines for performing inspections; and (3) the lack of Departmental emphasis on obtaining quality construction. In order to improve the quality of inspections and construction, we are recommending that reviews of inspectors' work be made, instructions be developed to ensure thorough and consistent inspections, and management and operating goals be established to emphasize the need for quality inspections and construction.

The results of our audit of HUD inspections were presented to the Assistant Secretary for Housing--Federal Housing Commissioner in a briefing on March 13, 1981. A draft report on the audit was provided to management for comment in April 1981.

8. DELANO VILLAGE--NEW YORK, NEW YORK

Delano Village consists of seven multifamily projects insured under the National Housing Act, as amended. The original mortgage for the seven projects was approximately \$17 million.

At Senate Hearings held on January 23, 1980, the General Accounting Office reported that their analysis of the financial statements for Delano Village raised a number of questions on the appropriateness of expenditures and accounting for project receipts. A previous limited review of Delano Village operations by our office disclosed similar deficiencies.

Our audit report, issued in June 1980, but delayed for release until November 13, 1980, due to pending litigation, disclosed that the Mortgagors violated their contractual agreement with HUD by not depositing all rents and

other project receipts in the projects' bank accounts. Instead, these funds, in the amount of about \$1.2 million, were retained in the Management Agent's bank accounts in the names of the projects. (The Management Agent is hired by the Mortgagor to operate the projects). In addition, improper advances and distributions amounting to over \$2.1 million were made to the Mortgagors. Consequently, approximately \$3.3 million of diverted project funds were not available for the payment of the mortgage's principal and interest resulting in defaults of five of the seven mortgages and their subsequent assignment to HUD.

We recommended that the HUD Area Office obtain restitution of the amounts due the projects by pursuing appropriate legal actions against the Mortgagors and the Management Agent.

HUD has since sent a demand letter to counsel for the Mortgagors demanding restitution of the unauthorized distributions to the appropriate project accounts. In response, counsel for the Mortgagors and HUD have entered into a lengthy series of negotiations to work out the default on the mortgages and to resolve our audit findings. HUD is in the process of concluding these negotiations.

9. LOW-RENT HOUSING, MUTUAL-HELP AND MUTUAL-HELP HOMEOWNERSHIP
OPPORTUNITY PROGRAMS OF THE OGLALA SIOUX HOUSING AUTHORITY,
OGLALA SIOUX TRIBE--PINE RIDGE, SOUTH DAKOTA

At the request of the Assistant Secretary for Housing--Federal Housing Commissioner, we made a review of the Oglala Sioux Housing Authority. A prior management review by the HUD Denver Office of Indian Programs in November 1979 reported that over \$1 million in project development funds (non-operating funds) had been improperly diverted to pay operating expenses because rents were not collected from tenants.

Our report, dated December 5, 1980, disclosed that the Housing Authority deviated significantly from the terms and conditions of its contracts with HUD with respect to the operation of its Low-Rent, Mutual-Help and Mutual-Help Homeownership Opportunity Programs. Because of this poor performance, we reported that the Housing Authority was in serious financial difficulty and that continuation of its programs was in jeopardy.

Moreover, although development advances provided by HUD are required to be used for financing development and modernization costs of projects, we found that the Housing Authority was using substantial amounts of development funds to finance the operating expenses of projects contrary to the terms and conditions of its contracts with HUD. HUD requires that the operations of such projects be financed through the collection of rentals from the occupants of the projects' units. In this regard, the Housing Authority's balance of amounts due from tenants at the close of our audit period amounted to over \$845,000. This amount did not include about \$202,000 that was written off during the audit period as uncollectible. In addition to the Housing Authority's failure to collect amounts due from tenants, it also did not exercise sufficient control over operating costs. Operations for the two-year audit period resulted in a deficit of about \$245,000 even after HUD awarded the Housing Authority additional operating subsidies during this period of over \$1.6 million.

We also found that the shortage of operating funds caused the Housing Authority to severely curtail its housing maintenance programs, thereby allowing many of the dwellings to fall below the HUD standards for decent, safe and sanitary housing. This in turn impacted on collection efforts because the condition of housing reduced the incentives of housing residents to pay their rents.

Additionally, management information and control systems recommended or required by HUD had, in most cases, either not been established, were improperly maintained, or were not effectively used by the Housing Authority as a basis for administrative decisions. Our audit disclosed numerous deficiencies in the Housing Authority's maintenance of accounting and administrative records, as well as its controls over cash receipts and disbursements.

We recommended that HUD's Office of Indian Programs assist the Housing Authority's board and staff in formulating an improved rent collection program. In addition, we recommended that realistic goals be jointly established by HUD and the Housing Authority for the revision and implementation of the collection program and that these goals be closely monitored and evaluated by HUD.

We also recommended that the Housing Authority be required to submit documentation and explanations for its development budget overruns and take the steps necessary to resolve the incurring of costs above the maximum development cost limitations. Additionally, we recommended that the Housing Authority deposit the excess development advances that were spent on non-development activities into a designated Housing Authority checking account and ensure that development funds are used only for approved development activities.

The Office of Indian Programs is currently providing guidance to the Housing Authority for the purpose of changing various administrative controls and procedures that will improve the financial stability and maintenance program of the Housing Authority. Representatives from the Office of Indian Programs have also made site visits to assist the Housing Authority in improving its collection procedures. Of the 19 audit findings reported, 18 had not been resolved as of March 31, 1981.

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

In our report of February 20, 1981, we disallowed and questioned the eligibility of about \$4.7 million of Community Development Block Grant Program costs of the City of Rochester, New York.

We reported that the Grantee executed a rehabilitation loan to an entity experiencing serious financial problems which resulted in the entity's inability to repay the loan. The Grantee also expended additional program funds to finance other ineligible costs associated with this loan. The loan funds expended, plus the other charges incurred in administering the loan, amounted to about \$1.1 million and were disallowed as program costs.

Moreover, grantees are allowed to reprogram up to ten percent of their grant without HUD approval of a revised application and cannot reduce the amount of funds approved for urban renewal completion. In this regard, we found that the Grantee reprogrammed about \$3.5 million, which exceeded the ten percent

limitation, without obtaining HUD approval of an amendatory application. Also, as part of the reprogramming the Grantee reduced the funds approved for urban renewal completion without HUD's approval.

Other deficiencies reported concerned the Grantee's Section 312 Rehabilitation Loan Program and included a lack of fiscal control and accountability in the Program, failure to prepare compliance inspection reports, and weaknesses in contracting procedures.

We recommended that: (1) all disallowed costs be repaid from non-Federal funds; (2) amended applications be submitted to HUD for a post-review eligibility determination; and (3) accounting procedures and controls over inspections and contracting be improved.

The Area Manager was furnished our report on February 20, 1981, and is currently reviewing our findings and recommendations in order to determine what actions are necessary. All findings remained open as of March 31, 1981.

11. SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM AS ADMINISTERED BY
THE HOUSING AUTHORITY OF NEW ORLEANS--NEW ORLEANS, LOUISIANA

We reviewed the books and records of the Housing Authority of New Orleans pertaining to its Section 8 Housing Assistance Payments Program for existing housing as it related to various transactions with the owner of Delta Towers Apartments.

Our report, dated March 27, 1981, disclosed that the Housing Authority incurred overcharges of about \$173,000 during Delta Towers' first year in the Section 8 Program. We estimated that, during our 42-month audit period, the overcharge will have exceeded \$590,000. The overcharge resulted because the Housing Authority improperly determined that Delta Towers was eligible for the classification of "Recently Completed Housing" which allowed for units to be rented at a higher rate than would have been the case had the proper "Existing Housing" rate been used.

In addition, we noted further overcharges which resulted from an erroneous special adjustment as well as an excessive annual adjustment granted and approved by the Housing Authority. In addition, the Housing Authority allowed Delta Towers to lease 242 more "Recently Completed Housing" efficiency units than were authorized, resulting in an excess payment to Delta Towers of \$133,093.

We recommended that the HUD New Orleans Area Office require the Housing Authority to terminate Housing Assistance Payments to the project at the higher "Recently Completed Housing" rate and begin paying the project at the proper "Existing Housing" rate. We also recommended that the Housing Authority compute and record the amount of excess rents it paid to Delta Towers as ineligible expenditures, and begin deducting that amount in monthly installments from Delta Towers' Housing Assistance Payments.

As a supplement to our report on the Housing Authority of New Orleans, we issued a memorandum to the HUD Area Manager on March 27, 1981, citing various deficiencies in Area Office monitoring of the Housing Authority (see page 16).

Among our recommendations was that some reprimand or similar administrative action be taken against those Area Office employees responsible for monitoring the Housing Authority.

Action on our recommendations is currently under consideration by the HUD Area Office; therefore, all findings remained open at March 31, 1981.

12. COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM--CITY OF PARKIN, ARKANSAS

Our audit report, issued on February 5, 1981, disclosed that the City of Parkin, Arkansas, mismanaged its Community Development Block Grant (CDBG) Program. The findings included in the report questioned and disallowed costs of nearly \$783,000 and disclosed that the Grantee did not substantially meet its program objectives as set forth in the grant application.

The Grantee spent all grant funds (\$1,335,000) without substantially completing a Senior Citizens Center which was estimated to be only 60 percent complete. The Grantee also failed to complete its objectives to: (1) rehabilitate properties to meet applicable building codes; (2) acquire properties for a state park or provide lots for a housing development; and (3) relocate families from the area to be developed as a state park.

The Grantee expended about \$472,000 for rehabilitating private properties. However, the work was generally poor in quality, incomplete, and obtained at excessive costs. Further, the houses that were rehabilitated failed to meet the Grantee's adopted standards.

We also found that real property acquisitions did not conform to approved program objectives. We questioned \$11,650 spent for a house that the Grantee obtained without clear title and disallowed \$137,830 because: (1) the purpose for which CDBG funds was expended was not in the Grantee's approved application; (2) the program did not accomplish the objectives relative to the acquisition project; and (3) the costs greatly exceeded the value of the properties acquired.

In addition, the Grantee's relocation program was not carried out pursuant to the Uniform Relocation Assistance and Real Property Acquisition Act. As a result, over \$149,000 was disbursed for questionable or ineligible activities. The CDBG application indicated that about 22 families would be affected by the relocation project; however, only two families were relocated by having their houses physically moved to new locations. Also, funds that were to be used to strengthen the structures of eight houses before moving them to new locations were actually used to make major repairs to these houses.

Also, because the Grantee did not administer its Section 312 Rehabilitation Loan program in accordance with HUD procedures, the rehabilitation work on two houses was incomplete, and the Grantee used proceeds from one individual's Section 312 loan to pay obligations of the CDBG Program. In addition, we disallowed and questioned nearly \$12,000 in travel, seminar and office machine costs which were not related to the CDBG Program or which were not necessary for effective administration of the program.

We recommended that administrative sanctions be imposed against an individual involved in the program and against those involved in performing the majority of the rehabilitation contracts because of the serious deficiencies found in the property rehabilitation work. We also recommended that the Grantee submit a plan of action to HUD to correct the deficiencies reported and repay all disallowed costs.

The HUD Area Office Manager and program officials have met on several occasions with the Mayor in an effort to resolve the findings. On February 23, 1981, the Area Office concurred with all the disallowed audit findings and requested that the City repay the CDBG Program \$270,617. In addition, a HUD engineer is making a study of the work completed to date on the Senior Citizens Center and will determine what work is needed to complete the Center. As of March 31, 1981, all findings remained open pending adequate corrective action.

13. WOODHAVEN GARDENS--PHILADELPHIA, PENNSYLVANIA

Woodhaven Gardens, Philadelphia, Pennsylvania, consists of 27 apartment buildings with 518 units, and is insured under Section 221(d)(3) of the National Housing Act. Our audit report, issued on February 3, 1981, disclosed about \$1.3 million of costs which were either ineligible or of questionable eligibility. Among these costs were unauthorized disbursements of project funds that were contrary to contractual agreements with HUD and the Management Agent for the project. However, our report did not represent the results of a complete audit of the project's operations as the project owners did not provide us with all required records.

The most significant findings disclosed in our report included: (1) duplicate salary and fringe benefits and the unauthorized payment of management commissions while the project was in serious financial trouble; (2) unauthorized and questionable distribution of funds to the owners; and (3) unnecessary or unsupported costs.

On October 15, 1980, an owner of the project directed our auditors to vacate the premises; therefore, we issued a subpoena to the owner for all documents and accounting records required to complete the audit (see page 36). The subpoena was upheld in the United States District Court on January 30, 1981. Subsequently, the owner submitted some of the documents requested in the subpoena. Based upon our review of the data submitted, additional documents were requested in accordance with the subpoena. HUD's Office of General Counsel is currently reviewing the documents and the owners responses to determine what legal actions can be taken.

We recommended that the agent/owners reimburse the project for all unsupported, unjustified, and unauthorized costs. None of our reported findings were resolved at March 31, 1981.

14. LAKESHORE TOWERS (ALSO KNOWN AS GORDON GLEN MANOR)--GAINESVILLE, FLORIDA

Our audit report, issued on December 29, 1980, disclosed that the subject multifamily Mortgagor used project operating funds of \$116,800 to pay non-project and questionable project operating costs while the mortgage was in

default. These costs adversely affected the Mortgagor's ability to meet mortgage obligations and contributed to the default of the mortgage. We recommended that the Mortgagor be required to reimburse the project operating account for all ineligible costs and any questioned costs that cannot be supported as necessary and reasonable for project operations.

Additionally, the Mortgagor leased five units to the prior owner but did not adequately attempt to collect the rents. As of August 31, 1980, the prior owner owed \$81,926. We recommended that the Mortgagor take appropriate action to collect the amount due. The Mortgagor also deposited \$87,202 in two project savings accounts and did not remit these funds to HUD even though it was contractually required. We recommended that the Mortgagor close the two savings accounts and send HUD the combined balance withdrawn from these accounts for application against the mortgage arrearage. We further recommended that the Mortgagor report total cash on hand and in each bank account on all future monthly reports.

Moreover, the Mortgagor did not limit monthly rent charges and security deposits to HUD-approved amounts and did not actively seek elderly tenants. As a result, 84.5 percent of the resident tenants were nonelderly. We recommended that the Mortgagor justify the rent increases and excessive security deposits to HUD and submit a detailed plan and timetable to be followed in filling the complex with elderly tenants as originally intended.

Finally, we questioned the legality of the transfer of ownership of the project because HUD had not approved the final transfer. This finding was closed based on opinion of the Area Counsel advising that HUD would have a difficult time in attempting to enforce its contractual rights inasmuch as almost eight years have passed since the title was transferred.

On March 2, 1981, HUD requested the United States Attorney to foreclose on the project and take whatever action was necessary to have the receiver proceed to recover the overdue rent. A separate suit is being considered to recover the \$116,800 of unreasonable operating expenses and the \$87,000 in the savings accounts. Four of the five findings included in our report had not been resolved at March 31, 1981.

B. OTHER SIGNIFICANT TRENDS AND CONCERNS

1. INADEQUATE MONITORING OF PROGRAM PARTICIPANTS

Despite the importance of program participant monitoring, we continued to identify instances of inadequate HUD monitoring during the semiannual reporting period. This problem has been discussed in our previous Semiannual Reports and continues to have a significant impact on HUD's ability to effectively administer its programs and activities. Several of our reviews disclosed instances where important activities could have been carried out more effectively had HUD exercised better monitoring. Examples of inadequate monitoring are shown on the next page.

- HUD's Repair Program for Multifamily Acquired Properties. Our nationwide review of HUD's repair program for multifamily acquired properties administered by project managers disclosed that HUD field offices were not adequately monitoring the performance of project managers. This allowed deviations from procurement and contracting procedures as well as inadequate repair inspections to go undetected and uncorrected.
- Turnkey Public Housing Program. In conjunction with our nationwide review of the Turnkey Public Housing Program, we reviewed the HUD field offices in the Philadelphia, New York and Fort Worth Regions and found they were not adequately monitoring the construction activities of Public Housing Authorities. Specifically, we found instances where HUD field offices were not making site inspections as frequently as required to evaluate construction progress, inspections were not documented, and procedures for monitoring compliance with requirements were not being followed. As a result, there was neither assurance of quality construction nor assurance that contractors and subcontractors were complying with required procedures and regulations.
- Housing Counseling Program. As part of our nationwide audit, we reviewed HUD's Housing Counseling Program in two field offices in each of the San Francisco, Philadelphia, Chicago, Atlanta and New York Regions. We found that HUD's field offices were not making required site visits to Housing Counseling Agencies. Consequently, HUD did not have sufficient information upon which to base its decisions to continue approval of the funding of such agencies. Moreover, ineligible and questionable costs continued to be charged to the Program, and noncompliances with HUD requirements were not being detected and corrected.
- HUD Area Office Monitoring of Housing Authority of New Orleans. During the semiannual reporting period, we reviewed the Section 8 Program as administered by the Housing Authority of New Orleans. The audit focused on the Housing Authority's Section 8 Housing Assistance Payments Program for existing housing as it relates to transactions with one owner, namely, Delta Towers Apartments. We found that HUD's New Orleans' Area Office did not provide proper guidance or carry out its monitoring responsibilities with respect to assuring that the Housing Authority was properly administering the Program. This resulted in serious abuses of the Program by the owners of the Delta Towers Apartments (see page 12).
- Property Disposition Contracting Activities. As part of a nationwide review, we performed an audit of property disposition contracting activities related to properties acquired by HUD at the Camden Service Office and New York and Atlanta Area Offices. Our audit disclosed that the Service and Area Offices were not adequately monitoring and administering repair contracts. As a result, excessive time was taken to complete certain contracts and time extensions were allowed without amending the contracts. The failure to properly control repair work of contractors resulted in additional holding costs to HUD for the properties.

A working group of HUD's Committee on Fraud, Waste, and Mismanagement performed a study of HUD's monitoring of program participants (see page 55). The report on this study was released to the HUD Secretary with recommendations on March 31, 1981. The report disclosed the need to: (1) provide guidance in terms of policies, procedures and directives which would underscore support for participants' accountability; (2) target resources to high risk areas; (3) clarify the role of monitors; (4) strengthen management support of monitoring efforts; and (5) provide training to monitors to enable them to perform more comprehensive reviews of program participants.

2. REVIEW OF THE EFFECTIVENESS OF THE SECTION 223(f) EXISTING MULTIFAMILY MORTGAGE INSURANCE PROGRAM

Section 223(f) is the section of the National Housing Act which authorizes insurance for financing existing multifamily projects. This section enables present owners to obtain FHA insurance when refinancing their projects and new owners to obtain insurance when purchasing existing projects.

In our audit report dated September 17, 1980, we stated that the Section 223(f) Program was not effectively meeting the objectives intended by the Congress. Our recommendations for changes in the Program were not concurred in by the HUD Assistant Secretary for Housing--Federal Housing Commissioner. In accordance with the HUD Audits Management System (the Department's system for resolving audit findings and recommendations), the disagreement between our office and the Assistant Secretary was referred to the Headquarters Audits Review Group for resolution on March 9, 1981.

In our opinion, the stated objectives of the Section 223(f) Program have not been consistently met because the Program's requirements are not structured to assure their attainment. The amount of funds spent on repairs and for liquidating balloon payments has been relatively low. Higher monthly debt service is a frequent result of the Section 223(f) Program. This has an inflationary impact on project rents and results in less funds being available to the project for ongoing repairs and maintenance.

Our review of 28 projects in the Section 223(f) Program disclosed that the total cost of project repairs financed by the Program was only 3.3 percent of the total amount of the insured mortgages. Additional funds are generally not available from the Section 223(f) Program for use on a recurring basis for repairs and maintenance. For only 10 of the 28 projects in our sample, were balloon payment obligations liquidated as a result of the Section 223(f) insured mortgages. As a result of Section 223(f) financing, monthly debt service significantly increased in 22 of the 28 projects.

The HUD Office of Housing does not believe any changes are necessary in the Section 223(f) Program since the overall program objective, namely, preservation of the existing housing stock, is being met. To achieve that objective, the Office of Housing believes that, in some cases, it may be necessary to insure mortgages which will require higher monthly debt service payments.

We believe the legislative history of this Program indicates that it was conceived with the idea that it could enable the preservation and conservation of the housing stock and liquidation of balloon payments without increasing monthly housing costs. The Office of Housing disagrees with our interpretation, and believes that increasing monthly housing costs is allowable. An important factor contributing to greatly increased monthly debt service is that, in many cases, Section 223(f) financing permits large mortgages, resulting in considerable net proceeds to the seller or refinancing owner. Accordingly, many of the benefits of the Section 223(f) Program are accruing to the seller or refinancing owner and not to the tenant who is required to pay higher costs for housing.

3. SECTION 108 LOAN GUARANTEE PROGRAM--CITY OF DETROIT, MICHIGAN

Our limited review of the Section 108 Loan Guarantee Program, City of Detroit, disclosed the use of Community Development Block Grant Program funds for activities to be assisted with the Loan Guarantee. Section 108 of the Housing and Community Development Act of 1974, as amended, authorizes the Secretary to guarantee and make commitments to guarantee the notes or other obligations issued by units of the general local governments for the purpose of financing acquisition or rehabilitation of real property.

In October 1980, HUD approved the City's request to temporarily use the City's Community Development Block Grant Program funds for Section 108 activities. Accordingly, the City has been able to avoid interest expenses normally associated with the use of proceeds of HUD guaranteed notes or other obligations issued to finance these activities. We questioned the propriety and/or legality of HUD's approval for the temporary use of the Program's letter of credit. However, the HUD Office of General Counsel indicated that such temporary use of grant funds was not contrary to Department of the Treasury regulations.

The effect of using grant funds, rather than approved loan monies, apparently contravenes the underlying objective of the regulations which is to minimize the impact of payments (grant advances). By deferring the use of approved loans, net borrowing costs of the Department of the Treasury are increased. We were given assurance by HUD program officials that requests having similar results would no longer be approved.

II. UNRESOLVED SIGNIFICANT RECOMMENDATIONS DISCLOSED IN PRIOR SEMIANNUAL REPORTS

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

This section describes significant findings and recommendations from 16 audit reports which were disclosed in our previous Semiannual Reports and which were still in the process of being resolved at the close of the reporting period. Unresolved costs associated with these audits amounted to over \$88 million at March 31, 1981.

HOUSING

A. PHILADELPHIA HOUSING AUTHORITY--CITY OF PHILADELPHIA, PENNSYLVANIA

On December 28, 1979, we reviewed and accepted an Independent Public Accountant's audit report on the Philadelphia Housing Authority. The report disclosed that the Housing Authority incurred costs of over \$25 million which were either disallowed or considered questionable. About \$18.4 million of the \$25 million concerned unresolved audit findings from our office's prior audit. The major findings concerned the Housing Authority's inadequate control over tenants' use of utilities and its incurrence of excessive utility costs which were not collected from tenants. Other findings related to waste and inefficiency and indicated that the Housing Authority did not exercise effective internal and management controls over numerous phases of its operations. In addition to the specific recommendations of the Independent Public Accountant, we recommended that the HUD Area Office assure that the Housing Authority record in its books \$5.2 million disallowed expenditures reported, require the Housing Authority to provide documentation to fully detail its actions in implementing the audit recommendations and perform frequent on-site visits to assure that the reported deficiencies are corrected.

We previously reported that 39 audit findings were unresolved at September 30, 1980. During the semiannual reporting period, the Housing Authority once again refused to record any of the disallowed expenditures in its records. At March 31, 1981, 39 findings, including \$21.7 million in questioned costs, still remained unresolved. In addition, \$5.2 million in disallowed costs had been sustained but no funds had been recovered. The Office of Housing and Regional and Area Office staffs are actively working with the Comptroller of the Housing Authority to achieve satisfactory corrective action on the audit findings and to prevent a recurrence of such conditions in the future.

B. ADMINISTRATION OF SECTION 236 AND SECTION 8 PROGRAMS BY THE NEW JERSEY HOUSING FINANCE AGENCY--TRENTON, NEW JERSEY

On August 29, 1980, we issued our audit report on the Section 236 Multifamily Housing Program and Section 8 New and Substantial Rehabilitation Programs, as administered by the New Jersey Housing Finance Agency. Our audit report

disclosed serious problems pertaining to the computation of Federal subsidies for the Agency's projects under both the Section 8 and Section 236 Programs. We recommended that the Assistant Secretary for Housing--Federal Housing Commissioner require the Agency to take actions to correct the specific problems cited in the report, and provide regulations to prevent similar problems from occurring.

Our findings, including \$1.7 million of questionable costs and \$62,661 of disallowed costs, had not been resolved at March 31, 1981. Because of the complexity of our findings and potential legal considerations, the findings have undergone close scrutiny by HUD's Office of the Assistant Secretary for Housing--Federal Housing Commissioner and the Office of General Counsel. We anticipate that the findings will be resolved shortly. (Also refer to page 7 concerning our similar audit of the Michigan State Housing Development Authority).

C. SINGLE FAMILY ACQUIRED PROPERTY SALES, PRICING AND DELAYS IN CLOSING

On June 24, 1980, we issued our audit report on the policies, procedures, and practices used to make decisions to dispose of single family acquired properties, establish minimum selling prices and process and close sales. Our audit report disclosed that HUD field offices were not: (1) promptly completing sales of acquired properties; (2) complying with policies and procedures regarding the disposition approaches and prices for single family acquired properties; and (3) effectively marketing their single family acquired properties.

The Assistant Secretary for Housing--Federal Housing Commissioner agreed with our recommendations regarding the need to provide instructions to field offices to: (1) obtain information needed to establish disposition approaches and selling prices; (2) analyze the effectiveness of sales programs; and (3) establish standards for processing and closing sales. The Assistant Secretary for Housing--Federal Housing Commissioner is in the process of implementing our recommendations. We anticipate that all findings will be resolved shortly.

COMMUNITY PLANNING AND DEVELOPMENT

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

In our previous Semiannual Report, we indicated that corrective action had not been completed on the findings disclosed by the City Comptroller's initial audit of New York City's Community Development Block Grant Program. That audit covered the period from the Program's inception on June 16, 1975 through June 30, 1977. The Comptroller's report disclosed that much of the available program funds were not being spent to benefit citizens and to meet community needs. The report disclosed that about \$61.4 million of the \$94 million in costs charged to the Program during the audit period were either ineligible or of questionable eligibility.

At March 31, 1981, ineligible costs of about \$29.8 million from the initial audit had not been resolved. In addition, about \$116 million of disallowed and questionable costs from the current audit of New York City's Community Development Block Grant Program had not been resolved at March 31, 1981 (see page 6). This amount includes an undetermined portion of the \$29.8 million.

The HUD New York Area Manager and his staff have been meeting with New York City's Director of Community Development to resolve the outstanding audit findings. While some actions have been agreed upon between the HUD Area Office and the City to improve the operations of the City's Community Development Block Grant Program, progress has been slow in effecting any significant changes. This is evidenced by the latest audit report on the City's Community Development Block Grant Program which indicates that little progress has been made in the City's efforts to improve its financial management systems, targeting of funds, and implementation of planned projects.

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

We reported in our previous Semiannual Report that the City of Los Angeles did not carry out its Community Development Block Grant Program in an economical, efficient and timely manner, and in a way that would assure compliance with the provisions of the Housing and Community Development Act and HUD regulations and procedures. Our report, dated June 30, 1980, disclosed 15 major findings, disallowed costs of \$3.4 million and questioned costs of \$187,500. The findings in the report disclosed that agencies responsible for program-funded activities did not principally serve individuals in areas specified in their contracts, nor did they provide all the services required by the contracts.

During the reporting period, the HUD Los Angeles Area Office placed a condition on the City's fiscal year 1980 grant funds noting that the City should improve its Housing Rehabilitation Program. As such, the City was required to expend 60 percent of the monies budgeted for rehabilitation during the period July 1, 1980 to March 31, 1981.

At March 31, 1981, eleven of the findings were closed; however, the findings involving disallowed costs of \$2.8 million remained open. HUD's Los Angeles Area Manager, Deputy Area Manager, Director, Community Planning and Development Division, and a program representative are continuing to meet with the City's General Manager and Assistant Manager of the Department of Community Development and the Director, Human Services, to achieve a satisfactory resolution of these findings.

C. COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM--CITY OF PHILADELPHIA, PENNSYLVANIA

The Office of the City Controller, City of Philadelphia, audited the City's Community Development Block Grant Program through the 1978 program year. We accepted the report on April 18, 1980. The audit report contained 49 findings

and disclosed \$28.2 million of questionable costs. Over one half of the \$28.2 million was considered of questionable eligibility because the Controller was denied access to an Independent Public Accountant's workpapers in support of an audit of the City's Redevelopment Authority Working Capital Fund. Findings involving \$7.4 million have since been resolved, leaving \$20.8 million of costs unresolved at March 31, 1981.

HUD's Community Planning and Development representative for Philadelphia is continuing to meet with the City's Director, Finance and Administration, Office of Housing and Community Development, to resolve all audit findings. The resolution of these findings has been delayed due to the volume and magnitude of findings, as well as to changes in the City's administration. City officials have established July 1981 as the target date for resolving the findings.

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

In our previous Semiannual Report, we reported that about \$4.9 million of ineligible costs were outstanding as a result of over 300 Office of Inspector General and non-Federal audit findings on New Orleans' Model Cities and Community Development Block Grant Programs dating back to March 1978. Of this amount, \$1.6 million pertained to the Model Cities Program and \$3.3 million to the Community Development Block Grant Program. The audit findings relating to the City's Model Cities Program disclosed inadequate fiscal monitoring and auditing of subgrantees by the City, as well as serious deficient accounting systems. The findings dealing with the City's Community Development Block Grant Program concerned the City's lack of substantive progress in meeting the objectives of the Community Development Block Grant Program and extremely poor financial management.

At the end of the reporting period, 22 findings remained outstanding. Findings relating to the Community Development Block Grant Program in the amount of \$700,000 concerning other Federal agency funds and \$2.6 million of HUD funds remained unresolved. HUD's Area Manager established June 30, 1981, as the date by which the remaining findings must be resolved.

The disallowed costs (\$1.6 million) pertaining to New Orleans' Model Cities Program continued to remain outstanding at March 31, 1981. Our prior Semiannual Report stated that the New Orleans Press reported on April 1, 1980, that City officials were planning to ask Congress to forgive the \$1.6 million of Model Cities debt. In December 1980, the HUD Regional Office advised the City that HUD could not grant additional time for the City to pursue Congressional action to have the debt forgiven. On March 5, 1981, HUD's Regional Claims Collection Officer demanded payment of the debt within 30 days and warned that the City's failure to pay might result in collection of prejudgment interest. At the close of the reporting period, the City had not responded to HUD's demands.

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

In our last Semiannual Report, we reported the results of our audit of the City of Yonkers' Community Development Block Grant Program which is administered by the City's Community Development Agency. Our report, dated June 9, 1980,

disclosed disallowed costs totaling \$1.02 million and questioned costs amounting to \$4.08 million. Our overall conclusion was that serious problems existed in the City's administration of its Community Development Block Grant Program. The problems included: (1) a diversion of \$1.9 million in Urban Development Action Grant Program funds; (2) fiscal irresponsibility and mismanagement related to program administration; (3) a disregard for HUD instructions, guidelines, regulations and procedures; (4) nonexistent or inadequate controls; and (5) the failure to ensure that costs were eligible prior to incurrence. In our last Semiannual Report, we reported that HUD management had placed several conditions on Yonkers' 1980 program year funds, including repayment of the \$1.9 million of Urban Development Action Grant funds used to finance expenditures of the Community Development Block Grant Program.

As of March 31, 1981, the City had repaid from non-Federal funds, the \$1.9 million of Urban Development Action Grant funds the Community Development Agency diverted to finance Community Development Block Grant Program costs. The City also refunded disallowed costs amounting to over \$308,000 in salaries and fringe benefits which were previously charged to the Community Development Block Grant Program. The City subsequently provided adequate supporting documentation for \$71,000 of costs considered to be of questionable eligibility. At the end of the reporting period, \$4.4 million in disallowed and questioned costs, which were originally sustained by the HUD Area Office, required final resolution. HUD personnel are currently pursuing settlement or refunding of these costs with the Grantee.

F. COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM--CITY OF SCRANTON, PENNSYLVANIA

In our previous Semiannual Report, we disclosed the results of the third phase of our audit of the Community Development Block Grant Program, Scranton, Pennsylvania. Our overall conclusion was that the Grantee did not administer its program in an economical and efficient manner.

The report on the third phase of our audit of Scranton's Community Development Block Grant Program contained 19 findings which included disallowed costs of about \$1.7 million and questioned costs of about \$1.6 million. The three phases of our audit have resulted in 41 findings, including \$2.3 million of disallowed costs and \$1.95 million of costs whose eligibility was questionable.

On March 26, 1981, a contractor involved in Scranton's Community Development Block Grant Program was indicted by a Grand Jury for submission of a false statement. As we reported in our last Semiannual Report, two home repair contractors previously pled guilty to making false, fictitious and fraudulent statements in connection with home repair work in Scranton's Community Development Block Grant Program. The government's probe into alleged fraud in Scranton's Downtown Revitalization Program is continuing.

As of March 31, 1981, \$566,533 of disallowed costs had been sustained, but no funds had been recovered. In addition, \$3.7 million in disallowed and questioned costs pertaining to the three-phase audit had not been resolved.

ADMINISTRATION

A. EXAMINATION OF SELECTED FHA INSURING FUND ACCOUNTS

In our previous Semiannual Report, we reported on an audit of selected Federal Housing Administration (FHA) insuring fund accounts. This audit disclosed serious deficiencies in several aspects of accounting for transactions and reconciling accounts and records. We concluded that HUD was not maintaining adequate accounting systems, procedures and staffing for FHA's \$4.7 billion of net assets. We further concluded that it was questionable whether HUD was in full compliance with the requirements of the General Accounting Office and the Accounting and Auditing Act of 1950.

During the reporting period, the Assistant Secretary for Administration responded to our recommendations by recognizing and supporting the necessity and urgency for strengthening current internal operating procedures and reconciling efforts, and for progressing toward a future automated Mortgage Insurance Accounting System. The Assistant Secretary's comments discussed the corrective actions that have been taken and those that will be implemented when the new accounting system is operational.

We intend to perform a direct follow-up review to evaluate the effectiveness and appropriateness of corrective actions taken and planned in our upcoming program audit of the HUD Office of Finance and Accounting (OFA). Because the automated Mortgage Insurance Accounting System plays a crucial role in the effectiveness of OFA's accounting procedures and operations, an evaluation of its current status and activities will be included in our program audit. Our report findings have been closed on the basis on the actions agreed to or already taken.

B. REVIEW OF ANNUAL CONTRIBUTION FOR ASSISTED HOUSING

In our previous Semiannual Report, we disclosed the results of our Review of the Annual Contribution for Assisted Housing Fund. We found that: (1) the statement obligation balance was not periodically reconciled to related accounting records; (2) adequate supporting documents for year-end accounting adjusting entries were lacking; and (3) the point at which a valid obligation existed was in dispute. The opinion of HUD's Office of General Counsel was that obligated funds at the point of reservation met the requirements for a legal obligation; however, a May 1980 General Accounting Office report stated that the reservation stage did not constitute a legal obligation under the requirements of the Second Supplemental Appropriation Act of 1955.

During the previous reporting period, the dispute was sent to the General Accounting Office's General Counsel for resolution. We reported that final resolution of all report matters was contingent on this decision. At March 31, 1981, the close of the semiannual reporting period, a decision had not been issued by the General Accounting Office.

III. SUMMARY OF INVESTIGATION CASES AND PROSECUTIVE ACTIONS DURING THE SEMIANNUAL REPORTING PERIOD

In response to Section 5(a)(4) of the Inspector General Act, the following is a summary of matters referred to prosecutive authorities and resulting prosecutions and convictions during the period October 1, 1980 to March 31, 1981. We have also included additional information relating to our opening of investigation cases and investigation cases pending.

A. INVESTIGATION CASES OPENED

During the period October 1, 1980 to March 31, 1981, we opened 1,089 new investigation cases involving HUD personnel and/or persons or firms doing business with HUD (65 investigations involved alleged misconduct on the part of HUD personnel). Table 1 provides a breakdown of these cases by category of investigation.

<u>Category</u>	<u>Number of Cases</u>
False Statements	638
FHA Title I Loans	101
Employee Misconduct	65
Administrative Matters	48
Embezzlement	33
Kickbacks	29
Wage Violations	21
Theft	15
Other (bribery, conflicts of interest, false impersonation, etc.)	<u>49</u>
Subtotal	999
Preemployment Checks (OIG Employees)	<u>90</u>
Grand Total	<u><u>1,089</u></u>

Table 1. New Investigation Cases Opened by Category of Investigation - October 1, 1980 to March 31, 1981

As shown in Table 1, 999 of the investigation cases concerned alleged wrongdoing, while 90 were related to preemployment checks of applicants for employment with the Office of Inspector General. Of the investigation cases concerning alleged wrongdoing, 638 or about 64 percent involved some type of false statement (e.g., false statement to obtain a rent subsidy or to obtain a HUD-owned property).

B. PENDING CASES

A pending case refers to the status of an investigation during that period between opening of the case and dissemination of the report(s) to a HUD official for action. Investigations in this category would include those wherein the investigation has not been completed by the OIG, the FBI or another agency. At March 31, 1981, we had 2,166 investigation cases either in process or awaiting investigation. Of these cases, 1,210 were FBI/other cases and 956 were cases of the Office of Inspector General.

C. CASES REFERRED FOR PROSECUTION

During the period October 1, 1980 to March 31, 1981, we referred 277 investigation cases for prosecutive consideration including five cases relating to HUD employees (Table 2.).

<u>Referred by OIG to:</u>	<u>No. of Cases</u>
FBI (No Investigation by OIG)	168
FBI (Prima Facie Investigation by OIG)	47
Department of Justice	<u>62</u>
Total	<u><u>277</u></u>

Table 2. Investigation Cases Referred for Prosecutive Consideration-October 1, 1980 to March 31, 1981

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

Table 3 provides a breakdown of the 277 investigation cases by major HUD organizational component. As shown, 224 or 81 percent of the referred cases are in the Housing area.

<u>Organization</u>	<u>No. of Cases</u>	<u>Percent</u>
Housing	224	81%
Community Planning & Development	23	8
Miscellaneous	<u>30</u>	<u>11</u>
Total	<u><u>277</u></u>	<u><u>100%</u></u>

Table 3. Investigation Cases Referred for Prosecution by Organization - October 1, 1980 to March 31, 1981

Table 4 provides a breakdown of the 277 investigation cases by category of investigation. As shown, 146 or 53 percent of the referred cases relate to fraud and involve some type of false statement (e.g., false certification of income and/or misstating family composition on various rental assistance applications).

<u>Category of Investigation</u>	<u>No. of Cases</u>	<u>Percent</u>
False Statements	146	53%
FHA Title I Loans	73	26
Other	<u>58</u>	<u>21</u>
Total	<u>277</u>	<u>100%</u>

Table 4. Investigation Cases Referred for Prosecution by Category of Investigation - October 1, 1980 to March 31, 1981

The "Other" category shown in Table 4 consists of embezzlement (17 cases), kickbacks (10 cases), theft of government property (8 cases), wage violation (8 cases), and miscellaneous subjects (bribery, administration, etc.).

D. PROSECUTIONS AND CONVICTIONS

During the period October 1, 1980 to March 31, 1981, investigation cases involving HUD resulted in 88 indictments, including 3 HUD employees, and 51 convictions of persons/firms, including 1 HUD employee, having business with the Department (Table 5). Of the 88 persons/firms, 66 were the result of referrals to prosecutive authorities by our office; whereas, of the 51 persons/firms convicted, 37 were the result of referrals by our office. Some of the indictments and convictions were on cases referred to prosecutive authorities during the prior semiannual reporting period.

	<u>Referred by OIG Persons/Firms</u>	<u>Initiated By FBI Persons/Firms</u>	<u>Total</u>
Indictments:			
Disposition	22	11	33
No Disposition	<u>44</u>	<u>11</u>	<u>55</u>
Totals	<u>66</u>	<u>22</u>	<u>88</u>
Convictions	<u>37</u>	<u>14</u>	<u>51</u>

Table 5. Indictments and Convictions
October 1, 1980 to March 31, 1981

The 51 persons/firms convicted during the reporting period received a total of 29 1/2 years imprisonment, 117 years probation, suspended sentences of 33 years, fines amounting to \$77,800 and were required to make restitution amounting to \$62,335.

Prosecution was declined on 314 investigation cases during the semiannual reporting period. Many of the cases on which prosecution was declined were cases which were referred to prosecutive authorities in prior reporting periods.

E. DESCRIPTION OF SELECTED PROSECUTIVE ACTIONS DURING REPORTING PERIOD

Below is a brief description of the more important indictments and/or convictions which occurred during the reporting period. Some of these indictments and/or convictions resulted from investigation cases referred to prosecutive authorities prior to October 1, 1980. The cases described are based on the latest available information.

HOUSING

Construction Contractor Sentenced for Mail Fraud, Submission of False Statements, and Obstruction of Justice

On January 30, 1981, a construction contractor in Illinois pled guilty to one count of mail fraud, one count of submission of false statements, and one count of obstruction of justice. The contractor paid numerous persons to use their names as strawbuyers to bid on HUD-owned properties as owner-occupants. He then caused the strawbuyers to place the properties into trusts, naming him as trustee, and to provide him with letters authorizing the trustee to convey the trust to a third party; he then sold the properties to third parties. The contractor was able to obtain approximately \$210,000 by having the strawbuyers endorse their checks from the third parties to him.

The contractor was sentenced on January 31, 1981, to a total of nine and one-half years imprisonment and was fined a total of \$11,000 on all three counts. The sentence was suspended and the contractor was placed on five years probation, fined \$5,000, and placed on six months work release. (United States v. Joseph P. Swick, Northern District of Illinois.)

Contractors and Savings and Loan Officer Charged in Bribery Scheme Involving Title I Loans

On December 17, 1980, two New Jersey builders were indicted on nine counts of misapplication of funds and one count of conspiracy. The contractors allegedly arranged for Title I Property Improvement loan applicants with poor credit records to be approved by a local savings and loan association. A loan officer at the institution was charged with conspiracy involving the approvals of these applicants in a subsequent one-count information. The loan officer has entered a guilty plea and will be sentenced at a later date. (United States v. Howard Christine and Perry Grabosky, District of New Jersey.)

Former Housing Authority Executive Director
Indicted for Theft of Government Property
and Submission of False Statements

A former executive director of a California Housing Authority was indicted by a Federal Grand Jury on February 19, 1981, on ten counts of theft of government property and two counts of submission of false statements. The former executive director falsely claimed per diem and travel expenses for himself and his administrative assistant; used Housing Authority labor and materials to have work completed on his home; and used Housing Authority credit cards to purchase gasoline, airline tickets for himself and relatives, and other personal amenities. These false claims amounted to over \$12,000. (United States v. Michael C. Scott, Eastern District of California.)

Mortgagor Pleads Guilty to
Submission of False Statements

On February 23, 1981, a California mortgagor pled guilty to one count of making false statements on loan applications. He used a strawbuyer as an owner-occupant to obtain a \$56,850 FHA loan for a residence in Colorado. The mortgagor received a suspended sentence, was placed on probation for four years, and was fined \$5,000. (United States v. Lee Lenhart, District of Colorado.)

Rental Assistance Tenant Sentenced
for Submitting False Information

A Section 8 tenant in Tennessee was found guilty on October 23, 1980, of falsely certifying her family income and composition to HUD. She was sentenced to six months in prison, which was suspended with the exception of one day, and was placed on probation for two years provided that she perform some type of public service for one year. She was ordered to make full restitution in the amount of \$1,148.

The above tenant was the eleventh person in the same housing project to be sentenced for submitting false information to HUD. Tenants from this project have been ordered to make restitution of over \$10,000 to the government. (United States v. Denise R. Dowell, Middle District of Tennessee.)

Management Agent Pleads Guilty
to Submitting False Information

On November 18, 1980, the management agent for two HUD-owned projects in Colorado pled guilty to submitting false reports to HUD which stated that certain employees earned wages at the project, even though they were employed elsewhere. The management company was fined \$1,000 and further agreed not to participate in HUD programs for ten years. HUD also debarred the realtor from participating in Departmental programs for five years. (United States v. Trigg Realty, Inc., District of Colorado.)

Real Estate Agent Pleads Guilty
to Submitting False Statements

On September 22, 1980, an Idaho realtor pled guilty to submitting false information to HUD in his application for mortgage insurance. He falsely indicated in his application that the property was to be used for his residence and falsely concealed the extent of his debts. The realtor was fined \$500, received a six-month suspended prison term and was placed on one year probation. The realtor was debarred from participating in HUD programs for one year. (United States v. Dennis E. Labrum, District of Idaho.)

Former Mortgagee Employee Pleads
Guilty to Submitting False Statements

A former mortgagee employee in Georgia pled guilty on September 16, 1980, to falsifying documents related to a HUD-insured mortgage loan which he received from his former employer. He falsely reported his employment for a two and one-half year period, misrepresented his age, assets, and liabilities and concealed his ownership of another HUD-insured property and a previous foreclosure. He was placed on probation for three years and fined \$500. (United States v. James Aaron Rowe, Northern District of Georgia.)

Real Estate Salesman Indicted for
Submission of False Statements

A Michigan real estate salesman was indicted by a Federal Grand Jury on February 17, 1981, on two counts of submission of false information and aiding and abetting in the submission of false statements to HUD. He allegedly caused two mortgagors to obtain FHA-insured mortgages by submitting false employment verifications. The properties were purchased for one dollar from the City of Detroit under the HUD Property Release Option Program and subsequently sold through the salesman's realty corporation. (United States v. Anthony H. Nash, Eastern District of Michigan.)

Real Estate Broker Indicted for
Submission of False Statements

On October 2, 1980, a real estate broker in Ohio was indicted by a Federal Grand Jury on four counts of submitting false statements to HUD. The broker allegedly arranged for prospective buyers (strawbuyers) to falsely state that they intended to occupy the properties, when in fact the properties were being purchased for investment purposes. (United States v. George Francisco, Southern District of Ohio.)

COMMUNITY PLANNING AND DEVELOPMENT

Bookkeeper Indicted and Pleads Guilty to Embez-
zling Community Development Block Grant Funds

A bookkeeper for a South Dakota Indian Reservation pled guilty on March 13, 1981, to one count of a 15-count indictment for embezzlement of over \$19,000 in Community Development Block Grant funds. The bookkeeper has agreed to

repay the diverted funds. Sentencing in this case is pending. HUD has issued this person a temporary denial of participation in Departmental programs. (United States v. Lillian L. Coleman, District of South Dakota.)

Twelve Individuals Indicted for Unlawful
Interest in a Public Contract and Theft
of Community Development Block Grant Funds

On October 2, 1980, twelve individuals involved in a Community Development Block Grant Program in Ohio were indicted by a local Grand Jury. The twenty-nine count indictment charged that the individuals participated in: (1) unlawful interest in a public contract; (2) theft in office; (3) grand theft; and (4) an attempt to commit grand theft. Two of the subjects indicted were former Community Development Department officials who held the positions of director and rehabilitation administrator. (Lorain County, State of Ohio, v. Koury, Koury, Jacobozzi, Prudoff, Ivancic, Rodgers, Mihalsky, Sidler, Gold, Svete, Patouhas and Ristas.)

Former Redevelopment Official, Police Chief
and Contractor Indicted for Misappropriation of Funds

An eleven-count indictment was issued by a Federal Grand Jury in Michigan on November 13, 1980, charging a former director of redevelopment, the police chief and a contractor with submission of false statements, conspiracy and aiding and abetting an offense against the government. Information developed during the course of the investigation alleges that: (1) the subjects misappropriated funds from a \$300,000 discretionary Community Development Block Grant; (2) rehabilitation costs were inflated; (3) new homes were built in three rehabilitation cases; and (4) collusive bidding practices were used. (United States v. Thomas Parker Gipson, William R. Shipperley, and John Robert Stockwell, Western District of Michigan.)

Former Community Development Block Grant
Administrator Enters Guilty Plea to Embezzlement

On September 29, 1980, a former grant administrator in South Dakota pled guilty to a one-count information charging embezzlement of approximately \$11,400 in Community Development Block Grant funds. He received a probated sentence and was ordered to make full restitution. HUD has notified the grant administrator of its proposed intent to debar him from participation in Departmental programs. (United States v. Robert Gary Voyles, District of South Dakota.)

Former Community Development Administrator
Indicted for Mail Fraud and Interstate
Transportation of Stolen Property

A former Community Development Administrator in Maryland was indicted on January 29, 1981, on 14 counts of mail fraud and one count of interstate transportation of stolen property. The former administrator allegedly diverted, under the Urban Renewal and Community Development Block Grant Programs, over \$11,000 in checks from city tenants to a personal bank account while sending the tenants official receipts acknowledging payment. He also

allegedly caused a fraudulently obtained check in the amount of \$5,000 to be transported in interstate commerce. (United States v. George D. Beauchamp, Jr., District of Maryland.)

HUD EMPLOYEES

Former HUD Employee Indicted for Forgery and False Claims

On February 4, 1981, a former HUD employee was indicted by a Federal Grand Jury for submitting false claims to HUD. He allegedly forged a Government Bill of Lading which allowed him to illegally ship household goods to a new residence after he had resigned his HUD employment. The shipping claim amounted to over \$5,200. (United States v. James T. Odum, Jr., Northern District of California.)

HUD Employee Pleads Guilty to Accepting a Bribe

On March 6, 1981, a HUD employee in Boston, Massachusetts, was convicted of accepting a bribe consisting of 5,500 bricks for favorably reviewing, approving and reporting on the performance of a contract in his official capacity at HUD. The employee received a one-year suspended sentence, was placed on two years probation and fined \$1,000. The employee left HUD employment on March 4, 1981. (United States v. Gregory V. Kleffis, District of Massachusetts.)

IV. REVIEW OF LEGISLATION AND REGULATIONS

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

During the reporting period October 1, 1980 to March 31, 1981, we reviewed 64 proposed new regulations or revisions to existing regulations, an undetermined number of existing regulations and statutes in conjunction with audits, and 39 proposed new legislative bills or revisions to existing bills. Our reviews resulted in many recommendations, the most noteworthy of which are described below.

A. POSSIBILITY OF REDUCING COST OF GOVERNMENT'S BORROWING BY INVESTING EXCESS MONIES IN REVOLVING FUNDS OR RETURNING SUCH FUNDS TO THE TREASURY

Based on our report of March 4, 1981, concerning a review of investment authority and practices with respect to HUD's revolving funds, we stated that the Department could have realized interest income of about \$19 million over a one-year period had the estimated excess monies in six of its 18 revolving funds been temporarily invested. Estimated excess monies were determined to be accumulated receipts in revolving funds which averaged more than 60 percent of expected maximum outlays over the succeeding 12 months.

Legislative authorization may be required to invest monies in Federal agencies' revolving funds. An alternative would be to require agencies to return excess revolving funds' monies to the Department of the Treasury. This procedure may need to be addressed in applicable executive agency policies or regulations. Such excess monies are not currently available to the Department of the Treasury in its cash or financing operations where the agency has been authorized to deposit monies in commercial banks. A reduction in the government's cost of borrowing can be realized through investment of such excess monies or by making such monies available to the Treasury.

We are pursuing these matters further to determine the feasibility of our proposals.

B. LEGISLATION PROHIBITING FEDERAL HOUSING ASSISTANCE FOR CERTAIN CLASSES OF ALIENS

Section 214 of the Housing and Community Development Act of 1980 prohibits assistance to certain nonimmigrant student aliens. HUD's regulations to implement the provisions of this section are in Departmental clearance at this time. The proposed (H.R. 1643 and S. 780) legislation expands and strengthens the prohibition on Federal assistance to any alien except for certain described categories such as persons: (1) lawfully admitted for permanent residence;

(2) lawfully present pursuant to granting of asylum; (3) lawfully present at the discretion of the Attorney General to be deemed strictly in the public interest; or (4) lawfully present as a result of the Attorney General's withholding deportation.

While the proposed bills should greatly enhance enforcement of the prohibition of Federal housing assistance to aliens, consideration should be given to clarifying whether the prohibition applies only to future applications for assistance or to those who are already receiving assistance. In addition, either the present or proposed Section 214 requires a subsection that imposes sanctions on violators such as requiring restitution of any Federal funds received. Failure to make restitution should subject the violators to deportation under the appropriate provisions of the Immigration and Nationality Act.

We are continuing to coordinate our enforcement efforts with the Immigration and Naturalization Service who are fully cooperating with us to prevent any fraud or abuse in Federal housing assistance. We are also advising HUD's Office of Housing on the proposed regulations and their preparation of a fraud vulnerability assessment on the student eligibility requirement.

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

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

There were no instances reported to the HUD Secretary during the current semiannual reporting period wherein information or assistance requested by the Inspector General was unreasonably refused or not provided. In our prior Semiannual Report, however, we reported two instances which involved the refusal of information to non-Federal auditors engaged in auditing HUD-funded entities.

In the first instance, the Philadelphia City Controller was denied access to an Independent Public Accountant's workpapers for the Philadelphia Redevelopment Authority's Working Capital Fund. Since then, the City Controller has gained access to the working capital fund records and to the Independent Public Accountant's workpapers.

In the second instance, a Washington State Auditor, while performing an audit of Snohomish County (a Community Development Block Grant recipient), was denied access to the client/attorney records of one of the grant recipient's subgrantees who was engaged in providing legal services to individuals. Such legal services were being funded under the Community Development Block Grant Program. Accordingly, the State Auditor questioned the eligibility of all costs for such legal services. The legal services firm was of the opinion that the release of the records in question would be a violation of the attorney's professional standards concerning the confidentiality of an attorney/client relationship. A subpoena was then issued to obtain the records. Enforcement of the subpoena was granted on March 13, 1981.

VI. SUMMARY OF SUBPOENAS ISSUED

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

During the semiannual reporting period October 1, 1980 through March 31, 1981, we found it necessary to exercise our subpoena authority with respect to seven persons or firms. Four of the subpoenas were issued in conjunction with an investigation, while three were issued to require the production of records necessary to perform audits. In six cases, the use of our subpoena authority resulted in obtaining the necessary records or documents, although on two occasions it was necessary to seek enforcement of the subpoenas from the appropriate United States District Court. We are still attempting to serve one of the subpoenas. Details are as follows:

- In February 1981 four subpoenas were issued to obtain documents required for an investigation of a possible violation of the Davis-Bacon Act in Sacramento, California. The subpoenas were issued to four subcontractors who performed work on a HUD-insured multifamily project.
- A subpoena was issued on December 5, 1980 to a legal services organization, a subgrantee for Community Development Block Grant Program funds, to obtain records necessary to verify the eligibility of costs charged to this program. It was necessary to go to the United States District Court where the judge ruled in favor of enforcement of the subpoena on March 13, 1981.
- In conjunction with an audit of a multifamily project in Philadelphia, Pennsylvania, a subpoena was issued on October 28, 1980 to obtain documents which were required to complete the audit. Because the auditee failed to honor the subpoena, it was necessary to seek the assistance of the United States District Court which subsequently ruled in favor of enforcing the subpoena on January 30, 1981. On February 17, 1981, the auditee provided some but not all of the documents and records relating to the operation of the project. The OIG is presently reviewing this matter to determine if further action is warranted.
- In conjunction with an audit of a HUD-insured multifamily project located in Jackson, Mississippi, subpoenas were issued on February 18, 1981, and March 24, 1981, to obtain the project's financial books and records. Neither of these subpoenas had been served successfully as of March 31, 1981, because the project owner has continually evaded attempts to serve the subpoena.

VII. IMPLEMENTATION OF OTHER LEGISLATIVE AND CONGRESSIONAL DIRECTIVES

A. RESOLUTION OF AUDIT FINDINGS

The Supplemental Appropriations and Rescission Act of 1980 and Appropriations Act for 1981 relating to HUD and other independent agencies provide that all unresolved audits at the dates of enactment of the acts be resolved not later than September 30, 1981, and that any new audits involving questioned costs, arising after enactment of the acts, be resolved within six months.

In addition, the Senate Committee on Appropriations' report on the Supplemental Appropriations and Rescission Bill of 1980 directs the Inspectors General to include in their reports to the Congress, a summary of unresolved audits, including total numbers, dollar amounts, status, age, and related information. Tables 1 and 2 on pages 38 and 39 provide a summary of the subject information requested by the Senate Committee's report.

Cash Recoveries and Costs Associated with Audit Findings

As indicated in Tables 1 and 2, Office of Inspector General and non-Federal audits of HUD program participants were instrumental in recovering significant amounts of improperly spent funds and in identifying possible waste, noncompliances and program abuses. Highlights for the semiannual reporting period are as follows:

- Cash recoveries as a result of audit findings amounted to about \$14.2 million (Table 2).
- Audit findings reported to HUD management disclosed about \$363 million of costs applicable to such matters as waste, program abuse, program noncompliances, and questionable items (Table 1).
- Costs associated with audit findings in the amount of about \$52 million were concurred in by HUD management; similar costs amounting to about \$282 million were unresolved at March 31, 1981 (Table 1).

Audits Management System

The Department's Audits Management System, established on December 22, 1977, provides for the continued interest of HUD managers who are responsible for taking closing actions and assuring that all audit recommendations are satisfactorily resolved and implemented. Briefly, this is accomplished through a top management Audits Resolution Committee chaired by the Under Secretary, and through its two working groups, namely: the Headquarters Audits Review Group chaired by the Assistant Secretary for Administration and the Field Audits Review Group chaired by the Deputy Under Secretary for Field Coordination. Audit findings that are not resolved within prescribed time frames are automatically referred to Headquarters and then to the Audits Resolution Committee for final resolution.

Revised to 10-1-80

everything old

10-1 - Less Than Six-Months

3-31-81

(Dollars in Thousands)												
Dollar Value of Reported Audit Finding *			Audit Findings Sustained **			Audit Findings Not Sustained			Audit Findings Not Resolved			
	OIG	Non-Federal	Total	OIG	Non-Federal	Total	OIG	Non-Federal	Total	OIG	Non-Federal	Total
Over Six-Months												
Housing	\$ 20,419	\$ 32,626	\$ 53,045	\$ 5,612	\$ 6,480	\$ 12,092	\$ 3,018	\$ 231	\$ 3,249	\$ 11,890	\$ 25,944	\$ 37,834
CPD	38,867	69,971	108,838	21,189	11,546	32,735	5,023	11,924	16,947	12,664	46,270	58,934
Admin.	3,803	-	3,803	-	-	-	-	-	-	3,803	-	3,803
Other	-	-	-	73	-	73	-	-	-	-	-	-
Subtotal	\$ 63,089	\$ 102,597	\$ 165,686	\$ 26,874	\$ 18,026	\$ 44,900	\$ 8,041	\$ 12,155	\$ 20,196	\$ 28,357	\$ 72,214	\$ 100,571
Less Than Six-Months												
Housing	\$ 13,771	\$ 3,575	\$ 17,346	\$ 1,525	\$ 794	\$ 2,319	\$ 3,833	\$ 107	\$ 3,940	\$ 8,414	\$ 2,674	\$ 11,088
CPD	23,600	156,924	180,524	1,265	4,107	5,372	337	3,965	4,302	21,999	148,856	170,855
Admin.	45	-	45	-	-	-	-	-	-	45	-	45
Other	21	-	21	-	-	-	-	-	-	21	-	21
Subtotal	\$ 37,437	\$ 160,499	\$ 197,936	\$ 2,790	\$ 4,901	\$ 7,691	\$ 4,170	\$ 4,072	\$ 8,242	\$ 30,479	\$ 151,530	\$ 182,009
Total	\$ 100,526	\$ 263,096	\$ 363,622	\$ 29,664	\$ 22,927	\$ 52,591	\$ 12,211	\$ 16,227	\$ 28,438	\$ 58,836	\$ 223,744	\$ 282,580

6 mo action 10-1 → 3-31

all finding
10-1 → 3-31
guess + disallow
everything that had not been sustained at Sept 30

Table 1: Summary of Resolved and Unresolved Audit Findings - Six Month Period Ended March 31, 1981

* Dollar value of identified waste, program abuse, program noncompliance, and other deficiencies reported as audit findings. Such costs are reported as either disallowed costs (clearly ineligible costs) or questionable costs (costs which require further documentation from the auditee or interpretation by HUD management). See Appendix 1 for a more detailed explanation of these terms.

** The category of audit findings sustained includes those audit findings expressed in monetary terms which have been concurred in by HUD management. These findings are normally reported in external audit reports. Such findings are recorded as sustained when the Office of Inspector General is advised in writing of HUD management's concurrence and notice to the program recipient that restitution or other appropriate action is required.

(Dollars in Thousands)									
	Cash Recoveries*			Amounts Written Off			Amounts Due		
	OIG	Non-Federal	Total	OIG	Non-Federal	Total	OIG	Non-Federal	Total
Over Six-Months									
Housing	\$ 1,394	\$ 878	\$ 2,272	\$ 362	\$ 29	\$ 391	\$ 4,000	\$ 5,737	\$ 9,737
CPD	6,368	2,827	9,195	-	9	9	18,161	9,284	27,445
Admin.	-	-	-	-	-	-	-	-	-
Other	73	-	73	-	-	-	-	-	-
Subtotal	\$ 7,835	\$ 3,705	\$ 11,540	\$ 362	\$ 38	\$ 400	\$ 22,161	\$ 15,021	\$ 37,182
Less Than Six-Months									
Housing	\$ 896	\$ 573	\$ 1,469	\$ -	\$ -	\$ -	\$ 629	\$ 249	\$ 878
CPD	98	1,151	1,249	-	3	3	1,167	2,967	4,134
Admin.	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Subtotal	\$ 994	\$ 1,724	\$ 2,718	\$ -	\$ 3	\$ 3	\$ 1,796	\$ 3,216	\$ 5,012
Total	\$ 8,829	\$ 5,429	\$ 14,258	\$ 362	\$ 41	\$ 403	\$ 23,957	\$ 18,237	\$ 42,194

Table 2: Summary of Cash Recoveries, Amounts Written Off and Amounts Due - Six-Month Period Ended March 31, 1981

* Cash recoveries primarily result from external audits performed by both the Office of Inspector General and non-Federal auditors. Such recoveries are reported only after the Office of Inspector General has satisfactory evidence that HUD's program costs have actually been reduced. Monies recovered, generally, become available for reprogramming to grantees or borrowers within the program involved.

if they were open on Sept 30, they're listed in over 6 mos.

total during 6 mo. period reviewed

call on findings - we reviewed 6 mo. period - during 6 mos.

At October 1, 1980, there were 2,960 open audit findings in the Department's Audits Management System. During the semiannual reporting period, we issued 4,929 audit findings and closed 4,318 audit findings. In addition, 320 issued audit findings were referred back to our Office of Audit for disposition, either because the program office disagreed with the actions recommended, or because the Audits Management System's time frames for closing the findings had expired. At March 31, 1981, the balance of open audit findings was 3,251.

In order to verify the actual implementation of our audit recommendations, the Audits Management System requires post-audit review and verification of the more important audit findings within six-months after they are closed. The Office of Inspector General is responsible for selecting audit recommendations for post-audit verification and for advising the Deputy Under Secretary for Field Coordination and Headquarters action officials on a monthly basis of such decisions. In addition, our office has initiated audits which involve reviewing the adequacy of corrective actions taken on selected closed audit findings.

B. COLLECTION OF DELINQUENT DEBTS

The Supplemental Appropriations and Rescission Act of 1980 and related Appropriations Act for 1981 with respect to HUD and other independent agencies require each applicable agency to take immediate action to: (1) improve collection of overdue debts; (2) bill interest on delinquent debts as required by the Federal Claims Collection Standards; and (3) reduce amounts of such debts written off as uncollectible. The Senate Appropriations Committee report on the 1980 bill also directed Inspectors General to include in their reports to the Congress, progress on these matters and a summary of the total amounts due, overdue and written off during the reporting period. These matters are addressed in the following subsections.

Status of Outstanding Debt at Close of Reporting Period

Table 3 on page 41 provides comparative summary data for major HUD areas of debt collection as of March 31, 1981 and the six months then ended compared to September 30, 1980 and fiscal year 1980. The data are based upon a report furnished to us in April 1981 by HUD's Deputy Assistant Secretary for Administration. The report data are supplemented by other reports furnished to Departmental officials in February and March 1981.

Briefly, Table 3 shows:

- Outstanding HUD debt exceeded an estimated \$10 billion at September 30, 1980.
- Delinquent debt at March 31, 1981, amounted to \$434 million.
- FHA Multifamily Mortgage Notes constituted HUD's single largest dollar volume of delinquent debt ranging from \$173 to \$401 million at December 31, 1980, depending upon the definition of delinquent debt used.

Program Names	Outstanding Debt(a)		Delinquent (b)		Written Off (c)	
	3/31/81	9/30/80	3/31/81	9/30/80	FY81(6 Mos)	FY80
	(In Millions)		(In Millions)		(In Millions)	
FHA Multifamily Mortgage Notes	\$3,590(d)	3,613	\$173(e)	\$173(e)	(c)	(c)
			(f)	(f)		
GNMA Special Assistance & Mortgage Liquidation	(e)	\$2,667	3	6	-	(e)
Section 202, Elderly Housing	(e)	2,017	13	11	(e)	(e)
Section 312 Rehabilitation Loans	562	684	36(g)	72(g)	.4	\$.4
Property Improvement (Title I) Notes	140	130	140	130	2.2	13.6
FHA Single Family Mortgage Notes Assigned	337	(e)	54	48	.7	2.5
Miscellaneous (12 programs)	(e)	(e)	15	35	.3	(e)
Totals(h)	(e)	\$10,001	\$434(i)	\$475(i)	\$3.6	\$16.5

Table 3. Comparative Summary Data for Major HUD Debt Collection Areas as of March 31, 1981 and the Six Months Then Ended Compared to September 30, 1980 and FY 1980 - Data in Millions.
(Data furnished by the Office of the Assistant Secretary for Administration)

Footnotes

- (a) Outstanding debt is the amount of defaulted notes assumed and serviced by HUD under claims for insurance benefits from lending institutions. Section 312 loans are stated at the gross amount owed by direct borrowers as serviced by FNMA and seriously delinquent loans (see Footnote (b)) assigned to HUD for direct servicing.
- (b) Delinquency was considered as payments overdue for 90 or more days except for 60 days for Multifamily Mortgage Notes and 150 days for Section 312 Rehabilitation Loans.
- (c) The FY 1981 amounts are for six months compared to the entire FY 1980. Write-off policies vary for each program debt classification. No write-offs are permitted for Multifamily Mortgage Notes. Write off policies for other programs are unknown in some instances. Amounts include other adjustments.
- (d) Amounts are manually prepared as of December 30, 1980, without reconciliation to Headquarters ledgers.
- (e) Data are currently unavailable.
- (f) Includes any notes with delinquent payments past due for 60 or more days that either are not under a "work-out" agreement or were delinquent under the "work-out" agreement. At December 30, 1980, an additional \$228 million with payments past due 60 or more days were in various stages of conversion from notes secured by real estate held as collateral to assigned or Secretary-held properties under state foreclosure laws or under current "work-out" agreements. The \$173 million shown for September 30, 1980, is as of December 30, 1980, and is used to obtain comparable totals.
- (g) Excludes delinquent loan payments between 31 and 149 days serviced by FNMA and/or its service subcontractors as of March 31, 1981.
- (h) For information purposes, totals are shown to the extent data are available and are not always the sum of the component programs.
- (i) Does not include monies due from sustained audit findings.

- FHA Property Improvement (Title I) Notes represented the highest percentage of delinquency (100 percent) to outstanding debt and represented \$15.8 million or over 78 percent of HUD's debt written off, or otherwise adjusted in fiscal year 1980 and the first half of fiscal year 1981.

It should be noted that the Department's criteria for reporting delinquent debt varies for each major program debt classification. In some cases, a 60-day overdue period is used, while in other cases 90- and 150-day overdue periods are used. The amount of delinquent debt that may be reported at any given time is greatly influenced by how one defines delinquent debt.

Establishment of Special Task Force on Departmental Debt Collection

The Secretary directed on March 31, 1981, the establishment of a Special Task Force on loan servicing and debt collection policies and practices with membership from the immediate offices of the Secretary and Under Secretary. The Task Force will develop a comprehensive HUD Debt Collection Program to sharply improve the Department's effectiveness in debt collection, introduce, where possible, loan servicing methods common to the private sector, and standardize write-off policy and procedures to minimize debt losses and to accurately report Departmental assets on a more timely basis.

Development of Comprehensive HUD Debt Collection Policy and Procedures

As a first step toward adopting a uniform HUD Debt Collection Program, the Under Secretary on March 23, 1981, identified more than 30 recommendations for improved debt collection policy and procedures to be studied and implemented by the proposed Special Task Force on Debt Collection. The 30 recommendations are summarized and classified into the following six categories:

- Standardize loan and debt collection procedures for all HUD programs to the degree feasible.
- Adopt uniform principles and policies for the servicing of defaulted loans where feasible.
- Consolidate and centralize loan servicing processes for defaulted loans, extending the successful Section 312 loan servicing experience which utilizes methods common to the private sector (see below).
- Establish a Departmental Write-Off Committee to develop criteria and standards for writing off uncollectible accounts, and to monitor related performance.
- Value acquired property upon acquisition at the realizable amount according to GAO recommendations (estimated net proceeds after expenses).

- Propose legislative amendments where required to implement improvements in debt collection policy and procedures.

Successful Demonstration of Private Sector Loan Servicing Approach in Section 312 Loan Servicing Unit

The Section 312 Rehabilitation Loan portfolio includes approximately 65,000 loans with total outstanding principal of \$562 million and monthly billings for principal and interest installments exceeding \$4 million. Fifty private servicers are under direct contract with the Federal National Mortgage Association (FNMA) to service this portfolio. Loans that are seriously delinquent, or loans for which full payment on a loan installment has not been received for over 150 days, are returned to HUD for direct servicing.

A temporary loan servicing unit, with strong private sector servicing background, was assembled in October 1979. After an initial organizing effort, the unit began resolving approximately 8,800 seriously delinquent loans amounting to \$66 million in February 1980. For the 13 months ended March 31, 1981, the unit had reduced seriously delinquent loans by 3,400 or 38 percent, and by \$30 million or 45 percent since inception of its operations. Moreover, collections on seriously delinquent loans serviced have risen by \$4 million over the average for the preceding 13-month period and are currently exceeding the fiscal year 1980 average rate of collections by almost \$4.1 million.

Development of New and Improved Accounting, Monitoring, and Reporting Tools

To assist in the collection of debts due HUD, new and improved accounting, monitoring, and reporting tools are currently under development such as:

- Secretary-held Multifamily Mortgage Notes. A \$4 billion portfolio of Secretary-held Multifamily Mortgage Notes and acquired projects will be automated during the second half of fiscal year 1981. The system is designed to routinely provide management with vital debt collection monitoring information, such as monthly aging of note amounts past due and the status of "work-out" agreements. This accounting system will identify key information for all operating and supervisory levels who are accountable for improving collections and detecting both delinquency and default trends.
- FHA Mortgage Insurance Premiums. A project is underway to directly exchange HUD and the largest mortgagees' computer billing and remittance settlement tapes or disks to eliminate manual processing and paperwork for mortgage insurance premiums. The project will gradually be extended to approximately 60 of the largest mortgagees who service 35 to 40 percent of the approximately 4.8 million mortgages

currently insured by FHA. Some \$150 to \$180 million in annual premium billings are expected to be collected under this more efficient method of operation.

- Other Major Debt Classifications. Requests for procurement of operational commercial systems are under development for FHA Property Improvement (Title I) Notes and FHA Single Family Mortgage Notes Assigned.

Billing Interest on Delinquent Debts Pursuant to the Federal Claims Collection Standards

Federal Claims Collection Standards concerning interest on claims are prescribed in the Code of Federal Regulations (4 CFR Part 102.11) and provide that interest should be charged on delinquent debts and debts being paid in installments in conformity with the Treasury Fiscal Requirements Manual. This Manual requires agencies to collect a late charge for each 30-day period or portion thereof that the payment is delayed except where prohibited or otherwise expressly provided by law. HUD's Office of the Assistant Secretary for Administration has initiated a policy of charging interest, including interest on monies applicable to sustained audit findings, and is in the process of issuing regulations to formalize procedures for charging interest on all types of debt.

Reduction in Debts Written Off as Uncollectible

The four major program debt classifications shown in Table 3 disclose that debt amounts are being written off at an annual rate in fiscal year 1981 of about \$7.2 million. The same debt classifications show \$17.8 million in amounts written off for the entire fiscal year 1980. The Federal Housing Administration has a policy that prohibits writing off outstanding debts for the single largest debt classification, namely, multifamily mortgage notes. Instead such uncollectible debts either become part of a refinancing of the project's notes or a loss upon the eventual disposition of the property acquired through foreclosure under or assignment of the mortgage note. Without aging the delinquent debts receivable, it is too premature to interpret the favorable fiscal year 1981 data as a probable trend. Through the Department's Write-Off Committee and Special Debt Collection Task Force, which were discussed previously, a policy will be formulated as to whether it would be cost beneficial to accelerate write-offs for certain classifications of program debt.

Office of Inspector General Scheduled Audit

To objectively assess the Department's response to the appropriations' legislation and prior audit reports, we have scheduled an audit of HUD's claims collection procedures. The audit is scheduled to begin in the second half of fiscal year 1981 and will continue into the subsequent fiscal year. The objectives of the audit are to determine the: (1) adequacy of procedures to effectively identify, report, and collect debts; (2) adequacy of procedures implemented by claims collection officers and by program accounting personnel; and (3) accuracy and reasonableness of amounts reported as due, overdue and written off as uncollectible.

C. PROCUREMENT MANAGEMENT AND CONSULTANT SERVICES CONTROLS

A growing awareness of governmentwide abuses in the procurement area, particularly concerning consultant contracting, has resulted in intensive audit and investigation efforts in these areas. Both the Congress and the Office of Management and Budget (OMB) have emphasized the need for tighter controls over general procurement activities and consultant contracting.

In a June 1980 report on governmentwide use of consultants, the General Accounting Office (GAO) summarized the results of 32 prior reviews it had performed concerning the Federal Government's use of consultants. The GAO reported that during the past 20 years, Federal agencies had not made satisfactory progress to improve their use of consultants and that many of the same problems that existed 20 years ago exist today.

Among the governmentwide problems that have been disclosed by audits and other reviews are: (1) inadequate competition in awarding consultant contracts; (2) failure to justify the need for consultants; (3) lack of assurance that consultant studies are not duplicated; and (4) lack of effective controls to assure the proper use of consultant studies.

During the semiannual reporting period, several important efforts were initiated, continued or completed by our office regarding the Department's controls over procurement and consultant services.

Audit of HUD's Use of Consultant Services Contracts

At the request of OMB, a standard guide for governmentwide audits of consulting services contracting was developed by a multiagency project team under our direction and was subsequently released to OMB on September 12, 1980. We are currently using this guide in our audit of HUD's use of consulting services contracts. The objectives of the audit are to: (1) determine whether the Department's controls over consultant contracting enable management to adequately detect and prevent wasteful and abusive practices; and (2) ascertain the extent of the Department's compliance with applicable procedures and regulations governing the use of consultants. We are currently drafting our report and expect to forward it to management for comment in May 1981. Any unresolved significant findings that emanate from this audit will be disclosed in our next Semiannual Report.

Evaluation of HUD's Procurement Management Controls

In response to an OMB directive of July 2, 1980, HUD submitted a procurement management control plan to OMB on August 1, 1980. The plan identified several aspects of procurement controls, particularly in the consultant services area, which could be improved. Such improvements would involve: (1) revising employee's Standards of Conduct; (2) enhancing communication with HUD employees concerning their ethical conduct; (3) revising handbooks to more fully address relevant OMB directives; and (4) providing for additional disclosure requirements for contractors. Pursuant to OMB's July 2, 1980 directive, we provided an evaluation of HUD's procurement management control plan which was submitted to OMB along with HUD's plan.

At the request of OMB, we have been closely monitoring the Department's progress in implementing the actions called for in its plan. In November 1980 and March 1981, we submitted a report to OMB concerning our evaluation and assessment of the Department's progress in improving its procurement management controls.

Also, in conjunction with the Supplemental Appropriations and Rescission Act of 1980, we submitted to the Congress, as part of HUD's Fiscal Year 1982 budget justification, an evaluation of the Department's progress in implementing effective procurement management controls and improving the accuracy and completeness of consulting data provided to the Federal Procurement Data System. In our reports, we indicated that delays were being experienced in implementing certain planned actions. HUD's Acting Assistant Secretary for Administration stated to us that action on these efforts would be given a higher priority.

Moreover, we will review and evaluate the results of a related management control assessment which is being performed by HUD's Office of Procurement and Contracts in conjunction with the Department's Management Control Assessment System (see page 57).

Other Oversight By the Office of Inspector General

Pursuant to the Department's procurement management control plan, our office now receives copies of justifications for all approved consulting services contracts and contract modifications which exceed \$50,000. In addition, current handbook procedures provide for our office's receipt of copies of written performance evaluations on contractors. Our review of individual contract justifications and contractor performance evaluations assists us in evaluating the effectiveness of HUD's controls over consultant services.

In addition, as part of the Department's system for issuing policy and procedural guidance, the Office of Inspector General has the opportunity to review all proposed new or revised policies and procedures concerning procurement practices, including the use of consultants and related management controls, prior to the time such policies and procedures are finalized. To date, many of our comments and recommendations in this regard have reiterated OMB and congressional concerns and have served to improve controls over procurement practices, including the use of consultants.

D. YEAR-END SPENDING

Considerable interest has been expressed by the Congress and the OMB in agencies' year-end spending practices. A July 1980 report by the Senate Subcommittee on Oversight of Government Management and a June 1980 memorandum to executive agency heads from the Director of OMB, both recommended an increased role for Inspectors General in reviewing year-end spending practices of agencies. In addition, the 1981 Appropriations Bill for HUD and Independent Agencies included provisions to control agencies' year-end spending. Other legislation has recently been introduced to limit and control agencies' last quarter contract obligations.

Two relatively recent General Accounting Office (GAO) reports were critical of HUD's year-end spending practices. In one report dated April 30, 1980, GAO

concluded that HUD's year-end obligations (in the form of notification and reservation letters) were invalid because they did not meet the statutory test for a legal obligation. The HUD General Counsel disagreed with GAO's interpretation of a valid obligation and the matter was subsequently referred to the Comptroller General for a decision. This decision had not been issued as of March 31, 1981. In conjunction with this matter, we issued the report on our survey of the "Annual Contribution for Assisted Housing" account on August 14, 1980 (see page 24). In another report dated July 28, 1980, GAO cited HUD for having no formal procurement planning system and concluded that this situation contributed to year-end spending surges by HUD.

Office of Inspector General Audit of Year-End Spending

In response to the above concerns, we recently initiated an audit of HUD's year-end spending practices. The objectives of the audit are to identify indications of fiscal year 1980 year-end spending surges in specific HUD programs; determine the adequacy of HUD's plans to curb current year-end spending; and evaluate the Department's efforts to comply with the previously mentioned legislative and OMB requirements relative to year-end spending. Our audit of HUD's year-end spending practices will be closely coordinated with our evaluation of the Department's progress in implementing effective procurement management controls. The audit is in its initial stage and should be completed by the close of the next semiannual reporting period.

E. EXCESSIVE CASH DRAWDOWNS BY PROGRAM RECIPIENTS

In the Senate Report on the Fiscal Year 1980 Supplemental Appropriations and Rescission Bill dated June 23, 1980, the Committee on Appropriations directed all Federal departments and agencies to take immediate steps to assure compliance with Treasury Circular 1075 by:

- reviewing the periodic reports filed by recipients to ascertain whether they are drawing and holding cash in excess of their current needs;
- auditing a sufficient number of recipient accounts to determine whether they are filing accurate reports of cash on hand; and
- initiating immediate recovery action whenever recipients are found to have drawn excess cash in violation of Treasury Circular 1075.

Cash drawdowns are routinely reviewed during each cyclical audit of a Community Development Block Grant recipient. Such audits are performed by non-Federal auditors and are monitored by our office. The audit guide which we have prepared for non-Federal auditors who audit Community Development Block Grant recipients contains specific procedures for reviewing recipients' letter-of-credit drawdowns. These procedures involve determining whether:

- the recipient's financial management systems meet HUD's standards for funds control and accountability;

- the recipient's drawdowns are justified;
- subrecipients' requests for advances are justified;
- the recipient obtained HUD authorization to expend monies before incurring costs or requesting drawdowns under its letter-of-credit with respect to those activities or requirements for which HUD placed conditional approval.

In addition, each year our office performs a selected number of audits of Community Development Block Grant recipients. If the non-Federal audit of the grant recipient disclosed major problems in the letter-of-credit area, then we might focus on these problems during our audit. We also evaluate grantees' letter-of-credit practices during our nationwide internal audits.

Types and Extent of Deficiencies

During the semiannual reporting period, audits disclosed several types of adverse conditions involving letter-of-credit practices. Most of the conditions noted involved funds being drawn down, but not disbursed timely; and funds being drawn down and invested, rather than being used for operating purposes. Examples of reported deficiencies are shown below.

- In the recent audit report on New York City's Community Development Block Grant Program, it was reported that the New York Housing Authority was advanced about \$2.7 million in excess of its immediate cash needs. The Housing Authority used these excess funds to purchase U.S. Treasury Bills and failed to remit \$141,197 in interest to the Treasury or offset the costs of its Community Development Block Grant Program by this amount. In addition, the subject audit disclosed that the City had drawn down and deposited in its satellite bank account an additional \$2.6 million in Community Development Block Grant Program funds which were in excess of its immediate cash needs. Another \$5.1 million of program funds were improperly drawn down and deposited in escrow bank accounts to secure interim construction financing (see Appendix 5).
- An audit of the Community Development Block Grant Program, City of Soledad, California, disclosed that the City drew down \$282,181 under its letter-of-credit during the period 1978 through 1980, but expended only \$9,274. The City also failed to offset program expenditures by \$6,970 as a result of interest income derived from the excess withdrawals.
- We recently performed a review of the procedures and practices pertaining to advance drawdowns for rehabilitation loans under the Community Development Block Grant Program in three HUD Area Offices in the Seattle Region. (Under program regulations, the grantee draws down funds in a single lump sum from its letter-of-credit for establishing a rehabilitation fund in one or more private financial institutions.) Our

audit report, issued on March 17, 1981, disclosed that grantees were using only a small portion of the private lender funds available, and thus they were not realizing significant benefits from the drawdowns. We also found that grantees lacked both the capacity to use all the funds available and an adequate outreach program to identify and attract eligible people for the private lender loans. Thus, few loans were made through private lenders. Without the benefits available from private lenders, the lump sum drawdowns represented an inappropriate and inefficient use of Federal monies inasmuch as this practice increases the government's cost of borrowing.

F. SINGLE AUDIT IN FEDERAL ASSISTANCE PROGRAMS

In its report on the Fiscal Year 1980 Supplemental Appropriations and Rescission Bill, the Senate Committee on Appropriations concluded that all Federal agencies should adopt, pursuant to OMB-issued instructions, a single audit approach, i.e., the performance of audits on an organizationwide basis, rather than a grant-by-grant basis.

As part of a governmentwide effort, we are working closely with other Offices of Inspector General and the OMB in the development of basic instructions for implementing cognizant agency responsibilities under the single audit provisions of Attachment P of OMB Circular A-102, "Uniform Administrative Requirements for Grants in Aid to State and Local Governments." We are also coordinating our efforts with the American Institute of Certified Public Accountants with respect to the development of supplementary standard audit instructions to be used by non-Federal auditors in fulfilling the audit requirements of Attachment P. Moreover, we completed our monitoring of a test audit covering the State of Virginia Department of Housing and Community Development which was performed by the State Auditor. The purpose of the monitoring was to identify potential problems in implementing Attachment P. During the semiannual reporting period, we reviewed and commented on the State Auditor's draft report.

Although Attachment P was published on October 22, 1979, the Department has not yet acted to identify the HUD programs affected by Attachment P and has not begun the necessary regulatory revisions to require grantees to implement and adhere to the single audit concept. We are endeavoring to work closely with the new HUD administration to accelerate Departmental progress in implementing the single audit provisions of Attachment P.

G. IMPROVING MANAGEMENT CONCERN OVER FRAUD AND WASTE

In the Senate's Report on the Fiscal Year 1980 Supplemental Appropriations and Rescission Bill, the Committee on Appropriations reiterated its displeasure over the lack of management concern on the part of agencies in reducing waste and fraud. The Committee further stated that management training programs within the Federal Government should stress to managers at all levels the absolute importance of reducing and preventing fraud and waste.

During the semiannual reporting period, several measures were initiated or continued by our office which were aimed at enhancing employees' awareness and concern in reducing waste and fraud. These included:

- Expansion of the Office of Inspector General's training course on the "Detection and Prevention of Fraud and Program Abuse" to include HUD program staff.
- Participation in the development of a video tape program which describes HUD's overall program to combat fraud and program abuse.
- Continuation of Standards of Conduct briefings for program staffs.
- Continuation of the Office of Inspector General's "Fraud Alert Memorandum" and "Fraud Information Bulletin" series targeted to program staffs.

In addition to the above, our Fraud Control Division has worked actively with HUD management and the Department's Committee on Fraud, Waste and Mismanagement to carry out several important fraud prevention initiatives, as well as to ensure the effective implementation of the Department's Fraud Vulnerability Assessment System and Management Control Assessment System.

Our efforts in the above areas are further described in Section IX of this report (see page 54).

VIII. COOPERATIVE EFFORTS WITH FEDERAL AND STATE AGENCIES

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

During the reporting period, we participated in several special cooperative efforts with other Federal and state agencies. Such efforts as shown below are in addition to our regular cooperation and coordination with non-Federal auditors, other Offices of Inspector General and agencies such as the Department of Justice (referrals for investigation/prosecution), General Accounting Office (coordination of audit work), Office of Personnel Management (training, personnel security clearances, etc.), various other agencies and Committees, Intergovernmental Audit Forums, and professional organizations and societies.

A. COOPERATIVE AUDIT AND INVESTIGATION ACTIVITIES IN PUERTO RICO

Since Fiscal Year 1980, we have been involved in joint-agency audit and investigation efforts in Puerto Rico. The focus of these efforts has included diversions of funds in GNMA-owned mortgage pools, poor and improper mortgagee origination practices, and a HUD-insured hospital. During the reporting period, we continued our special investigation of mortgagee origination practices in Puerto Rico in coordination with the Veterans Administration and the Department of Health and Human Services. Two Special Prosecutors from the Fraud Section, U.S. Department of Justice, have been assigned to the investigation. The United States Attorney's Office in Puerto Rico has also assisted in this effort. These activities are more fully described on pages 4 through 6.

B. COORDINATION WITH IMMIGRATION AND NATURALIZATION SERVICE ON FEDERAL ASSISTANCE TO CERTAIN CLASSES OF ALIENS

As a result of the enactment of Section 214 of the Housing and Community Development Act of 1980, HUD is prohibited from providing Federal assistance to nonimmigrant student aliens. Section VI of the report on the Act discusses present and proposed legislation expanding the prohibition on assistance to other classes of aliens besides students. During the reporting period, we requested that HUD program officials coordinate their regulatory and procedural efforts in this area with the Immigration and Naturalization Service (INS). We have met with INS investigation and adjudication staffs regarding cooperation on case referrals, interagency training and other audit and investigative techniques. For example, the proper recognition of alien classifications will be part of any INS training of Office of Inspector General and HUD officials. In addition, proposed training will cover the proper documentation to be

obtained to support eligibility and investigative decisions. HUD will also furnish information to field Immigration Officers to assist them in identifying potential housing assistance violations or fraud and abuse.

C. REVIEW OF SUSPENSION AND DEBARMENT PROCESSES IN FEDERAL HOUSING PROGRAMS

In February 1981, we completed a review of activities relating to the suspension and debarment of Federal housing program participants.* The review was coordinated with the Offices of Inspector General of the Department of Agriculture and the Veterans Administration. The primary objectives of the review were to: (1) compare the suspension and debarment statutes, rules, regulations, and operating procedures at the three agencies and identify both similar and dissimilar characteristics; (2) determine appropriate methods for providing prompt exchanges of information among the agencies; and (3) evaluate whether a compatible housing suspension and debarment system could be developed for and adopted by each agency.

The review disclosed that certain improvements were needed in the housing suspension and debarment systems at each agency which could be initiated without changing current regulations and statutes. These suggestions were provided to the applicable agency by the Office of Inspector General in February 1981. Moreover, the report also concludes that the effectiveness of the system could be maximized by developing and implementing a governmentwide suspension and debarment system. On February 10, 1981, the draft report was provided to the Office of Management and Budget (OMB) for review inasmuch as it is recommended that OMB act as the focal point for coordinating actions concerning the implementation of a governmentwide system.

On March 11 and 12, the Senate Subcommittee on Oversight of Government Management held hearings regarding suspension and debarment activities. Our office furnished testimony in this regard and recommended that consideration be given to developing a single, governmentwide suspension and debarment system.

D. INVESTIGATIVE COORDINATION WITH DEPARTMENT OF AGRICULTURE AND DEPARTMENT OF HEALTH AND HUMAN SERVICES

United States Department of Agriculture auditors in ~~Jackson, Mississippi~~, through a cross-match of information pertaining to recipients of food stamps in Memphis, Tennessee, ~~have~~ identified more than 1,500 cases of potential fraud. A comparison of the potential cases of food stamp fraud with tenants of the Memphis Housing Authority ~~has disclosed more than 80 cases where housing fraud may also be involved.~~ In 18 cases, preliminary information has disclosed overpaid housing assistance totaling \$40,000. Irregularities involving programs of the Department of Health and Human Services have also been identified. The United States Attorney's Office, Western District of Tennessee, has agreed to prosecute up to 100 cases involving multiple counts.

* During the period October 1, 1980 to March 31, 1981, HUD issued 147 debarments and 81 suspensions of persons/firms participating in HUD programs.

E. COOPERATION IN IMPLEMENTING ATTACHMENT P OF OMB CIRCULAR A-102

During the reporting period, we participated in a task force with other Offices of Inspector General and the Office of Management and Budget to develop basic instructions for implementing cognizance responsibilities under OMB Circular A-102, "Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments," Attachment P (Audit Requirements for State and Local Governments). Although still a discussion paper, this document articulates standard policies and procedures for uniform governmentwide implementation of the single organizationwide audit concept. In this regard, we are continuing to coordinate our efforts with the American Institute of Certified Public Accountants in order to develop supplementary guidance for implementing Attachment P.

Also, in conjunction with the Office of Management and Budget, we monitored an audit of the Virginia Department of Housing and Community Development made by the State Auditor of Virginia. The purpose of the monitoring was to identify problems in implementing Attachment P and to provide guidance to other involved parties. During the semiannual reporting period, we reviewed the draft audit report which was provided to us by the State Auditor in October 1980. The final audit report, issued on January 26, 1981, incorporated our suggested changes.

Efforts in implementing the single audit approach are also discussed on page 49 of this report.

F. JOINT FINANCIAL MANAGEMENT IMPROVEMENT PROGRAM TASK FORCE ON FEDERAL EXECUTIVE REPORTING ON INTERNAL CONTROLS IN GOVERNMENT

Under the leadership of, and in coordination with, the Joint Financial Management Improvement Program, we participated in a Task Force on Federal Executive Reporting on Internal Controls in Government. In December 1980, the task force issued a report entitled, "Executive Reporting on Internal Controls in Government--A Guide to Achieving Compliance with the Financial Integrity Act of 1980." This guide to complying with the subject proposed Congressional bill discusses many internal accounting control concepts. However, the guide extends beyond these traditional controls to include selected administrative or management control objectives that are applicable to the Federal Government. The Financial Integrity Act would require each agency head to prepare an annual report stating an opinion on the adequacy of the agency's systems of control, and submit it to the President through the Office of Management and Budget. Reports would then be made available to the Congress and the public.

A unique feature of this guide provides an action plan on how to plan, organize and conduct internal control evaluations. The approach is similar in many respects to that taken in HUD's Management Control Assessment System (see page 57). Each uses a project or task force approach to evaluate programs, functions or activities. The guide also contains a mechanism to assess and document vulnerability or risk in a uniform manner across diverse programs, activities and functions.

IX. FRAUD CONTROL EFFORTS

Our office has been instrumental in securing the involvement of Departmental management and employees in the fight against fraud and program abuse. The fraud detection and prevention initiatives which are underway in HUD have worked well because they involve an organized and dedicated effort on the part of the Department. A number of our activities in this area are particularly worthy of mention. These activities are briefly described below.

A. COMMITTEE ON FRAUD, WASTE, AND MISMANAGEMENT

The Secretary of HUD established a Departmental Committee on Fraud, Waste, and Mismanagement in November 1978. The Committee was formed to advise the Secretary on policy matters associated with minimizing occurrences of fraud, waste, and mismanagement in HUD programs and activities.

The Committee consists of representatives from all principal offices in HUD, including Regional and Area Office Managers. The Inspector General, as Chairperson, coordinates and guides Committee activities. Our office provides technical assistance and support to the Committee in undertaking its various projects. During the report period, we coordinated two meetings and participated in four Committee-sponsored projects. Some of the significant Committee activities are described in the subsections that follow.

1. FRAUD VULNERABILITY ASSESSMENT SYSTEM

A major study by the Committee on Fraud, Waste, and Mismanagement culminated in HUD's implementation of a new policy and an improved management system. The system provides for the appropriate recognition of effective management controls when designing programs and developing related regulations and procedures for their implementation. The Fraud Vulnerability Assessment System became effective on November 1, 1979. It applies to all new or substantially revised programs or regulations. Basic elements of the system include:

- An analysis of a proposed program's vulnerability to fraud and abuse.
- A narrative statement detailing the management incentives that will deter opportunities for fraud and abuse.
- A summary statement for top management that details the risks associated with a given program and the costs of the management controls that could overcome the identified risks.

This system is viewed as an important step in HUD's efforts to deter any new opportunities for fraud and abuse in its programs by placing increased emphasis on front-end controls.

During the reporting period, the system was applied on major revisions to two Housing programs: (1) new conditional commitment procedures for single family appraisals; and (2) the Comprehensive Improvement Assistance Program which substantially revises the current Low-Income Housing Modernization Program. Both assessments resulted in the adoption of improved controls.

2. REVISIONS TO BASIC REGULATORY AND MANAGEMENT AGENT AGREEMENTS

A Committee work group, consisting of representatives from HUD's Offices of Housing, General Counsel, and Inspector General, made substantial contributions in revising the agreements that govern multifamily housing management operations. This task received impetus because experience has shown that multifamily operations are a highly vulnerable area from the standpoint of fraud and abuse. For various reasons, the current agreements have seldom been enforced in the past.

The revised agreements are viewed as a positive step in curtailing the types of abuses that have occurred. Once they become effective, HUD's ability to measure performance and apply sanctions when necessary will be improved greatly. Moreover, program participants will be better informed of their rights and responsibilities when obtaining HUD mortgage insurance or when managing HUD-insured projects.

Based on the Secretary's approval and request, the Office of Housing placed the revised Regulatory Agreement into Departmental clearance in September 1980. Comments were received from Headquarters and field office staffs as well as from industry sources. The Office of Housing has nearly completed a redraft of the agreement. Once the current freeze on regulations is lifted, the Office of Housing intends to publish the document for comment in the Federal Register. Office of Housing staff currently estimate that January 1, 1982, would be a realistic target date for the revised Regulatory Agreement to become effective on all new projects.

On November 19, 1980, the Committee forwarded the revised Management Agent Agreement to the Secretary. It was approved on November 28, 1980, and as with the Regulatory Agreement, the Assistant Secretary for Housing--Federal Housing Commissioner was requested to review the document and take actions to implement it. To date, no action has been taken because of staff constraints and the freeze on regulations imposed in January 1981.

Moreover, the Office of Housing currently is considering various alternatives regarding the management of multifamily projects. One such alternative would negate the need for a management agent agreement.

3. REVIEW OF HUD'S MONITORING OF PROGRAM PARTICIPANTS

One of HUD's most persistent problems has been the quality and effectiveness of its monitoring systems (see page 15). Consequently, a Committee work group conducted a study to identify specific areas that need to be addressed in detail by various HUD disciplines. The group reviewed and analyzed data from numerous sources relating to monitoring requirements, resources allocated and used, and various reports criticizing past monitoring performance.

The scope of the review was limited to monitoring in two program areas, i.e., the Community Development Block Grant and Low-Income Housing Modernization Programs. About 100 Headquarters and field staff members were interviewed to evaluate their concerns and problems with a view toward relating these matters to monitoring in all HUD programs. The Committee recently forwarded a report on the study to the Secretary. Some of the important issues raised in the study include:

- Program managers responsible for monitoring generally do not believe monitors should do the type of reviews that would surface fraud, waste, or mismanagement.
- HUD currently attempts to monitor all participants in all areas, rather than targeting resources to high risk participants and vulnerable areas.
- Monitors have conflicting duties that deter them from looking for problem areas.
- Monitors need training to enable them to identify serious problems.

The overall thrust in the Committee's report is to turn monitoring into a "first line of defense" against the abuse of HUD programs and funds. This effort is required to help protect not only the Department, but also program participants. Early detection of problems, which would otherwise lead to costly sanctions, is a strategy based on prevention. It is also a fulfillment of the Department's stewardship role to the taxpayer for the use of HUD funds.

4. REVIEW OF HUD'S OVERALL FRAUD CONTROL PROGRAM

Another key initiative of the Committee during the semiannual reporting period was a "self-evaluation" to determine the Department's progress in meeting the short and long term fraud control goals established about two years ago. A Committee working group interviewed key Headquarters and field officials with a view toward analyzing past efforts in fraud detection and prevention and planning future activities. A summary of the comments received was compiled in December 1980. The working group intends to update this report by requesting the views and opinions of the new HUD administration. It is hoped that the group's report will point out areas needing attention during the balance of Fiscal Year 1981.

5. STATE AND LOCAL ISSUES

A Committee project was initiated to research and explore alternative methods for involving state and local governments and other public and private entities in HUD's overall program to minimize fraud, waste, and mismanagement. A working group, led by HUD's Office of Policy Development and Research representative, is attempting to identify an effective approach for promoting economy and efficiency at the state and local levels, which would improve the administration of HUD programs at these levels.

B. IMPLEMENTATION OF MANAGEMENT CONTROL ASSESSMENT SYSTEM

As a counterpart of the front-end Fraud Vulnerability Assessment System (page 54), the Management Control Assessment System, implemented in July 1980, provides for an ongoing process of management control evaluations and improvement by program managers. It specifically tests the effectiveness of controls in HUD's existing programs and functions. We developed and published a management control assessment guide to assist HUD Primary Organization Heads in conducting the required assessments.

The guide recommends the utilization of a functional approach in assessing controls. Generally, the recommended procedures for conducting assessments include: (1) a comprehensive study of the function; (2) identification of risks that could occur in the absence of adequate controls; (3) assessment of the likelihood that existing controls are adequate to prevent or detect each risk; and (4) preparation of a report to the appropriate Primary Organization Head on conclusions and suggested corrective action, if necessary. A key element of each assessment is the completion of control questionnaires which we have developed to aid evaluators in identifying control weaknesses.

Primary Organization Heads are held accountable for making the assessments through the Department's Executive Management Reporting System goals. The OIG coordinates with program office representatives to select assessment topics and to guide and assist in their completion.

At the close of the reporting period, 74 assessments had been assigned to HUD offices and 41 had been completed. The assessments have covered a broad range of functions and activities. Although our experience has been limited to date, the completed assessments have pointed out operational weaknesses in HUD programs and activities. Corrective actions are being taken by HUD management to improve weak management controls.

C. EMPLOYEE AWARENESS PROGRAM

In an effort to coordinate the Department's resources to strengthen and improve those systems and procedures designed to minimize losses from fraud or program abuse, we have devised an employee awareness program. The objectives of this program are to: (1) make all HUD employees aware of their responsibilities to detect and prevent fraud and program abuse and report any such indications or allegations; and (2) point out specific areas of potential irregularities for which HUD employees should be alert. As shown below, various methods were used to meet these objectives during the reporting period.

1. FRAUD INFORMATION BULLETINS

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

Three bulletins were issued and distributed during the reporting period. Two of the bulletins deal with procurement practices; one describes problems and schemes associated with the contract award process (see Appendix 2), and the other concerns vulnerabilities during contract administration (see Appendix 4). The third bulletin discusses potential abuses in insured multifamily project operations (see Appendix 3).

2. FRAUD ALERT MEMORANDUMS

As a supplement to our Fraud Information Bulletins which address major programs or functions in depth, we initiated a series of memorandums that can be quickly disseminated to appropriate staff. These Fraud Alert Memorandums will be issued on an as needed basis to program managers as a means to discuss potential risks in specific schemes that appear prevalent. One Fraud Alert Memorandum was issued during the semiannual reporting period.

3. FRAUD TRAINING COURSE

In November 1980, we conducted our second training course on the "Detection and Prevention of Fraud and Program Abuse," attended by 30 of our auditors and investigators. The objectives of the course are to increase Office of Inspector General employees' awareness of common fraudulent schemes in HUD programs and to sharpen their knowledge and skills in detecting and preventing fraud and abuse.

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

Based on the positive reaction to this course, we provided a modified version of the course to all Office of Inspector General professionals in January 1981 in coordination with our Atlanta Regional Office. In addition, HUD program staff members attended the Atlanta session as a test for extending the course to all appropriate program staff.

4. VIDEO TAPE TRAINING

HUD has a system called FOCUS to prepare and distribute video tapes to Field Offices for the purpose of providing generalized training on important Departmental issues. A FOCUS program was video taped to describe HUD's overall program to combat fraud and program abuse.

In conjunction with the HUD Office of Public Affairs, we developed a program in which the HUD Under Secretary, Inspector General, a Regional Administrator and an Area Office Manager participated in a panel discussion of fraud and abuse in HUD programs. This tape was distributed to and viewed by Regional and Area Offices during the reporting period.

D. HOTLINE ACTIVITIES

1. ESTABLISHMENT OF SYSTEMS AND PROCEDURES

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

As reported in our previous Semiannual Reports, HUD established an employee telephone hotline within the Office of Inspector General during FY 1979 and coordinated with the General Accounting Office to receive referrals from their hotline.

2. HOTLINE WORKLOAD

During the reporting period, we received 114 hotline calls. Of the 114 calls, 82 were received directly through the HUD Hotline (47 from HUD employees and 35 from the public) and 32 were referred to the Office of Inspector General from the General Accounting Office via its hotline.

The Table below summarizes hotline calls received during the semiannual reporting period by the program area affected and the office responsible for following up on the complaint after preliminary screening by the Office of Inspector General.

<u>By Program</u>	<u>Received</u>	<u>Hotline Complaints</u>	
		<u>Follow-up Office</u>	
		<u>OIG</u>	<u>Program Office</u>
Housing	49	30	19
Community Plann. and Develop.	20	13	7
Administration	37	21	16
Other HUD Offices	2	-	2
Non-HUD	<u>6</u>	<u>5</u>	<u>1</u>
TOTALS	<u>114</u>	<u>69</u>	<u>45</u>

Table. Hotline Workload by Affected Program Area
and Action Office First Six Months of FY 81

Of the 114 hotline calls received during the first six months of the fiscal year, 10 were referred to our Office of Audit, 24 were referred to our Office of Investigation, 35 were handled directly by our Fraud Control Division and 45 were referred to HUD program offices.

A breakdown by program organization showing types of recurring complaints since inception of the hotline that indicate possible programmatic problems follows:

Housing - 283

The majority of Housing complaints involved the questionable eligibility of tenants receiving aid under HUD's multifamily programs; 146 such complaints have been received to date.

Also, 60 complaints have been received pertaining to the processing of applications for multifamily mortgage insurance and the quality or reasonableness of project construction.

Community Planning and Development - 195

The prevalent complaints concerning Community Planning and Development involved rehabilitation loans and grants and the Community Development Block Grant Program.

Sixty-seven complaints have been received involving rehabilitation loans and grants. Shoddy workmanship, bidding irregularities, contractor favoritism, and local agency mismanagement are the subjects most often mentioned. These complaints parallel the results of our Special Operational Survey of Community Development Block Grant rehabilitation activities that was completed in FY 1980 (see page 1).

Sixty-seven complaints questioned the administration of the Community Development Block Grant Program at the local level. Matters such as ineligible activities, improper aspects of third party contracting, and questionable contractor performance have been alleged.

Administration - 158

Sixty-five of the complaints in the Administration area concerned personnel matters such as misuse of leave and overtime, merit staffing irregularities, and payroll problems associated with HUD's automated payroll system.

3. HOTLINE ACTIONS TAKEN

During the reporting period, 130 hotline complaints were closed. Of these complaints, 104 (80 percent) were found to be nonsubstantive and required no further action, and 26 (20 percent) were found to be valid. With respect to the latter, HUD management took actions such as assuring that construction deficiencies were corrected, debarring or denying program participants from doing business with HUD for various periods of time, requiring local agency personnel to improve program administration and correcting administrative problems encountered by HUD employees.

X. AUDIT REPORTS ISSUED DURING THE CURRENT REPORTING PERIOD

A. REPORTS ISSUED BY THE OFFICE OF INSPECTOR GENERAL

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

During the current semiannual reporting period October 1, 1980 to March 31, 1981, we issued 63 internal audit and survey reports and 261 external audit and accounting system evaluation reports. These reports are listed below.

INTERNAL AUDIT AND SURVEY REPORTS

HOUSING (37)

<u>Report No.</u>	<u>Title</u>	<u>Issue Date</u>
81-BO-101-0001	Field Office Control Over Audits of Public Housing Agencies by IPAs - Hartford Area Office	11/25/80
81-NY-101-0002	Utility Checkmetering and Allowances - New York Area Office	12/15/80
81-NY-101-0003	Utility Checkmetering and Allowances - Newark Area Office	12/16/80
81-PH-101-0001	Utility Checkmetering and Allowances - Philadelphia Area Office	10/06/80
81-PH-101-0002	Utility Checkmetering and Allowances - Baltimore Area Office	10/06/80
81-AT-101-0002	Utility Checkmetering and Allowances - Atlanta Area Office	11/10/80
81-AT-101-0003	Utility Checkmetering and Allowances - Jacksonville Area Office	12/11/80
81-FW-101-0003	Utility Checkmetering and Allowances - San Antonio Area Office	12/03/80
81-FW-101-0004	Utility Checkmetering and Allowances - Little Rock Area Office	12/03/80
81-SF-101-0002	Development Funding Information and Repayment of Excess Development Funds	12/23/80
81-SE-101-0002	Special Review of Cash Handling Procedures, Lummi Housing Authority	02/26/81
81-TS-101-0003	Michigan State Housing Development Authority	01/02/81
81-NY-103-0001	Department of Community Affairs	10/07/80
81-CH-103-0011	Survey of the Establishment of Fair Market Rents for Section 8 Housing Assistance Payments Program (Existing) - Indianapolis Area Office	03/25/81
81-BO-108-0002	Property Disposition - Contracting Activities - Hartford Area Office	01/26/81
81-BO-108-0003	Property Disposition - Negotiated Contract Activities - Boston Area Office	01/27/81
81-NY-108-0005	Property Disposition - Camden Service Office	02/13/81
81-NY-108-0006	Property Disposition - New York Area Office	02/13/81
81-PH-108-0006	Review of Selected Repair Contractors - Philadelphia Area Office	02/18/81
81-CH-108-0008	Contracting Activities of the Property Disposition Branch - Columbus Area Office	01/27/81

HOUSING (Continued)

<u>Report No.</u>	<u>Title</u>	<u>Issue Date</u>
81-CH-108-0010	Contracting Activities of the Property Disposition Branch - Detroit Area Office	02/03/81
81-FW-108-0005	Property Disposition - Contracting Activities - Dallas and Oklahoma City Area Offices	02/05/81
81-SF-108-0003	Property Disposition Branch in the Field Offices - Los Angeles Area Office	01/15/81
81-SF-108-0005	Property Disposition Contracting Activities - San Francisco Area Office	02/09/81
81-SF-108-0006	Property Disposition Contracting Activities - Los Angeles Area Office	02/13/81
81-AT-111-0004	Inspection Procedures for Insured Multifamily Projects During Construction - Columbia and Atlanta Area Offices	01/16/81
81-NY-112-0007	PHA Turnkey Program - Newark and New York Area Offices	02/18/81
81-PH-112-0003	PHA Turnkey Program - Pittsburgh and Philadelphia Area Offices	10/15/80
81-FW-112-0002	Review of PHA Turnkey Program - Dallas and San Antonio Area Offices	10/29/80
81-SE-112-0004	Review of Processing and Approval of the Tlingit-Haida Project	03/20/81
81-CH-113-0001	Repair Program for Acquired Multifamily Properties Administered by Project Managers - Columbus Area Office	10/06/80
81-FW-113-0001	Repair Program for Acquired Multifamily Properties Administered by Project Managers - Oklahoma City Area Office	10/24/80
81-SF-113-0001	Repair Program for Acquired Multifamily Properties Administered by Project Managers - Los Angeles Area Office	10/14/80
81-TS-113-0005	Repair Program for Acquired Multifamily Properties Administered by Project Managers	01/12/81
81-AT-123-0005	Property Disposition Contracting Activities - Atlanta Area Office	02/13/81
81-AT-123-0006	Property Disposition Contracting Activities - Columbia Area Office	02/27/81
81-CH-129-0007	Escrow Funds Held for Repairs on Single-Family Properties - Columbus, Chicago and Detroit Area Offices - Cleveland Service Office	01/23/81

COMMUNITY PLANNING AND DEVELOPMENT (6)

81-SE-144-0003	Advance Drawdowns for Rehabilitation Loans CDBG Program - Anchorage, Portland and Seattle Area Offices	03/17/81
81-AO-144-0002	Review of Secretary's Discretionary Fund	01/13/81
81-TS-144-0002	Report on Special Operational Survey - CDBG Rehabilitation Activities	11/07/80
81-CH-145-0005	Use of Consultants to Administer CDBG Activities - Ohio Communities	10/17/80
81-SF-145-0004	Survey of Land Acquisition and Disposition with CDBG and Categorical Grant Funds - San Francisco and Los Angeles Area Offices	01/29/81
81-AO-156/108/ 172/163-0004	Review of Government Technical Representative (GTR) Post Award Contract Performance	03/03/81

ADMINISTRATION (12)

<u>Report No.</u>	<u>Title</u>	<u>Issue Date</u>
81-AO-161-0006	FHA Cash Reconciliation Process	03/24/81
81-PH-162-0004	Imprest Fund Account - Washington Area Office	11/17/80
81-AT-162-0001	Adequacy of Controls Over Receipt and Deposit of Funds - Atlanta and Columbia Area Offices	11/07/80
81-CH-162-0002	Adequacy of Controls Over Receipt and Deposit of Funds - Minneapolis/St Paul Area Office	10/16/80
81-CH-162-0003	Adequacy of Controls Over Receipt and Deposit of Funds - Milwaukee Area Office	10/16/80
81-CH-162-0004	Adequacy of Controls Over Receipt and Deposit of Funds - Chicago Area Office	10/16/80
81-CH-162-0009	Chicago Regional Office Imprest Fund	01/29/81
81-SE-162-0001	Imprest Fund Audit - Anchorage Area Office	11/28/80
81-SE-162-0006	Imprest Fund Audit - Spokane Service Office	03/26/81
81-AO-162-0003	Review of Liquidating Programs Fund	01/29/81
81-AO-162-0005	HUD Revolving Fund Investment Authority and Practices	03/04/81
81-AO-165-0001	HUD Regional Property Management Procedures and Practices	10/31/80

NEIGHBORHOODS, VOLUNTARY ASSOCIATIONS AND CONSUMER PROTECTION (4)

81-NY-173-0004	Housing Counseling Program - Newark and New York Area Offices	02/06/81
81-PH-173-0005	Housing Counseling Program - Philadelphia Area Office	12/19/80
81-AT-173-0007	Housing Counseling Program - Atlanta and Greensboro Area Offices	03/16/81
81-CH-173-0006	Housing Counseling Program - Detroit and Indianapolis Area Offices	01/12/81

NEW COMMUNITIES DEVELOPMENT CORPORATION (1)

81-TS-175-0004	Cedar Riverside	01/05/81
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FRAUD CONTROL AND DETECTION (2)

81-CH-181-0012	Administrative Deficiencies Disclosed by Operational Survey - Milwaukee Area Office	03/27/81
81-SE-181-0005	Report on Administrative Deficiencies Disclosed by Operational Survey - Seattle Area Office	03/20/81

DEPARTMENT-WIDE ASSISTANCE (1)

-81-TS-198-0001	Closeout of Internal Audit-Field Office Control and Use of Independent Public Accountants	10/23/80
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GRAND TOTAL - INTERNAL AUDIT AND SURVEY REPORTS - 63

EXTERNAL AUDIT AND ACCOUNTING SYSTEM EVALUATION REPORTS

HOUSING (Total 98)

<u>Report No.</u>	<u>Auditee</u>	<u>Location</u>	<u>Issue Date</u>
81-AT-201-1012	Department of Housing and Urban Development	Jacksonville, FL	10/23/80
81-CH-201-1005	Columbus Metropolitan Housing Authority	Columbus, OH	10/30/80
81-NY-202-1026	Belmar Housing Authority	Belmar, NJ	03/26/81
81-AT-202-1039	South Carolina Regional Housing Authority No. 3	Barnwell, SC	03/23/81
81-AT-202-1040	Housing Authority of Jefferson County	Louisville, KY	03/09/81
81-CH-202-1013	Lorain Metropolitan Housing Authority	Lorain, OH	12/16/80
81-FW-202-1028	Crawford County	Van Buren, AR	03/04/81
81-FW-202-1034	Housing Authority of the City of Uvalde	Uvalde, TX	03/20/81
81-KC-202-1018	Caruthersville Housing Authority	Caruthersville, MO	03/06/81
81-FW-203-1035	San Marcos Section 8 New Construction	San Marcos, TX	03/20/81
81-FW-203-1036	City of New Orleans	New Orleans, LA	03/27/81
81-SF-203-1008	Housing Authority of the City of Berkeley	Berkeley, CA	12/17/80
81-PH-209-1001	Rhode Island Plaza Apartments	Washington, DC	10/02/80
81-KC-209-1001	Tenant Certification/Recertification Procedures of the Housing Authority of Excelsior Springs	Excelsior Springs, MO	10/07/80
81-KC-209-1002	Housing Authority of Kansas City	Kansas City, MO	10/14/80
81-KC-209-1004	Tenant Certification/Recertification Procedures of the Housing Authority of Brookfield	Brookfield, MO	10/23/80
81-KC-209-1007	Housing Authority of St. Joseph	St. Joseph, MO	11/17/80
81-KC-209-1014	Tenant Certification/Recertification Procedures of the Housing Authority of Des Moines	Des Moines, IA	01/28/81
81-DE-209-1002	Oglala Sioux Housing Authority	Pine Ridge, SC	12/05/80
81-DE-209-1004	Aurora Housing Authority	Aurora, CO	02/02/81
81-SE-209-1002	City of Vancouver Housing Authority	Vancouver, WA	01/16/81
81-BO-211-1016	Elms Common Apartments	Rocky Hill, CT	02/25/81
81-AT-211-1035	Windale Apartments, Ltd.	West Point, ME	01/21/81
81-SF-211-1010	Lincoln Manor Apartments Lincoln Manor, Ltd.	Escondido, CA	01/12/81
81-SF-211-1012	Fallbrook Manor Apartments Fallbrook Manor, Ltd.	Fallbrook, CA	01/14/81
81-BO-212-1001	Fruit-Sever Merrick Apartments	Worcester, MA	10/03/80
81-BO-212-1004	East Hartford Estates	East Hartford, CT	11/05/80
81-BO-212-1005	Farmington Apartments	Farmington, NH	11/07/80
81-BO-212-1006	Rutland Manor Associates	Dover, NH	11/07/80
81-BO-212-1007	Belknap Street Apartments	Dover, NH	11/07/80
81-BO-212-1015	Nutfield Heights	Derry, NH	02/04/81
81-NY-212-1004	Spring Valley Housing Development Fund Corporation	Spring Valley, NY	10/31/80
81-NY-212-1005	Regency Park Apartments	Guilderland, NY	10/28/80
81-NY-212-1011	Reynolds Terrace, Inc.	Orange, NJ	12/11/80
81-NY-212-1020	Independence Park	Bronx, NY	03/02/81
81-PH-212-1015	New Hope Tower Apartments	Newport News, VA	01/16/81

HOUSING (Continued)

<u>Report No.</u>	<u>Auditee</u>	<u>Location</u>	<u>Issue Date</u>
81-PH-212-1018	Highland Terrace	Lower Burrell, PA	01/30/81
81-PH-212-1019	Woodhaven Gardens	Philadelphia, PA	02/03/81
81-AT-212-1005	Garden Vale Apartments	Maryville, TN	10/02/80
81-AT-212-1021	Sunny, Inc., d/b/a Sunny View Health Care Center	Nashville, TN	11/19/80
81-AT-212-1032	Lakeshore Towers, Gordon Glen Manor	Gainesville, FL	12/29/80
81-AT-212-1038	Palm Grove Apartments	Orlando, FL	02/20/81
81-CH-212-1002	Wilshire Extended Care Facility	Detroit, MI	10/17/80
81-CH-212-1003	Little Earth of United Tribes, Inc.	Minneapolis, MN	10/22/80
81-CH-212-1010	Cedarwood Cooperative	Park Forest, IL	11/28/80
81-CH-212-1012	Mozelle Waits Village	Cincinnati, OH	12/16/80
81-CH-212-1014	Stamford Gardens Co-op (a/k/a Danbury Green Co-op)	Ypsilanti, MI	12/24/80
81-FW-212-1002	Town & Country Apartments	Stillwater, OK	10/17/80
81-FW-212-1003	Elm Ridge Apartments	Austin, TX	10/03/80
81-FW-212-1011	Fairway Village Apartments	Austin, TX	11/24/80
81-FW-212-1014	Elm Ridge Apts. (Supplement)	Austin, TX	11/28/80
81-FW-212-1021	Seven Oaks Apartments	Tulsa, OK	12/31/80
81-FW-212-1030	Pan American League Homes	San Antonio, TX	03/17/81
81-KC-212-1011	Cross-Lines Towers	Kansas City, KS	12/23/80
81-KC-212-1017	Westminster Gerontology Foundation, Incorporated	Kansas City, MO	03/04/81
81-SF-212-1001	Masten Towers	Fresno, CA	10/15/80
81-SF-212-1002	Banneker Homes, Inc.	San Francisco, CA	10/22/80
81-SF-212-1006	Maryland West Apartments, Palm Rentals	Glendale, AZ	12/16/80
81-SF-212-1014	Avalani Place	San Jose, CA	02/26/81
81-SF-212-1015	Martin Luther King - Marcus Garvey Square Cooperative Apartments	San Francisco, CA	02/17/81
81-SF-212-1019	Crescent Village	Suisun City, CA	03/24/81
81-SF-212-1020	Independence Square Housing Corporation, Inc.	Watsonville, CA	03/25/81
81-SE-212-1003	Catalina Apartments	Tacoma, WA	03/04/81
81-AT-213-1016	Westwood Apartments	Knoxville, TN	10/31/80
81-KC-213-1019	United Church of Christ Senior Center Apartments	St. Louis, MO	03/13/81
81-PH-214-1014	Multifamily Housing Services, Inc.	Baltimore, MD	12/24/80
81-AT-214-1041	Metro Management, Inc.	Cincinnati, OH	03/16/81
81-CH-214-1015	Hart Realty Company, Inc.	Cincinnati, OH	12/24/80
81-FW-214-1022	Standard Associates Management and Consultants, Inc.	Monroe, LA	01/28/81
81-KC-214-1005	Sabina Realty Corporation	Kansas City, MO	10/24/80
81-KC-214-1008	Seldin Development and Management Company	Omaha, NE	11/21/80
81-KC-214-1016	Housing Development Corporation and Information Center	Kansas City, MO	03/02/81
81-PH-215-1013	Allegheny Housing Rehabilitation Corporation	Allegheny, PA	12/17/80
81-CH-215-1006	Greenwood Manor Apartments	Decatur, IL	11/14/80
81-CH-215-1008	Sanford Wright/Signature Realtors	Cincinnati, OH	11/14/80
81-SF-215-1009	Security Realty Company San Antonio Plaza Apartments	San Jose, CA	12/19/80
81-SF-215-1013	Green Mansion, Inc., Meridian Park Apartments	San Bernardino, CA	01/15/81

HOUSING (Continued)

<u>Report No.</u>	<u>Auditee</u>	<u>Location</u>	<u>Issue Date</u>
81-BO-219-1002	P. J. Kennedy & Sons, Inc.	Boston, MA	10/21/80
81-BO-219-1011	Alpha Security Agency	Dorchester, MA	12/05/80
81-BO-219-1012	Dorcourda Corporation	Lowell, MA	12/15/80
81-KC-219-1003	Tenant Certification/Recertification Procedures of the Haley Real Estate Management Company, Landmark Plaza	Topeka, KS	10/21/80
81-PH-221-1020	Philadelphia Savings Fund. Soc.	Philadelphia, PA	02/01/81
81-PH-221-1024	Bank of Virginia Mortgage Corp.	Richmond, VA	03/30/81
81-AT-221-1020	Highland Mortgage Company	Birmingham, AL	11/13/80
81-CH-221-1019	Mortgage Associates, Inc.	Milwaukee, WI	01/14/81
81-FW-221-1027	Ryan Mortgage Company	Arlington, TX	03/03/81
81-KC-221-1012	Georgetown Mortgage Corporation	St. Louis, MO	12/30/80
81-SF-221-1005	MICAL Mortgage, Inc.	San Diego, CA	12/02/80
81-SF-221-1007	C. Watts Financial Corporation and United First Mortgage Corporation	Los Gatos, CA San Diego, CA	12/17/80
81-SF-221-1017	Guild Mortgage Company	San Diego, CA	03/19/81
81-CH-222-1004	James C. Thomas Company	Milwaukee, WI	10/29/80
81-CH-222-1009	John S. Humphrey, Inc.	Detroit, MI	11/24/80
81-CH-222-1022	E. M. Elbert	Maywood, IL	01/22/81
81-CH-222-1029	Bill Oates Realty, Inc.	Dayton, OH	03/25/81
81-CH-222-1030	Delta Property Management	Cincinnati, OH	03/25/81
81-CH-222-1032	Parker & Finney, Inc.	Chicago, IL	03/27/81
81-CH-222-1033	Argus Real Estate	Detroit, MI	03/31/81
81-SF-222-1021	Contractor's Bonding Assoc., Inc.	Compton, CA	03/26/81

COMMUNITY PLANNING AND DEVELOPMENT (Total 106)

81-BO-241-1017	Town of Vernon	Vernon, CT	03/02/81
81-NY-241/259-1002	City of Buffalo	Buffalo, NY	10/20/80
81-NY-241/243-1003	Borough of Glassboro	Glassboro, NJ	10/28/80
81-NY-241/242/259-1008	City of Troy	Troy, NY	11/13/80
81-NY-241-1013	Village of Ilion	Ilion, NY	01/12/81
81-NY-241/242/259-1018	City of Rochester	Rochester, NY	02/20/81
81-NY-241-1024	City of Hudson	Hudson, NY	03/23/81
81-PH-241-1006	Newport News	Newport News, VA	10/31/80
81-PH-241-1008	Township of Bristol	Bristol, PA	11/07/80
81-PH-241/242-1012	Borough of Wilkensburg	Wilkensburg, PA	11/14/80
81-PH-241-1025	Lynchburg Redevelopment and Housing Authority	Lynchburg, VA	03/27/81
81-CH-241-1007	City of Elgin	Elgin, IL	11/06/80
81-CH-241-1020	City of Lafayette	Lafayette, IN	01/19/81
81-CH-241-1021	City of Kettering	Kettering, OH	01/22/81
81-CH-241-1025	City of Toledo	Toledo, OH	02/27/81
81-CH-241-1027	City of Springfield	Springfield IL	03/11/81
81-CH-241-1028	City of Cleveland	Cleveland, OH	03/12/81
81-CH-241-1031	City of Bloomington	Bloomington, MN	03/27/81
81-FW-241-1006	City of Dallas	Dallas, TX	10/23/80
81-FW-241-1017	City of Amarillo	Amarillo, TX	12/12/80
81-FW-241-1026	City of Mercedes	Mercedes, TX	02/13/81
81-KC-241-1013	City of Lawrence	Lawrence, KS	01/13/81

COMMUNITY PLANNING AND DEVELOPMENT (Continued)

Report No.	Auditee	Location	Issue Date
81-KC-241-1020	City of Kansas City	Kansas City, KS	03/25/81
81-SF-241-1016	City of Merced	Merced, CA	03/13/81
81-BO-242-1019	City of Quincy	Quincy, MA	03/18/81
81-BO-242-1021	City of Pawtucket	Pawtucket, RI	03/26/81
81-FW-242-1010	Town of Homer	Homer, LA	11/21/80
81-FW-242-1013	City of Van Horn	Van Horn, TX	11/28/80
81-BO-243-1018	Town of Natick	Natick, MA	03/04/81
81-BO-243-1023	City of Attleboro	Attleboro, MA	03/26/81
81-AT-243-1009	Roanoke-Chowan RHA & Dev. Com.	Gaston, NC	10/10/80
		Ahoskie, Scotland	
		Neck, Roanoke Rapids,	
		Halifax and North-	
		Hampton Counties, NC	
81-AT-243-1013	City of Marks	Marks, MS	10/27/80
81-AT-243/244-1022	City of Harlan	Harlan, KY	11/28/80
81-AT-243-1030	City of York	York, AL	12/09/80
81-AT-243-1037	City of West Point	West Point, MS	02/05/81
81-AT-243-1042	Charleston County	Charleston City, SC	03/26/81
81-CH-243-1011	City of Marion	Marion, OH	12/04/80
81-CH-243-1024	City of Portsmouth	Portsmouth, OH	02/20/81
81-FW-243-1007	City of Conway	Conway, AR	10/24/80
81-FW-243-1020	City of McAlester	McAlester, OK	12/24/80
81-FW-243-1025	City of Parkin	Parkin, AR	02/05/81
81-FW-243-1029	West Columbia	West Columbia, TX	03/06/81
81-SE-243-1001	Jefferson County	Port Townsend, WA	12/05/80
81-BO-244-1009	City of Biddeford	Biddeford, ME	11/20/80
81-PH-244-1021	Borough of Ellwood City	Ellwood City, PA	02/18/81
81-AT-248-1001	Clay County	Ft. Gaines, GA	10/01/80
81-AT-248-1002	City of Lake Park	Lake Park, GA	10/01/80
81-AT-248-1003	Town of Oakboro	Oakboro, NC	10/01/80
81-AT-248-1004	City of Micanopy	Micanopy, FL	10/01/80
81-AT-248-1006	City of Whitesville	Whitesville, KY	10/08/80
81-AT-248-1007	Union County	Sturgis, KY	10/08/80
81-AT-248-1008	City of Fordsville	Fordsville, KY	10/08/80
81-AT-248-1010	City of Wingo	Wingo, KY	10/21/80
81-AT-248-1011	City of Brownsville	Brownsville, KY	10/21/80
81-AT-248-1014	City of Owenton	Owenton, KY	10/30/80
81-AT-248-1015	City of Sanders	Sanders, KY	10/30/80
81-AT-248-1017	City of Petal	Petal, MS	11/06/80
81-AT-248-1018	Martin County	Stuart, FL	11/07/80
81-AT-248-1019	Mississippi Institute for for Small Towns, Inc.	Jackson, MS	11/07/80
81-AT-248-1023	Wakulla County	Crawfordville, FL	12/03/80
81-AT-248-1024	New Smyrna Beach	New Smyrna Beach, FL	12/03/80
81-AT-248-1025	Putnam County	Palatka, FL	12/03/80
81-AT-248-1026	City of Shelby	Shelby, MS	12/03/80
81-AT-248-1027	City of Crab Orchard	Crab Orchard, KY	12/04/80
81-AT-248-1029	City of Olive Hill	Olive Hill, KY	12/18/80
81-AT-248-1031	Pulaski County	Somerset, KY	12/19/80
81-AT-248-1036	City of Norris	Norris, TN	01/22/81
81-FW-248-1001	City of Hartshorne	Hartshorne, OK	10/07/80
81-FW-248-1005	Northwest Arkansas Regional Planning Commission	Springdale, AR	10/14/80
81-FW-248-1009	City of Nash	Nash, TX	11/19/80
81-FW-248-1012	Jefferson County	Pine Bluff, AR	11/28/80
81-FW-248-1015	City of Helena	Helena, AR	12/01/80
81-FW-248-1016	City of Augusta	Augusta, AR	12/02/80

COMMUNITY PLANNING AND DEVELOPMENT (Continued)

<u>Report No.</u>	<u>Auditee</u>	<u>Location</u>	<u>Date Issued</u>
81-FW-248-1019	City of Palestine	Palestine, AR	12/23/80
81-FW-248-1023	Town of Pollock	Pollock, LA	02/04/81
81-FW-248-1024	City of Goodlow	Goodlow, TX	02/04/81
81-FW-248-1031	City of Harrison	Harrison, AR	03/17/81
81-FW-248-1032	Pecan Gap	Pecan Gap, TX	03/18/81
81-FW-248-1033	City of Runaway Bay	Runaway Bay, TX	03/18/81
81-DE-248-1001	City of Sentinel Butte	Sentinel Butte, ND	10/23/80
81-DE-248-1003	Town of Conrad	Conrad, MT	12/23/80
81-SE-248-1004	City of Lincoln City	Lincoln City, OR	03/10/81
81-SE-248-1005	City of Prairie City	Prairie City, OR	03/10/81
81-SE-248-1006	City of Donald	Donald, OR	03/11/81
81-SE-248-1007	Cowlitz County	Kelso, WA	03/23/81
81-SE-248-1008	Town of Cathlamet	Cathlamet, WA	03/23/81
81-SE-248-1009	City of Philomath	Philomath, OR	03/23/81
81-SE-248-1010	City of Ephrata	Ephrata, WA	03/23/81
81-SE-248-1011	City of Bandon	Bandon, OR	03/24/81
81-SE-248-1012	City of Chiloquin	Chiloquin, OR	03/24/81
81-NY-252-1017	City of East Orange	East Orange, NY	02/20/81
81-NY-252-1019	City of Jersey City	Jersey City, NJ	03/02/81
81-AT-252-1034	Nashville/Davidson County	Nashville, TN	01/06/81
81-BO-257-1013	Boston Model Cities	Boston, MA	12/23/80
81-BO-257-1022	City of Lewiston	Lewiston, ME	03/26/81
81-NY-257-1007	Poughkeepsie Urban Renewal Agency	Poughkeepsie, NY	11/17/80
81-NY-257-1012	City of New York Department of of Housing Preservation and Development	New York, NY	12/19/80
81-NY-257-1015	Water Desalination Plant	St. Thomas, VI	02/23/81
81-PH-257-1007	City of Philadelphia	Philadelphia, PA	10/31/80
81-KC-257-1006	Land Clearance for Redevelopment Authority of St. Charles	St. Charles, MO	11/05/80
81-KC-257-1009	Model Cities Relocation Program	Kansas City, KS	12/09/80
81-FW-258-1008	State Planning Office	Baton Rouge, LA	11/18/80
81-AT-259-1028	City of Greensboro/Greensboro Housing Authority	Greensboro, NC	12/05/80
81-AT-259-1033	City of Miami Beach	Miami Beach, FL	12/30/80
81-KC-259-1010	Department of Human Resources	St. Louis County, MO	12/08/80
81-KC-259-1015	Section 312 Rehabilitation Loan Program	Jefferson City, MO	02/06/81

ADMINISTRATION (37)

81-BO-261-1010	New England Municipal Center	Durham, NH	12/03/80
81-BO-261-1014	Halcyon, Ltd.	Hartford, CT	01/30/81
81-BO-261-1020	Urban Systems Research and Engineering	Cambridge, MA	03/18/81
81-NY-261-1006	Roosevelt Island Development Corporation	Roosevelt Island, NY	10/23/80
81-NY-261-1014	South Bronx Development Org.	New York, NY	02/11/81
81-PH-261-1016	University Research Corp.	Washington, DC	01/29/81
81-PH-261-1017	University Research Corp.	Washington, DC	01/29/81
81-PH-261-1022	National Community Development Association	Washington, DC	02/27/81
81-FW-261-1004	CPI Associates, Inc.	Dallas, TX	10/03/80
81-DE-261-1005	National Urban Indian Council	Denver, CO	02/11/81
81-BO-262-1003	Inquilinos Boricuas en Accion (IBA)	Boston, MA	10/30/80

ADMINISTRATION (Continued)

<u>Report No.</u>	<u>Auditee</u>	<u>Location</u>	<u>Date Issued</u>
81-BO-262-1008	Northeast Economic Action Research Corp.	Boston, MA	11/17/80
81-NY-262-1001	Fillmore Leroy Area Residents, Inc.	Buffalo, NY	10/07/80
81-NY-262-1009	City Planning Department Fund	New York, NY	11/21/80
81-NY-262-1010	Southside United Housing Development Fund	Brooklyn, NY	12/04/80
81-NY-262-1016	National Development Council	New York, NY	02/20/81
81-NY-262-1022	Steven Winters Associates, Inc.	New York, NY	03/11/81
81-NY-262-1023	The New World Foundation	New York, NY	03/11/81
81-NY-262-1025	State of New York, Department of State	Albany, NY	03/26/81
81-NY-262-1027	Tri City - Union for Progress	Newark, NJ	03/30/81
81-PH-262-1002	Civic Action Institute	Washington, DC	10/23/80
81-PH-262-1003	Joint Center for Political Studies	Washington, DC	10/23/80
81-PH-262-1004	Intermedia/AV, Inc.	Washington, DC	10/29/80
81-PH-262-1005	Gladstone Assoc.	Washington, DC	10/31/80
81-PH-262-1009	National Assoc. of Schools of Public Affairs and Administration	Washington, DC	11/07/80
81-PH-262-1023	The Urban Land Institute	Washington, DC	03/27/81
81-CH-262-1016	National Training and Information Center	Chicago, IL	01/12/81
81-CH-262-1017	American Planning Association	Chicago, IL	01/12/81
81-CH-262-1018	American Planning Association	Chicago, IL	01/13/81
81-CH-262-1023	The Academy for Contemporary Problems	Columbus, OH	02/19/81
81-CH-262-1026	The Academy for Contemporary Problems	Columbus, OH	03/05/81
81-FW-262-1018	Advisory Report on Final Costs Submitted by Southern Univ.	Baton Rouge, LA	12/15/80
81-SF-262-1003	PMC Associates, Inc.	Palo Alto, CA	11/10/80
81-SF-262-1011	Group Management Associates Modular Integrated Utilities Systems	Encino, CA	01/12/81
81-SF-262-1018	Advisory Report on Final Costs Submitted by Chinatown Neighborhood Improvement Resource Center, Inc.	San Francisco, CA	03/20/81
81-PH-269-1010	National Association of Housing Cooperatives	Washington, DC	11/10/80
81-PH-269-1011	National Conference of Catholic Charities	Washington, DC	11/10/80

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (18)

81-TS-271-1001	Pulaski Bank and Trust Company	Little Rock, AR	11/12/80
81-TS-271-1002	Simmons First National Bank	Pine Bluff, AR	11/12/80
81-TS-271-1003	Colorado National Mortgage Co.	Denver, CO	11/12/80
81-TS-271-1004	United Virginia Mortgage Corp.	Richmond, VA	11/12/80
81-TS-271-1005	Alamo Savings Association of Texas	San Antonio, TX	11/12/80
81-TS-271-1006	Mercantile Mortgage Corporation	Baltimore, MD	11/12/80
81-TS-271-1007	Collateral Investment Company	Birmingham, AL	11/12/80
81-TS-271-1008	Central Mortgage Company	Philadelphia, PA	11/12/80

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (Continued)

<u>Report No.</u>	<u>Auditee</u>	<u>Location</u>	<u>Date Issued</u>
81-TS-271-1009	Seafirst Mortgage Corporation	Seattle, WA	11/12/80
81-TS-271-1010	Professional Mortgage Services, Inc.	Santa Ana, CA	11/18/80
81-TS-271-1011	Modern American Mortgage Corp.	Little Rock, AR	12/15/80
81-TS-271-1012	Guaranty Savings and Loan Assn.	Pittsburgh, PA	12/15/80
81-TS-271-1013	NCNB Mortgage Corporation	Charlotte, NC	12/15/80
81-TS-271-1014	First Federal Savings and Loan Association of Denver	Lakewood, CO	02/06/81
81-TS-271-1015	Spokane Mortgage Company	Spokane, WA	02/06/81
81-TS-271-1016	Kirk Mortgage Company	Philadelphia, PA	02/06/81
81-TS-271-1018	Home Mortgages, Inc.	Charleston, WV	03/02/81
81-TS-271-1019	Shelter America Corporation	Aurora, CO	03/02/81

POLICY DEVELOPMENT AND RESEARCH (2)

81-NY-272-1021	Yunque Development Corporation	New York, NY	03/06/81
81-CH-278-1001	Chicago Housing Authority	Chicago, IL	10/17/80

GRAND TOTAL - EXTERNAL AUDIT AND ACCOUNTING
SYSTEM EVALUATION REPORTS - 261

AUDITS RESULTING IN MEMORANDUMS
RATHER THAN FORMAL REPORTS

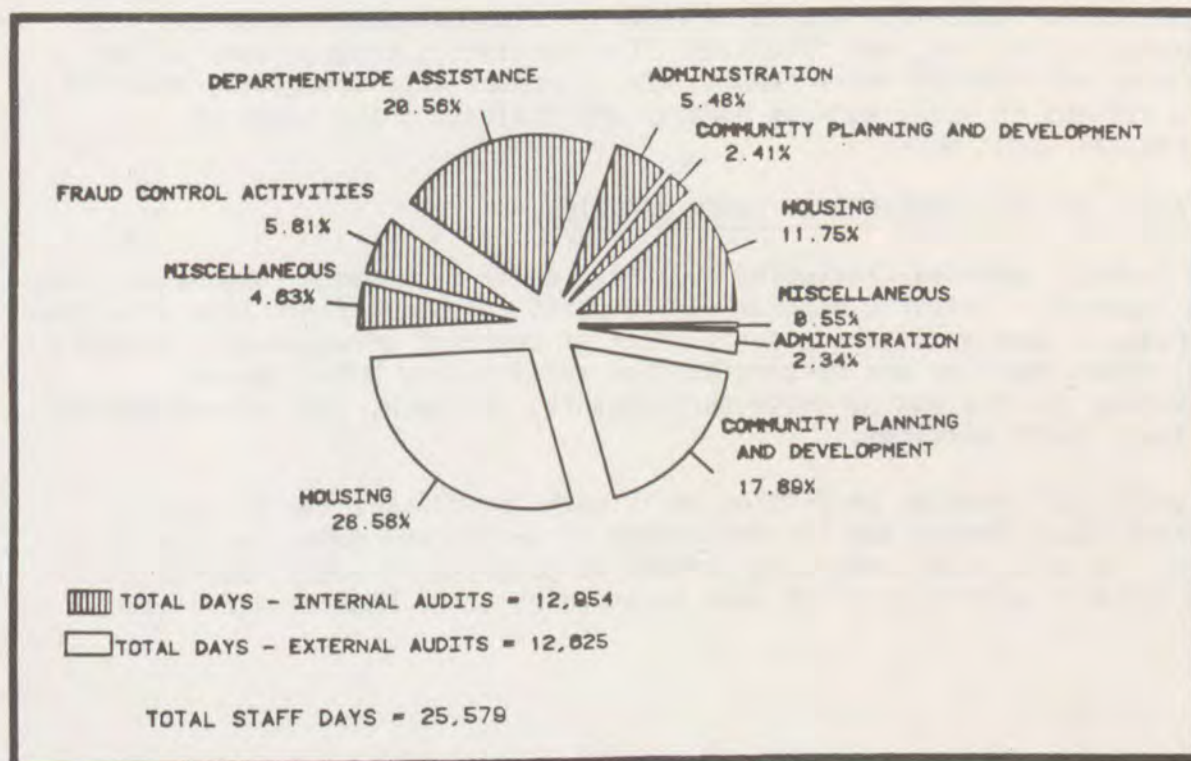
<u>Assignment Number</u>	<u>Audit Title</u>	<u>Location</u>	<u>Date Memo Issued</u>
1650036	GSA Furniture - 2	Headquarters	12/05/80
1720028	Research Suppt - PD&R	Headquarters	12/05/80
2211003	J. T. Barnes	Region V	01/22/81
2520014	State of Michigan A-87	Region V	01/07/81
2090010	White Mountain Apache	Region IX	10/20/80

TERMINATED AUDITS--NO REPORT ISSUED

<u>Assignment Number</u>	<u>Audit Title</u>	<u>Location</u>	<u>Date Terminated</u>
1660025	Terminally Operated Payroll/ Personnel System (TOPPS)	Headquarters	02/11/81

B. DISTRIBUTION OF AUDIT TIME

The semiannual distribution of the Office of Inspector General's direct audit time by major program area and activity is graphically displayed below. As shown, the distribution between internal and external audit time is nearly equal; 50.6 percent and 49.3 percent respectively.



DISTRIBUTION OF AUDIT STAFF TIME BY PROGRAM AREA AND TYPE OF AUDIT
OCTOBER 1, 1980 TO MARCH 31, 1981

The internal audit area with the largest percentage of time is the departmentwide assistance area with 20.6 percent. The departmentwide assistance area includes time spent on following up on the resolution of audit findings and monitoring non-Federal audit work. Audits of Housing programs and activities consumed the largest percentage of external audit time (28.6 percent).

C. USE OF NON-FEDERAL AUDITORS

Because of the large universe of potential annual external audits, we must rely on Independent Public Accountants (IPAs) and state and local auditors to perform most of the audits of recipients of HUD assistance. The majority of non-Office of Inspector General audits of HUD program participants,

however, are performed by IPAs in contrast to state or local government auditors. During the semiannual reporting period, we reviewed and accepted 2,334 audit reports prepared by non-Federal auditors. As appropriate, non-Federal audit findings are controlled for follow up and resolution in accordance with the Department's Audits Management System (see page 37).

The Inspector General Act of 1978 requires each Office of Inspector General to take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions. Our monitoring program consists of reviewing non-Federal audit reports for acceptability, conducting selected field reviews of audit working papers, and evaluating the scope of non-Federal audit work.

D. AUDIT REPORTS PREPARED BY OTHER AGENCIES

Some Federal agencies (including HUD) have audit cognizance responsibilities with respect to specific program participants receiving funds from more than one Federal agency, either under a grant or contract arrangement. In HUD's case, these agencies are responsible for auditing any HUD-financed activities carried out by these participants. As such, they are reimbursed for their audit services.

The principal agencies performing audit work for HUD are the Defense Contract Audit Agency and the Department of Health and Human Services. During the semiannual reporting period, we accepted 14 audit reports covering HUD activities which were prepared by other Federal agencies.

APPENDICES

DESCRIPTION OF MAJOR TERMS

Internal Audits. These are independent reviews of programs and operations designed to determine and report whether: (1) financial operations are conducted properly; (2) financial reports are presented fairly; (3) applicable laws and regulations have been complied with; (4) operating procedures are effective and are being carried out; (5) resources are managed and use in an economical and efficient manner; and, (6) desired results and objectives are being achieved in an effective manner. A given internal audit may provide a top to bottom review of a particular activity or program at all HUD organizational levels responsible for the activity or program (vertical audit), or the audit may encompass all or several field locations (horizontal audit). An internal audit may also include various combinations of these approaches.

External Audits. These are reviews or examinations made of the records and performance of grantees, borrowers, mortgagors, mortgagees and other contractors in accordance with generally accepted auditing standards and to the extent practicable, the GAO standards for audit of governmental organizations, programs, activities and functions. These audits are made as a means of ascertaining the degree of compliance with the statutes, regulations, and terms and conditions of the agreements under which the Federal funds are made available. Determination is also made as to the appropriateness of the disposition of funds granted, loaned, or contributed. These audits also provide HUD management with information on the effectiveness of its administration of program operations. External audits also encompass pricing proposal evaluations which are reviews made for the purpose of determining the reasonableness of estimates of costs and profit supporting all types of proposals submitted by contractors in connection with the award, administration, modification or repricing of Government contracts. Another category of external audit is a cost reimbursable contract audit. These audits include a review of incurred costs and overhead (indirect costs) and contractor's policies, procedures, and practices which influence and control contract costs. In addition, external audits include accounting evaluations. The objective of an accounting evaluation is to determine whether the recipient's accounting system is capable of furnishing accurate financial reports on a timely basis consistent with the requirements of the Department.

Surveys. These are fact-finding reviews designed to obtain and analyze working information on an activity or program for the purpose of identifying matters warranting detailed examination or analysis. When conditions disclosed by a survey are in need of immediate attention and corrective action, the survey report, or a summary of such conditions noted, are usually provided to the official responsible for taking the needed corrective action. Otherwise, survey data are used by us in planning audit work.

Operational Surveys. Operational Surveys, encompassing the operations of field offices, were first introduced by the OIG in June 1972. These surveys are made to identify specific program areas, Departmental operations, and participants therein, for the purpose of ascertaining any incidences of

APPENDIX 1

fraud, bribery, kickbacks, favoritism and/or administrative irregularities. Such surveys are also designed to reveal patterns of operations conducive to irregularities. Operational Surveys provide a basis for the coordination and referral of allegations or indications of possible criminal violations to the Department of Justice, and assist in identifying matters or areas requiring further audit/investigative attention.

Investigations. An investigation consists of gathering of information, statements from informed persons, and a review of related records in order to ascertain whether a possible irregularity or violation of law exists. The general types of investigations made by the OIG are: (1) investigations of criminal matters, e.g., false statements/fraud against the Government; (2) violations of the Interstate Land Sales Full Disclosure Act (OILSR); and, (3) violations of the HUD Standards of Conduct regulations.

National Agency Check and Inquiry (NACI). An NACI is the minimum type of personnel security investigation conducted of potential applicants to Government positions. It consists of a check of the fingerprint and investigative files of the FBI, investigative files of the Office of Personnel Management and other applicable Government agencies, as well as written inquiries to law enforcement agencies, former employers and supervisors, references, and schools.

Full Field Investigation (FFI). An FFI, which is conducted by Office of Personnel Management investigators, is the maximum type of personnel security investigation. In addition to a check of FBI, Office of Personnel Management and other Government agency files, it includes interviews with present and former knowledgeable associates, and checks of credit and other pertinent records. An FFI is required for all occupants of critical-sensitive Government positions, as well as some noncritical-sensitive positions.

Debarment. Debarment means an exclusion from participation in HUD programs for a reasonable, specified period of time commensurate with the seriousness of the offense or failure, or the inadequacy of performance. However, in connection with Executive Order 11246 on Equal Employment Opportunity, the term debarment also means an exclusion from contracting or subcontracting for an indefinite period of time pending the elimination of the circumstances for which the exclusion was imposed.

Suspension. Suspension means a disqualification from participation in HUD programs for a temporary period of time because a contractor or grantee is suspected upon adequate evidence of engaging in criminal, fraudulent, or seriously improper conduct.

Consolidated List. A list of all contractors and grantees against whom any or all of the measures referred to in this part have been invoked. It includes past performance data and the status of a participant on any debarment, suspension, or ineligibility list.

Fraud. Fraud is an intentional deception to cause a person or party to give up property or some lawful right. Fraud includes all acts, omissions, and concealments involving a breach of legal or equitable duty, trust, or confidence justly reposed which result in damage to another or by which undue and conscienceless advantage is taken of another.

Mismanagement. Mismanagement means the failure to accomplish the goals and objectives of the activity or organization through the personal fault of those entrusted with managing or administering the activity or organization including its resources.

Waste. Waste means to spend monies or use resources carelessly and inefficiently without gaining a proper, reasonable, or normal return.

Program Abuse. Program Abuse literally means to use Federal programs improperly through deceitful, deceptive, fraudulent or other similar practices, usually for the purpose of improperly benefiting oneself financially.

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

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



October 1980

Fraud Information Bulletin

81-1

"In Government contracting, we can't afford the luxury of mistakes, you must be aware of what is going on and what you can do to protect both the Government and yourself."
--Federal Acquisition Institute

Procurement-Contract Award Process

Purpose

Recently, the President, Congress and GAO have focused attention on the need to improve procurement practices carried out with Federal tax dollars. This bulletin is the first in a series that will address the potential fraudulent and wasteful practices associated with procurement.

Although the majority of people participating in HUD programs or involved in their administration comply with all rules and regulations, we are issuing this bulletin to assist appropriate personnel in identifying those who may abuse HUD programs.

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

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

Background

The procurement of goods and services with Federal funds has been estimated to consume between 20 and 30 percent of the Federal budget. Almost every HUD program or activity relies on various types of procurement to meet program objectives.

The Office of Management and Budget recently has issued directives to tighten management controls associated with procurement. This, and future bulletins, will discuss the matters reviewers and monitors must be mindful of in attempting to alleviate the past problems in awarding, administering and monitoring procurement contracts.

Applicability

Various HUD staff members at all levels become involved directly or indirectly in the procurement process. Most of HUD's direct procurement is carried out either in Headquarters by the Office of Procurement and Contracts in concert with the various program offices or in the Field by personnel associated with acquired property operations. On the other hand, numerous Field staff members have responsibilities for monitoring indirect procurement, i.e., program funds expended by program participants through third party contracts.

In both direct and indirect situations, HUD staff should determine the degree to which procurement actions comply with the administrative requirements dictated by Federal Procurement Regulations, OMB Circulars, HUD Handbooks, or State and local laws.

Although the administrative requirements concerning procurement can vary widely from program to program, there are several major requirements that should be met consistently. While reviewers must concentrate on administrative compliance, they also should be alert for indications of fraud and abuse. In some cases, additional assessment of the situations may be needed to give some credence to the indications of irregularity. When these indicators become apparent to reviewers, they should be referred to the Office of Inspector General in accordance with the procedures contained in HUD Handbook 2000.3A.

The Contract Award Process

Although the contract award process can and does take various courses to meet an end result, i.e., delivery of goods and services, this bulletin is designed to discuss only the five most common steps in the process. These are: (a) preparation of general requirements; (b) preparation of bid specifications; (c) solicitation of bids; (d) receipt and review of bids; and (e) contract award.

Competitive bidding requirements, as government regulations go, are relatively simple and clear cut. Nevertheless, the ingenuity of the corrupt official and contractor induced by greed, bribes, unlawful gifts or conflicting interests has produced schemes to circumvent the requirements and to defraud the public. Therefore, reviewers should be alert for and follow-up on any questionable items noted in the various phases of the contract award process.

The following sections discuss each stage of the award process and provide useful reminders that should be considered when reviewing contract awards.

General Requirements

Normally, all procurement actions are initiated by formal or informal general requirements. These requirements consist of a brief description of the types and amounts of goods and services needed together with a justification for the need. Thus, the primary concern of any reviewer at this stage is the validity of, and need for, the requested procurement. Determinations of the underlying reasons for requesting unneeded goods or services should be made, especially in situations where:

- The requirement has been generated simply to spend available funds.
- There are doubts about how any unneeded goods or services actually would be used and by whom.
- The goods or services requested are apparently available from only one supplier.
- There are indications of a questionable relationship between the requirement generator and the potential contractor(s).
- The same goods or services are available in-house.

The review, acceptance, and processing of the general requirements materially affects the later stages of the contract award process. Consequently, any questionable matters noted during this phase should lead to additional reviews later.

Bid Specifications

Bid specifications detailing the types and amounts of goods or services to be provided are prepared to assist in the selection process. Bid specifications are intended to provide both potential bidders and the selecting officials with a firm basis for making and accepting bids. However, this phase is also subject to different types of abuses. Reviewers should question and follow-up on situations where:

- The bid specifications are not consistent with the items included in the general requirements.
- The specifications are written in such a manner that they clearly favor a certain contractor(s).
- The specifications are so vague that reasonable comparisons of estimates would be difficult.
- The specifications are not consistent with past similar type procurements.
- The specification writer has a questionable relationship with potential bidders.
- The specifications are written to split the work needed so as to avoid prescribed levels of review and approval.
- The specifications would allow a contractor to bid extremely low but later provide "extras" through change orders.

Well written specifications or task orders are an essential element in the contract award process. Thus, reviewers must assure themselves that bid specifications are not prepared to favor certain bidders or to obtain unneeded goods and services.

Solicitation of Bids

The types and amounts of competition for the contract are governed generally by the manner and timing of bid solicitations. Formal advertising with a strict but reasonable timeframe for response usually provides for open competition. Reviewers who have encountered problems in the general requirements and/or the bid specification stage should pay careful attention to bid solicitations. Questions should be raised when:

- The time allowed for response is short.

- No formal advertising method is used or the method used does not reach a sufficient number of apparently qualified bidders.
- The bid solicitation is vague as to the time, place, or other requirements for submitting acceptable bids.
- Sealed bids to be publicly opened are not required.
- There is little or no control over the number and destination of bid packages sent to interested bidders.

Abuses can and do occur in the bid solicitation phase. However, such abuses are usually the forerunner to the submission of improper bids. Therefore, reviewers should pursue any questionable bid solicitations by examining closely the receipt and review of the bids.

Receipt and Review of Bids

Unlike the other stages of the contract award process that basically are internal functions, reviewers should be mindful that bidding irregularities can occur both within and outside the procuring organization. Moreover, under normal circumstances, the receipt, evaluation and acceptance of bids leads directly to the contract award. Thus, it is important that reviewers closely analyze this process. In doing so, among the significant matters to consider and question are situations where:

- All bids are not publicly opened and recorded.
- Bids are accepted and considered even though bid requirements concerning matters of substance are not met.
- All bids are either extremely high or extremely low.
- One bid is extremely low.
- One bid is extremely close to contract estimates or a given bidder is consistently close to the estimate.

Appendix 2

- There appear to be alterations to the bid documents.
- Very few bids are received (less than three).
- There are indications of a relationship between one or more bidders with other bidder(s).
- Bids are received from persons or firms having a questionable relationship with officials or employees of the awarding organization.
- Bids are received from seemingly unqualified or dummy firms.
- Bids are received unexpectedly from firms not responding initially to solicitations.
- There is a pattern or similarity in the bids or the bidders on several contracts.
- Awards made that include items other than those contained in bid specifications.
- Awards made to persons or firms that might have a conflict of interest with the awarding organization or its officials.
- Awards made without adequate documentation of all preaward and postaward actions including all understandings or oral agreements.

Any deviations from normal practices in the contract award process should be pursued by reviewers. Although there may be reasonable explanations for such deviations, it is possible that these actions were taken to steer a contract to a favored contractor. Apart from the waste of Federal funds involved in these instances; bribery, kickbacks, and collusion often are associated with such favoritism.

Schemes involving the submission or acceptance of improper bids are the most prevalent abuse of the contract award process. Contract reviewers must be alert constantly for questionable activities that could reduce the integrity of the process.

Even when contracts are awarded properly and legally, there are numerous other schemes persons or firms might use to obtain unwarranted contract payments. These possible schemes and abuses will be discussed in a later bulletin under contract administration.

Contract Award

* * * * *

The final step, after the bids have been reviewed and analyzed, is selecting the contractor. Normally, contracts must be awarded to those persons or firms that submit the lowest bid and have a demonstrated capacity to perform. Possible indicators of abuse that reviewers should question are:

- Awards made to other than the low bidder without a solid justification.
- Awards made to contractors with an apparent history of poor performance.
- Awards made without adequate facts to make a determination of the contractor's performance capability.
- Awards made to the lowest of a very few bidders without re-advertising considerations or without adequate publicity.

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

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



February 1981

81-2

Fraud Information Bulletin

"Waste and fraud in the federal budget is . . . a scandal we are bound and determined to do something about."

--President Reagan, February 1981

Multifamily Mortgagor Operations

Purpose

This Fraud Information Bulletin is being issued to HUD auditors, investigators and program personnel who have responsibilities for monitoring various aspects of multifamily mortgagor operations.

Although most multifamily project mortgagors and managers comply with pertinent rules and regulations, this bulletin is designed to help HUD personnel identify those persons or firms who may abuse the program.

The ability to recognize potential fraud indicators enhances our ability to detect abuse and help keep HUD programs more viable, both functionally and economically.

The methods used to perpetrate fraud are seldom so unique as to be relevant to only one type of program. Thus, the matters discussed also apply to many other HUD programs, activities or functions.

While the information presented is not intended to replace any HUD handbooks or monitoring procedures, it can serve as a useful tool when monitoring or reviewing multifamily mortgagor operations.

The schemes presented are based on a composite of allegations referred to the Office of Inspector General or the Federal Bureau of Investigation (FBI). As a composite, they preclude the reader from identifying the scheme with actual persons or otherwise cause any unwarranted invasions of privacy.

Background

HUD insures multifamily project mortgages under numerous sections of the National Housing Act. The insurance serves as an inducement for private sector participation in providing housing to low and moderate income citizens. In return for the insurance benefits, mortgagors execute a Regulatory Agreement that protects HUD's interest in the project by stipulating various conditions mortgagors must meet to maintain the insurance provisions.

Appendix 3

Various types of subsidies such as interest reduction payments, operating subsidies, or rental assistance payments have been and are being made available to either eligible multifamily mortgagors or tenants. HUD's exposure to loss or abuse in multifamily insured projects is substantial. Current estimates of multifamily insurance in force exceed \$26.5 billion and annual subsidies to mortgagors and tenants (excluding Section 8) exceed a billion dollars.

Recently, the FBI compiled a priority ranking of the fifteen most prevalent types of white collar crimes. Frauds involving housing and mortgage loans ranked fourth on this list. While this category is extremely broad, it is reasonable to conclude that the schemes and abuses discussed in this bulletin impact on the ranking.

Applicability

Field office staff, primarily those located in the Housing Loan Management Branch, conduct reviews of multifamily mortgagor operations as part of their mortgage servicing function. Effective mortgage servicing includes recognizing adverse conditions, developing possible cures, and working cooperatively with affected parties to take corrective actions.

Although reviewers must concentrate on administrative compliance, they also should be alert for fraud and program abuse. In some cases, additional assessment of the situations may be needed to give some credence to indications of abuse. When such indications are found by reviewers, they should be referred to the Office of Inspector General in accordance with the procedures contained in HUD Handbook 2000.3A.

Schemes and Fraud Indicators

The methods or schemes used to abuse insured multifamily operations are limited only by the imagination of those persons or firms who would engage in such activities. However, experience has shown that such abuses generally

fall within two basic categories: (1) improperly disbursing (diverting) project operating funds and reserve accounts; and (2) illegally obtaining or diverting project rental income. These types of abuses tend to contribute to one or a combination of the following: (a) HUD granting unnecessary relief to mortgagors, i.e., modification, forbearance, rent increases, etc.; (b) rapid deterioration of the project's physical condition; and (c) the default, assignment or foreclosure of the project mortgage.

The following sections detail prevalent schemes, typical examples, and fraud indicators under each category.

Improper Disbursements

The most frequently found abuse in multifamily mortgagor operations is the improper use of project operating funds. The various required reserve funds are misused frequently also.

A common element found in improper disbursements is the existence of an identity-of-interest between the paying and receiving organizations. Thus, reviewers should be alert particularly to the identities of the parties involved in typical transactions.

Prevalent methods used to disburse operating or reserve funds for personal benefit are:

- inflating expense accounts
- creating unsupported and uncollectible notes or receivables
- reducing project obligations without approval
- depleting reserve accounts for unauthorized purposes
- distributing capital accounts excessively
- purchasing assets without approval or for personal use

Consequently, funds designed to maintain the project are misused and the program's intended benefits are not achieved. The financial viability of the projects is threatened with possible adverse effects on tenants. Moreover,

Appendix 3

the use of project operating funds for other than the necessary and reasonable operation of the project or for unauthorized distributions violates the Regulatory Agreement.

Scheme Examples - Improper Disbursements

- A mortgagor misused operating funds by making improper payments to identity-of-interest firms. The goods and service paid for were not actually delivered to the project. Because the project mortgage was in default, this series of transactions was prosecutable under Section 1715z4 of the U.S. Criminal Code and is referred to as equity skimming.
- A staff member of an identity-of-interest management agent diverted project funds by inflating the amounts paid to a maintenance firm for supply items. The manager received kickbacks from the supplier. Subsequently, when a negative operating cash flow developed, the individual used tenant security deposit funds to make mortgage payments.
- While under a workout agreement, a project mortgagor made improper distributions by making payments on loans that had not been approved by HUD. In addition, payments were made to partners as surplus cash distributions. Later, it was learned that financial records had been altered to fraudulently present a surplus cash position.
- A project mortgagor used project operating funds to both reduce personal obligations and make personal investments. Fictitious receivables were established in the financial records to hide the actual use of the funds.

Fraud Indicators - Improper Disbursements

Because of the variety of ways improper disbursements can be made, detection of fraud and abuse may require some special efforts. In performing on-site or remote reviews, staff is more likely to encounter questionable matters in situations where there is a general lack of internal controls in the financial

operations and where identities-of-interest exist. Certain factors that may indicate fraud or abuse are:

- Significant unexplained changes from prior reports in the balance sheet or income accounts on submitted financial statements. For example, a large increase in notes receivable.
- Comparatively higher amounts for expenses than those found for projects of similar size in the same locality.
- Costs to maintain other project facilities (commercial space) without corresponding income.
- Undocumented or unsupported cash disbursements.
- Patterns or recurring expenditures for items not observed readily at the project. For example, several purchases of landscape items but project grounds are unattractive.
- Unusual payments to officers or on behalf of officers or partners. For example, fees for personal income tax matters.

The above indicators should not be considered conclusive evidence of fraud or abuse. Rather, they represent matters that have been found frequently and that require follow-up actions.

Improper Income

Apart from the improper expenditure of project funds, certain mortgagors, owners and managers have abused multifamily programs by generating income for personal use. Frequently, these uses involve misrepresentations to obtain excessive subsidies from HUD. Fraud Information Bulletin 80-1--Section 8 Administration, contained details concerning schemes and fraud indicators relating to these abuses. Insured multifamily programs are vulnerable to the same risks. In addition, reviewers should be aware of other prevalent methods to divert project income, such as:

- Manipulating rental records to disguise the misuse of rental receipts.

Appendix 3

- Collecting side payments or excess fees from tenants.
- Converting interest on reserve account time deposits to personal use.
- Renting units and keeping the cash receipts while listing those units as vacant.
- Converting project space for unauthorized commercial uses or establishing rent free units.

Scheme Examples - Improper Income

- A project management firm having an identity-of-interest with the mortgagor continually falsified subsidy billings and supporting tenant forms in order to receive inflated rental assistance subsidies. The excessive subsidies placed the project in a "surplus cash" position and distributions were then made to the owners.
- Staff members of a management firm altered tenant records to inflate the amounts of tenants' past due accounts. The actual cash receipts were used for personal expenses.
- A mortgagor routinely charged tenants a monthly cash fee for continuing them in the rental assistance payment programs. Threats of eviction or substantially increased rents were used to induce tenant cooperation.
- A mortgagor converted residential rental space to commercial space and operated an identity-of-interest business without paying any rent. Later, it was discovered that substantial amounts of that business' administrative costs were paid from project funds.
- A mortgagor leased commercial space to a firm that subsequently sublet the space at rates three times as high. Documents submitted to induce HUD's approval of the leases and subleases were altered. Later, it was learned that the mortgagor received half of the excess rents.

Fraud Indicators - Improper Income

Generating and hiding project income can occur in many ways. Moreover, detecting such schemes is often difficult without some prior indications of problems. The following situations might warrant some follow-up work on the part of reviewers.

- Frequent tenant complaints concerning the withholding or charging of large move-out fees.
- A pattern of problems associated with reconciling tenant account balances.
- Numerous adjustments to project rental cash account reconciliations for items such as deposits in transit, outstanding checks, or checks returned for insufficient funds.
- Projects listed as 100% occupied when such a situation appears unreasonable or abnormal.
- Project space is rented to commercial tenants at rates that appear unusual in the locality.

* * * * *

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

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



March 1981

81-3

Fraud Information Bulletin

"The Federal procurement process involves fiduciary responsibility for \$100 billion annually. From the person who establishes the need for goods and services through the contracting officer and sales disposal officer--all must be held accountable for assuring the integrity of the process."

--Office of Management and Budget

Procurement -- Contract Administration

Purpose

Over the past year, the President, Congress, and GAO have expressed considerable concern over abuses that occur in the Federal procurement process. This bulletin is the second in a series concerning procurement practices that have potential for fraud, waste or mismanagement. The first bulletin, issued in October 1980, dealt with the contract award process. This bulletin covers post-award activities.

Most contractors and HUD employees involved in procurement perform their duties in compliance with all applicable contracts, rules and regulations. We are issuing these bulletins to assist HUD personnel to identify those who may abuse the procurement process and to highlight situations where the potential for abuse is high.

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

While the information contained in this bulletin on post-award contract administration is not intended to replace any guides or monitoring procedures currently in effect, it should serve as a useful tool in reviewing procurement activities. Because the illustrations described herein are not all-inclusive, reviewers should be alert for variations or other abuses not covered in this bulletin.

Background

The procurement of goods and services with Federal funds has been estimated to consume between 20 and 30 percent of the Federal budget. Virtually every HUD program or activity relies on various types of procurement to meet its objectives.

The Office of Management and Budget in 1980 issued directives to strengthen management controls associated with procurement, specifically: Circular A-120; a June 25, 1980 letter to the

Appendix 4

Heads of Executive Departments and Establishments on "controlling year-end buying"; and a July 2, 1980 letter to the Heads of Selected Executive Departments and Agencies on "management control of consulting service contracts and improvement of agency procurement practices." Recent budget restrictions intensify the need for such controls to ensure Federal funds are used as economically and efficiently as possible.

Applicability

Various HUD staff members at all levels become involved directly or indirectly in the procurement process. Most of HUD's direct procurement, i.e., where the Department is the purchaser, is carried out either in Headquarters by the Office of Procurement and Contracts in concert with the various program offices or in the Field by personnel associated with acquired property and housing management operations. In addition, numerous Field staff members have responsibilities for monitoring indirect procurement, i.e., program funds expended by program participants through third party contracts.

In both direct and indirect situations, HUD reviewers (Government Technical Representatives, Contracting Officers, Field Office monitors, etc.) should determine the degree to which procurement actions comply with existing administrative requirements. These include: the Federal and HUD Procurement Regulations, OMB Circulars and directives, state and local laws, and relevant HUD handbooks, e.g., 2210.3, "Procurement Policies and Procedures" and 4320.1, "Property Disposition Handbook--Contracting."

Although the administrative requirements for procurement can vary widely from program to program, there are several major requirements that should be met consistently. While reviewers must concentrate on administrative compliance, they also should be alert for indications of fraud and abuse. In some cases, additional assessment of the

situation(s) may be needed to give some credence to the indications of irregularity. When these indicators become apparent to reviewers, they should be referred to the Office of Inspector General in accordance with the procedures contained in HUD Handbook 2000.3A, "Office of Inspector General Audit and Investigation Activities."

The Contract Administration Process

There are a variety of facets to the administration of a contract after it is awarded. This bulletin discusses four major steps in the process: (a) contract modification; (b) performance monitoring; (c) payment processing; and (d) contract compliance. Performance monitoring and payment processing are applicable to all contracts. Contract modifications are common to a majority of contracts; contract compliance activities apply to those situations where performance problems occur.

Generally, control measures necessary to avoid abuses in contract administration are contained in existing rules, regulations and procedures. Abuses occur because the controls are not followed in actual practice. Some abuses result from the intentional desire to defraud the Government. Others occur for reasons such as lack of familiarity with the procedures, time constraints, breakdowns in communication, etc. Reviewers, therefore, should follow up closely on any apparent control deficiencies.

The following sections discuss these four major areas in the contract administration process and provide reminders that should be considered when reviewing this function.

Contract Modifications

It is commonplace for a contract, once awarded, to be subject to modification. This reflects changes in work scope, price, time and/or rate of performance or other provisions (e.g., a change in technical representative). To ensure that Government funds are expended

judiciously, modifications should generally be subject to the same control requirements as the basic contract. They are: adequate documentation; justification citing need, reason for not using competitive procedures, reasonableness of price, benefit to the Government, etc.; and proper advance approval. Therefore, the reviewer should be alert for circumstances where any of these controls appear to have been neglected or circumvented. Suspicion should be aroused when:

- Formal, executed contract amendments are either nonexistent or dated on or about the time of work completion.
- Work requirements or specifications are unrelated to or substantially different than those originally described and justified in the approved Statement of Work.
- Work scope is changed without any apparent advantage to the Government.
- Contract price is increased without a corresponding expansion in work scope, upgrading of specifications, etc., or in the case of cost reimbursement contracts, evidence that material costs have risen.
- A modification is generated simply to spend available funds before year-end.
- Several modifications are made to a single contract or to all contracts with a particular firm or individual.
- Specifications relating to the changes are vague, insufficient, or inconsistent with the contract general requirements.
- Contractor appears to be using change orders to compensate for an original bid that was too low.

Under these circumstances, there is an increased likelihood that the Government is paying for unperformed, inadequate or unnecessary goods or services. Further, there is the possibility that modifications are being used as a means of

avoiding the competitive process. For these reasons, reviewers should examine closely the propriety of contract modifications.

Performance Monitoring

Monitoring of contractor performance is closely related to all other steps in the contract administration process because, if performed effectively, it should: (1) identify weaknesses in the preaward process, such as poorly written or vague specifications that can be improved in future contracts; (2) provide a basis for accepting or rejecting payment requests, or in the case of cost reimbursement contracts, for determining that final costs are reasonable and allowable; (3) determine the necessity of modifications; and (4) identify when remedial actions are needed. Monitors must assure themselves that work is progressing in accordance with content, quality, quantity, cost and time standards set forth in the contract, or be satisfied that reasons for deviation are valid. Generally, the effectiveness of monitoring is weakened in situations where:

- Contractors either are not required to or do not file progress reports describing work status, expenditures, reasons for and plans to remedy any delays, etc.
- Monitors do not ensure required reports are timely or do not review them to identify problems in contract progress (potential cost overruns, time slippage, unauthorized deviation from statement of work, etc.).
- Inspections or other performance evaluations are not documented adequately.
- Deficiencies disclosed during performance evaluations are not reported to both the contractor and the contracting officer.
- Noted deficiencies are not resolved satisfactorily.

Appendix 4

- Final evaluations do not document overall contractor performance, including content and quality of the product or service delivered, adequacy of reports filed, participation in status meetings, etc.
- Reviewers do not pursue instances where consumers or users register a large number of complaints about the quality of contractor products.

Where contract products are physical in nature (e.g., construction, rehabilitation, repairs and maintenance), the most effective method to assess contractor performance is by on-site inspections. In instances where such first-hand observation is feasible, reviewers should be alert for the following deficient situations:

- On-site inspections are not made or are made so infrequently as to be ineffective monitoring tools.
- Inspectors do not routinely use a standard checklist or other review guideline for visits.
- Inspection assignments are not rotated periodically among personnel to minimize the possibility of favoritism, kickbacks, bribes, etc.
- A contractor continually repairs or replaces the same item.
- Responsibility for inspection is vested in a third party without adequate spot-checking by monitoring staff.

Contracts for management, advisory or technical services must be monitored through other evaluation techniques. It is important that monitoring staff are familiar with the subject area and are trained adequately regarding their duties and responsibilities. Their oversight ability is weakened when:

- Monitors are not given formal training in procurement, file maintenance, final evaluation reporting and various requirements for product inspection and acceptance.

- There is frequent Government Technical Representative (GTR) or Government Technical Monitor (GTM) turnover on a contract.
- The same individual is designated consistently as GTR or GTM in contracts with a particular firm or individual.
- Delegation of GTR responsibilities to GTMs are not made or supervised properly.

Processing Payments

This aspect of contract administration is related closely to performance monitoring. The official authorizing payment must be assured that billings submitted by the contractor are for appropriate amounts based on expenditures, satisfactory completion of certain tasks or milestones or other arrangements. Contract monitoring accomplishes this through appropriate evaluations, reviews, inspections or tests of contractor performance. Reviewers must be alert for instances where payments are: duplicate, in excess of authorized amounts, or for inadequate or incomplete work. To identify these abuses, follow-up should be conducted in cases where:

- Requests for payments are paid without a review of contractor work progress, including assurance that required reports are filed timely.
- Invoice data is not compared to data submitted on required contractor status reports prior to approval of payment.
- Work scope appears conducive to separation into definite tasks or milestones so that payments could be tied to measurable progress but none were established.
- Contractor incurred costs appear questionable in relation to progress, accomplishments, delivered products, etc.

- Final payment is authorized before resolution of all monitoring or audit findings.
- Vouchers are submitted and/or authorized for payment even though a suspension of payments has been declared or a work stoppage has occurred.
- Adequate records are not maintained to verify the following prior to each payment: total contract price, previous disbursement amounts and dates, any restrictions on the amount that may be disbursed before contract closing.
- There is no segregation of duties among employees as to purchasing authority, acceptance of contractual services and approval of contractor invoices.
- Partial payments are made for work completed prior to the award of the contract or issuance of the notice to proceed.

The procurement process in HUD involves fiduciary responsibility for approximately \$213 million annually. Unless everyone involved in the procurement process, either directly or indirectly, considers themselves personally accountable for its integrity, there is no assurance that public funds will be expended economically and equitably.

Contract Compliance

Monitoring of performance may disclose deficiencies that the contractor is unwilling or unable to remedy. These could include: shoddy workmanship, unfinished work, use of substandard materials, inexcusable delays, and assignment of inexperienced or unqualified personnel. The Department must implement control measures in executing the contract and in its monitoring process to attempt to prevent such deficiencies or enforce performance. Where these control measures are unsuccessful, actions should be taken to

minimize current or avoid future losses. There is a greater potential for the occurrence of contractor abuse when:

- Monitoring staff does not inform appropriate parties (e.g., Contracting Officer, Inspector General, General Counsel) at the time problems are first noted.
- Contracting Officers do not initiate timely corrective actions such as meetings to resolve performance difficulties, withholding of payments, or contract termination, where appropriate.
- A percentage of the obligated amount, or fixed fee in the case of cost reimbursement contracts, is not withheld from payment until the contract is closed, or the contract does not allow for such withholding.
- Actions are not taken to require sureties to fully honor performance bonds.
- There are no procedures to preclude the acceptance of performance bonds of sureties that, without reason, refuse to honor their bonds.
- Closing attorneys do not personally confirm with the surety firm the identity of its agent and validity of the bond.
- The contract warranty period is allowed to elapse before a warranty deficiency is reported.
- Contractors performing unacceptably are not referred for possible addition to the Departmental list of debarred, suspended and ineligible contractors and grantees or other administrative sanction.
- A log or file of contractor performance is not maintained for consideration in future awards.
- Product acceptance minimum standards or criteria do not exist.

Appendix 4

The existence of any of the above circumstances weakens the Department's ability to ensure that it is receiving what it is paying for. Absent such controls, the contractor is performing in an atmosphere where there is little external incentive to perform satisfactorily.

* * * * *

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

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

DESCRIPTION OF FINDINGS--AUDIT OF
COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM, CITY OF NEW YORK, NEW YORK

SUMMARY STATEMENT OF PROGRAM COSTS
FOR THE PERIOD JULY 1, 1977 THROUGH FEBRUARY 28, 1979
AND FROM INCEPTION JUNE 16, 1975 THROUGH FEBRUARY 28, 1979

Description	Budget Allocation	PROGRAM EXPENDITURES			Unexpended Balance	7/1/77 - 2/28/79	
		6/16/75 Through 6/30/77	7/1/77 Through 2/28/79	Total Program Expenditures		Disallowances (Adjustments)	Questioned Costs
Department of Housing Preservation and Development Programs	\$277,210,076	\$37,137,068	\$88,055,573	\$125,192,641	\$152,017,425	\$10,307,608	\$65,337,738
Office of Public Service (Formerly Model Cities) Programs	124,198,588	48,635,578	44,079,181	92,714,759	31,483,829	1,333,621	23,232,172
Other Agencies Programs	<u>165,322,336</u>	<u>13,287,700</u>	<u>47,162,449</u>	<u>60,450,149</u>	<u>104,872,187</u>	<u>314,909</u>	<u>14,859,468</u>
Totals	<u>\$566,731,000</u>	<u>\$99,060,346</u>	<u>\$179,297,203</u>	<u>\$278,357,549</u>	<u>\$288,373,451</u>	<u>\$11,956,138</u>	<u>\$103,429,378</u>

Note: This schedule shows the total amount of disallowed and questioned costs resulting from the audit of New York City's CDBG Program; whereas the following described audit findings only include those findings considered to be the more significant.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM, CITY OF NEW YORK, NEW YORK
AUDIT PERIOD JULY 1, 1977 TO FEBRUARY 28, 1979

Department of Housing Preservation and Development Programs

Summary of Findings

	<u>Disallowances (Adjustments)</u>	<u>Questionable Costs</u>
1. HPD failed to adhere to Federal guidelines which require that salaries chargeable to more than one grant program be supported by appropriate time distribution records. Administration costs charged equaled 29% of the total costs charged and were therefore deemed high. HPD managed to spend 64% of its administration budget allocation, but only 35% of its operating budget, and it failed to break down its administration costs by HUD-funded program, precluding a determination of the reasonableness of costs incurred for individual programs.		\$22,609,101
2. A review of the payroll disclosed: 1) there were 76 executive positions, including 15 commissioners, deputies and assistants, with total salaries of \$2.2 million, 78.4% of which was charged to CDBG funds. Because of the failure to allocate costs to specific programs, the reasonableness of these executive costs could not be determined; 2) a test-check of time records indicated some employees were working at cost centers other than the ones to which their salaries were charged in computing work load factors for allocation of costs to CD funds; 3) paychecks of six retired, resigned or transferred employees continued to be generated on HPD payrolls from three to 13 pay periods after dates of termination. One employee was actually issued six paychecks for pay periods subsequent to his 11/24/78 resignation. The overpayment of \$5,504 in salary and fringe benefits made to this employee was erroneously charged to CD funds and should be disallowed. The matter of the failure of this employee to reimburse HPD for net salary totaling \$3,352 should be turned over to the Department of Investigation.		\$ 5,504
3. HPD incorrectly charged CDBG funds through the Housing Rehabilitation Finance Loan Program with a total of \$5,083,382 deposited in escrow bank accounts to secure interim construction financing. In addition, a \$1,000 voucher was charged to the program in error.	\$ 5,083,382	
4. HPD failed to document that individual tenants living in multiple dwellings upgraded by rehabilitation loans met the low or moderate income criteria.		\$ 2,628,225
5. At 2/28/79, four of the seven loans in permanent financing were in default of interest and principal payments totaling \$30,903; and at October 1979, seven of nine closed mortgage loans were in default with arrears of \$80,000. These conditions were due to inadequate monitoring of mortgaged property, poor rehabilitation planning and building selection, and providing loans to borrowers with a history of defaulting on prior rehab loans.		Undetermined
6. The following deficiencies in Article 8A Loan Program cash accounting and control were noted:		
-- Funds advanced for loan commitments were improperly charged to CDBG expenditures and should have been recorded in asset accounts.	\$2,330,708	
-- Loan program bank accounts have not been reconciled since inception.		
-- Costs were questionable for net excess drawdowns (unutilized commitments on 21 loans on which all contractors were paid and all rehabilitation work completed).		\$ 256,145
-- Interest earned on cash deposits in the City's Pool and Satellite System was transferred to the City's General Fund instead of to the Federal Government.		
-- The Article 8A Pool and Satellite bank account was established without required HUD authorization, and appeared to be an unnecessary substitute for the use of the City's regular vouchering process.		

Department of Housing Preservation and Development Programs (Cont'd)

Summary of Findings

Disallowances
(Adjustments)

Questionable
Costs

7. Unsatisfactory loan management was found as follows:
 - Seventeen of 50 loans in permanent financing at 2/28/79 were in default of principal and/or interest payments totaling \$8,974.
 - HPD delayed placing seven loans in debt service for periods ranging from three to 12 months.
 - HPD lacks a master list of defaulted borrowers to disclose unreliable loan applicants.
8. HPD's program was not shown to benefit principally low and moderate income tenants due to lack of HUD-approved standards for judging loan eligibility. Undetermined
9. HPD's Demolition Program had made little progress over a 16-month period to December 1979 in disposing of a "permanent" backlog of over 4,000 unsafe buildings awaiting demolition. \$ 2,396,392
10. Review of the demolition process indicated that there were excessive delays in getting non-emergency demolition work into the hands of contractors. The first two steps (unsafe building notice to contract award, and contract award notice to proceed) took an average of 13 months of the 15 1/2 months required to accomplish a non-emergency demolition. Undetermined
11. A visual inspection of selected demolition or seal-up sites disclosed unsatisfactory conditions such as debris, broken fences, broken building seals, and use of sites to park cars. Undetermined
12. HPD failed to bill owners for the cost of demolition and seal-up work performed on privately-owned property estimated at \$17.5 million since inception. Other deficiencies noted: HPD's demolition records do not show the filing of lis pendens or liens, or the ultimate disposition of claims against private property owners; HPD does not maintain a separate accounting of costs and recoupment of costs for work performed on privately-owned buildings; liens are not subject to an Action-In-Rem as are emergency repair liens; and recoupments by the Law Department from private owners are credited to the N.Y.C. General Fund and not utilized for eligible CDBG activities as required by HUD regulations.
13. All Housing Litigation Program costs are questionable because in allocating costs chargeable to CDBG funds, HPD employs work load factors not compatible with FMC-4 which requires that salaries chargeable to more than one cost objective be supported by time distribution records. \$ 2,290,559
14. Costs of the East New York Area operations of the Small Home Improvement Program (SHIP) were questionable because HPD and the local sponsor group (E.N.Y. Development Corp.) failed to meet the objectives of the program (to acquire, rehabilitate and sell small homes to low and moderate income families at below market value). HPD rehabilitated 26 homes but the local sponsor sold only four through 2/28/79. The project showed a net deficit of \$1.2 million at that date. \$ 1,337,860

Department of Housing Preservation and Development Programs (Cont'd)

Summary of Findings

	<u>Disallowances (Adjustments)</u>	<u>Questionable Costs</u>
15. Costs charged to the Mott Haven area operations were questionable because of ineligible Article 312 costs and the failure of the local sponsor group (South Bronx Community Housing Corporation) to close any loans by 2/28/79. HPD also failed to recoup \$5,600 of advances made to the sponsor for the purpose of meeting start-up costs of the Mott Haven operations.	\$ 5,600	\$ 70,926
16. Fourteen landlords owed the ERP Program a total of \$1.1 million at 9/30/79 for repairs and for fuel oil supplied to their properties on automatic fuel delivery agreements. This amounts to subsidizing landlords with interest-free aid based on their <u>unverified</u> assertions of "financial difficulties" and their agreement to make small regular <u>monthly</u> repayments. It was found that scheduled installment payments were minimal compared to the actual cost of fuel provided; new agreements were made despite large outstanding indebtedness to ERP and defaults in prior seasonal agreements; legal remedies to enforce collection were ineffective (tax liens) or not pursued (civil judgments); and landlords' claims of "financial difficulties" were not verified by HPD.		\$ 4,946,429
17. HPD failed to place tax arrears liens on buildings in 48% of the unreimbursed emergency cases. It actually took HPD almost six months to convert an ordinary (mechanics) lien into a tax arrears lien when the prescribed time was 60 days.		Undetermined
18. Lengthening delays in the depositing of program income represented poor internal control, unnecessarily increased the drawdown of CDBG funds from HUD and delayed utilization of funds for reprogramming.		Undetermined
19. Thirty-three percent of contractors' invoices were incorrectly billed, 5% of these were never corrected by HPD's invoice review staff, and no attempt was made to isolate chronic offenders who could be dropped from the panel of approved vendors.		Undetermined
20. Since inception (June 1975), HPD has allocated a disproportionate share (91.7%) of ERP recoupment income to N.Y.C. fund sources (\$5.96 million out of a total of \$6.5 million). Since the total ERP expenditure (starting one year before CDBG began) was \$20.7 million of which \$15.6 (or 75.4%) was CDBG funds, CDBG recoupment income was understated by \$4.3 million. It should have been \$4.9 million (or 75.4% of \$6.5 million) to match revenue with the funding source of expenditures.		\$ 4,300,000
21. Initial advances of \$2.5 million made to the N.Y.C. Housing Authority as well as an additional \$226,918 for contractors unreleased required retainage, were improperly charged to CDBG funds as program costs under the Modernization of City-Financed Public Housing Program. This procedure of advancing funds to the Housing Authority to pay private contractors is in violation of HUD guidelines for the drawdown and use of funds.	\$ 2,726,918	
22. Section 570.506(a) of HUD regulations requires that interest earned on advances be returned to the Federal Government. Two checks totaling \$174,846 (including \$141,197 of interest through 2/28/79) were drawn to the Commissioner of Finance and deposited in the City Treasury, but no evidence was presented to indicate actual transfer to the Federal Government.		\$ 141,197
23. Certain salary costs are questionable because there was no documentation available to support the allocation percentages used to charge these amounts to CDBG funds. FMC 74-4 provides that salaries chargeable to more than one grant program or cost objective shall be supported by appropriate time distribution records.		\$ 129,240
24. All Code Enforcement Program costs are questionable because in allocating costs chargeable to CDBG funds, HPD employs work load factors not compatible with FMC 74-4 which requires that salaries chargeable to more than one cost objective be supported by time distribution records.		\$ 4,119,855

Department of Housing Preservation and Development Programs (Cont'd)

Summary of Findings

	<u>Disallowances (Adjustments)</u>	<u>Questionable Costs</u>
25. All costs charged to not-for-profit groups (other than advances covered under Item 21 above) are questionable. HPD failed to establish and implement accounting and reporting standards for such groups, including monthly reports, documentation of reasonableness of costs, periodical audits by HPD, and procedures for accumulating monthly costs and tracking cash requirements.		\$ 21,351
26. Because of the failure to HPD to monitor the condition of interim sites which had been completed and turned over to local groups, all costs from inception of the Interim Site Improvement Program (excluding Item 27 below) are questionable as to eligibility.		
27. Costs charged to CDBG funds should be reduced by the cost of a fence erected around several fire-damaged houses in Pine Street, Brooklyn, under a demolition contract. This site was not an approved interim site project.		\$ 3,225
28. HPD does not keep an adequate, permanent record of sales and revenue arising from contract specifications sold to contractors.		Undetermined
29. HPD failed to document that a mini-park at 26th - 28th Street, between 1st and 2nd Avenues, Manhattan, being constructed under the Permanent Site Improvement Program, will in fact principally benefit persons of low and moderate income.		\$ 9,000
30. The In Rem Program lacked adequate internal control in that the City had failed to develop the necessary accounting subsystems to provide its management with financial reports adequate to meet the program's needs. The only meaningful In Rem accounting report available is a 5,000-page computer printout of costs incurred listed in chronological order by classification of expenditure, but without a classification of costs by individual building. By failing to identify costs by individual building, the report prevents managers from making effective reviews of costs. It fails to disclose cases where excessive costs indicate inefficient building operation. It also makes it impossible for management to identify viable buildings ready to be sold and restored to the tax rolls.		Undetermined
31. There were duplicated payroll charges of \$512,930 and undocumented payroll charges of \$27,952 which applied to administration costs prior to 9/1/78 when the program was administered by the Department of General Services (DGS).		\$ 540,882
32. A payment to the Salvation Army for the purchase of property to be used as a job training center which was improperly charged to the In Rem Program was questionable.		\$ 92,000
33. Payroll and supply costs in connection with the Gotham Building Maintenance Corporation contracts to maintain and repair In Rem buildings were questionable. HPD failed to take credit for erroneous payroll costs of \$29,388 disclosed by its verification of Gotham payroll submissions, and HPD permitted Gotham to circumvent required supplies procurement procedures (by a highly irregular use of supplies requisitions) to the extent that the entire estimated \$893,000 of Gotham supplies costs is of questionable eligibility.		\$ 922,388
34. Numerous purchase requisitions were executed in amounts from \$500 to over \$8,000 which were filled through direct purchase from Gotham's six regular suppliers, although HPD purchasing procedures require that purchase (open market) orders over \$500 and under \$10,000 be subject to informal competitive bidding.		Undetermined
35. Advances charged as expenditures - various programs.	\$ 65,000	

Office of Public Service (Formerly Model Cities) Programs

Summary of Findings

Disallowances
(Adjustments)

Questionable
Costs

- | | | |
|---|------------|--------------|
| 36. Scholarship Awards Programs costs charged to CDBG funds were not adjusted for the amount of advances made to sub-grantees which should have been recorded as assets until an accounting is rendered. The \$472,400 advanced to ARIC in September 1978 was seven times its needs and should have been restricted to immediate needs in accordance with HUD and U.S. Department of Treasury guidelines. | \$ 722,572 | |
| 37. The eligibility of the following costs charged to CDBG funds up to the fall of 1978 when operations of the sub-grantees terminated was questionable: | | |
| -- \$1,999,834 of costs charged to the Central Brooklyn Program administered by the Brooklyn Polytechnic Institute. Costs were questioned based on the findings of the prior audit which had not been remedied. Eighteen percent of the student eligibility and compliance files were missing; 88% of the available files showed student participants failed to meet one or more of the residency, financial or academic requirements; no records were available relating to the student selection process, nor were any records available concerning students who participated in the 1976 Summer Academy Program. | | |
| -- \$3,443,625 of costs charged to the Harlem/East Harlem and South Bronx Programs administered by the Research Foundation were questioned based on the findings of the prior audit which had not been remedied. Forty-nine percent of the student eligibility and compliance files were missing; 45% of available files showed student participants failed to meet one or more of the residency, financial or academic eligibility requirements; and no records were available relating to the student selection process. | | \$ 5,443,459 |
| 38. A test-check of the records of the consolidated and restructured fourth year Scholarship Awards Programs administered by a consortium of three not-for-profit organizations (ARIC, ASPIRA and the Urban League) showed considerable improvement and complete records were available. A sample of 268 student participants disclosed an ineligibility ratio of only 4% for consortium selections and 29% for transferee students. All students, without exception, should be required to pass the consortium eligibility selection process. | | Undetermined |
| 39. Payroll and other costs incurred after the effective termination date (August 25, 1978) of the South Bronx Drug Abuse Program were charged to the CDBG Program. | | \$11,226,611 |
| 40. The needs of area residents were not adequately served since 84% of the resident clients and 79% of the staff members of the South Bronx Drug Abuse Program did not reside in the designated target area. | | \$ 305,860 |
| 41. Payroll costs charged to the Community Service Officers (CSO's) and Precinct Receptionist Programs for the period 7/1/77 to 9/23/77 were understated. | | \$ 168,352 |
| 42. Supplemental fringe benefits charged to the Harlem/East Harlem Program were not properly documented. | | |
| 43. The needs of area residents were not adequately served by the Police CSO's and Precinct Receptionists Programs since 51% of the CSO's assigned to field duty were assigned outside the expanded public service target areas. | | \$ 9,079,712 |
| 44. Unsubstantiated food costs were charged to Work Release Programs. These costs should be based on a documented unit cost per meal prepared at Rikers Island instead of an arbitrary selection of food bills to utilize budget funds. | | \$ 207,503 |
| 45. The needs of designated area residents were not adequately served since 63% of the inmates who participated in the Work Release Programs did not reside within the target areas. | | \$ 1,338,079 |

Office of Public Service (Formerly Model Cities) Programs (Cont'd)

Summary of Findings

	<u>Disallowances (Adjustments)</u>	<u>Questionable Costs</u>
46. The Work Release Program is operated at less than 40% of capacity and should be terminated unless utilization increases.		Undetermined
47. Although the goal of public service programs is the creation of job opportunities for target area residents, the records disclose that 50% of the CSO's and CA's employed in the Work Release Program did not reside in the target area.		Undetermined
48. The needs of area residents were not adequately served by the Human Rights Complaint Center Programs since 51% of the individuals receiving assistance in the Harlem/East Harlem area and 30% of those assisted in the Central Brooklyn area did not reside in the designated geographic areas.	\$ 72,297	
49. Payroll and other costs incurred after the effective termination date (April 4, 1978) of the South Bronx Health Careers Training Program were charged to the CDBG Program.	\$ 38,844	
50. Payroll costs charged to CDBG by the Sanitation Programs should be decreased to adjust for an improperly charged salary of one employee of the separately funded CDBG Self-Help Sanitation Program.	\$ 11,200	
51. Pending submission of documentation concerning propriety of OTPS costs (other than rent), all such costs charged to CDBG funds are of questionable eligibility.	\$ 277,654	
52. Although the Sanitation Programs are eligible CDBG activities being carried on principally within the prescribed target areas, efforts should be made to employ more target area residents since 98 of the 307 staff members were regular Sanitation Department employees who could be replaced by nearly twice as many community-based employees.		Undetermined
53. The needs of area residents are not adequately served by the Central Brooklyn Ambulatory Detoxification Program since 45% of the patients receiving treatment resided outside the designated target area.	\$ 429,958	
54. The Central Brooklyn Comprehensive Health Care Program is an eligible CDBG activity; however, medical services provided to non-target area residents should be curtailed.		Undetermined
55. The needs of residents are not adequately served by the Central Brooklyn Community Defender Program since 53% of the defendants receiving legal assistance did not reside within the designated target area.	\$ 494,299	
56. Only one of the six non-attorney staff resides in the target area despite the fact that the goal of public service programs is to provide job opportunities for target area residents.		Undetermined
57. Although the Harlem/East Harlem Dental Facilities Program is an eligible CDBG activity, dental services were provided to non-target area residents.		Undetermined
58. The needs of area residents are not adequately served by the Harlem/East Harlem Consumer Education Program since 79% of the clients assisted did not reside in the designated target area.	\$ 179,445	
59. The Community Law Office Program is an eligible CDBG activity; however, legal services should be provided solely to residents of the prescribed Harlem/East Harlem target area.		Undetermined

Office of Public Service (Formerly Model Cities) Programs (Cont'd)

Summary of Findings

	<u>Disallowances (Adjustments)</u>	<u>Questionable Costs</u>
60. Three of the eight non-attorney employees do not reside in the target area.		Undetermined
61. The needs of area residents are not principally served by the Housing Technical Assistance Program since 85% of the mapping work performed encompassed areas of the city other than designated target areas.		\$ 228,902
62. The needs of area residents are not principally served by the In Rem Housing Management Program since 60% of the employee-trainees participating did not reside in the designated target areas.		\$ 49,783
63. The needs of area residents are not principally served by the South Bronx Field Planning Program since half of the Community Planning Districts for which an inventory of social service providers was compiled were outside the target areas that the program was designed to serve.		\$ 98,123
64. The Pest Control Program is an eligible CDBG activity since 90% of all work was performed in the prescribed target areas; however, work outside the target areas should have been performed by non-CDBG employees, and 36% of the program employees did not reside in the target areas for which the program is supposed to provide job opportunities.		Undetermined
65. Costs charged to CDBG by the Housing Authority Community Service Officers' Programs should be adjusted for the amount representing advances made by the Office of Public Service to the Authority. Proper accounting procedures require that advances be recorded as assets until an accounting is rendered by the operating agency. The advances (which averaged four months expenditures) far exceeded HUD's restriction of such advances to immediate needs (which would be limited to costs of an average two-week payroll period).	\$ 600,000	
66. Of the 132 Community Service Officers (CSO's) and Community Assistants (CA's), 30% do not reside in the expanded target areas despite the fact that one of the goals of public service programs is to provide job opportunities for target area residents.		Undetermined
67. Pending submission by the Office of Public Service of documentation to support the validity and accuracy of all charges recorded in the Default and the Non-Pensionable Cash Payments Accounts, all costs contained in these accounts charged to the Public Service Administration Program were considered questionable.		\$ 2,017,320
68. The needs of the area residents were not adequately served since 33% of the trainees participating in the program did not reside in the designated target area.		\$ 178,369
69. The South Bronx Pediatrics Screening Program includes one school (P.S. 152) which it serves which is located outside the designated target area.		Undetermined
70. Costs were charged to CDBG funds which were incurred to operate a screening program at Prospect Hospital prior to the HUD authorization for release of funds.		\$ 19,906
71. Questionable costs were incurred for payroll of the medical staff which was not required to submit time and attendance records mandated by FMC 74-4.		\$ 5,892
72. Payroll costs charged by the Fire Department to the Fire Prevention and Fire Salvage Programs for the period 7/1/77 to 9/23/77 were understated.		\$ 124,714

Department of Housing Preservation and Development Programs (Cont'd)

Summary of Findings

Disallowances
(Adjustments)

Questionable
Costs

- | | | |
|---|-----------|--------------|
| 73. Needs of area residents are not adequately served since the Fire Salvage Program's Activities continue to be performed boroughwide and are not restricted to the target areas. | | \$ 3,114,297 |
| 74. Twenty-seven and one-half percent of the Community Service Officers and Community Assistants employed in the program do not reside in the expanded target area despite the fact that the goal of public service programs is to provide job opportunities for target area residents. | | Undetermined |
| 75. Advances charged as expenditures - various programs. | \$ 11,049 | |

Other Agencies Programs

- | | | |
|--|--|--------------|
| 76. Costs charged by the Department of Environmental Protection to the Planning and Management Program are questionable because of failure to document certain payroll costs. | | \$ 168,912 |
| 77. Documentation was not provided to support fringe benefit costs charged to CDBG funds. | | \$ 12,148 |
| 78. Street Improvement Program projects were unreasonably delayed despite urgent public need for such facilities. Only \$5.3 million had been expended to 2/28/79 out of a total budget allocation of \$19.3 million for the first four program years, which is indicative of poor planning by the Department of Transportation. | | Undetermined |
| 79. Costs of Forest Hills Street Improvement project are questionable because the agency failed to document that persons benefited met the low and moderate income criteria. | | \$ 236,137 |
| 80. Sidewalk construction costs were erroneously charged to CDBG funds on the Claremont Street project. Pursuant to Section 2105 of the City Charter, such costs are recoverable from owners of adjacent property. | | \$ 3,656 |
| 81. Parks and Recreation Facilities Improvement Program projects were not implemented expeditiously despite the deplorable conditions existing in many city parks. Only \$3.2 million had been expended to 2/28/79 out of a total budget allocation of \$14.5 million for the first four program years. The continual slippage of target dates for completion of park facilities is symptomatic of the need for more efficient planning and monitoring on the part of the Department of Parks and Recreation. It was noted that a contractor working on the Rockaway Beach Boardwalk project was granted three time extensions to complete the required work despite failure to comply with contract stipulations for such extensions. | | Undetermined |
| 82. Approximately \$7.3 million, or 61.4% of the \$11.9 million of total available Sewer Improvement Program funds, remained unspent at 2/28/79 despite urgent need for such facilities. Planned project completion dates were frequently delayed indicating a need for more efficient planning on the part of the Department of Environmental Protection. | | Undetermined |
| 83. The cost of the Bergen Basin sewer project was questionable because the agency failed to document benefit to persons of low and moderate income. | | \$ 2,786,960 |
| 84. Deficiencies in monitoring and operational procedures were found such as: excessive delays in approval of contract change order costs; an unnoted violation of contract prevailing wage requirements, and an improper release of a contractor's retainage. | | \$ 6,521 |

Other Agencies Programs (Cont'd)

Summary of Findings

	Disallowances (Adjustments)	Questionable Costs
85. Under the Far Rockaway Commercial Improvement Program, Parking Lot #3, halted by construction contractor default in September 1978, was excessively delayed and not scheduled for completion by the insurance contractor until October 1979. At 2/28/79, almost no funds were spent for projects planned with second and third year budget allocations totaling \$1.2 million.		Undetermined
86. Excess interest costs of \$7,605 were incurred subsequent to the allowable period of 30 days from title vesting and should be removed from program costs charged to CDBG.		
87. Contractors for the City University programs were granted informal time extensions based on verbal requests resulting in delaying completion of work from two to ten months. Contracts stipulate that no extensions should be granted unless a written request is submitted citing adequate justification for the delay.		Undetermined
88. Under the Fire Salvage Program, salvage duties of firemen assigned to the program are incidental to regular firefighting activities and assigned firemen were part of the regular complement of a ladder company. Under Section 570.201 of CDBG Regulations, expenses to carry out regular responsibilities of a unit of local government are not eligible.		\$ 4,516,954
89. Excess fringe benefits were charged to CDBG funds on the Fire Department's Project Vapro Program.		
90. Under the above Program, the Fire Department failed to maintain separate records for Fire Marshals' program related costs, or to keep appropriate time distribution records for payroll costs chargeable to more than one cost objective in conformity with FMC 74-4.		\$ 685,459
91. Fire Protection Equipment Program costs charged to CDBG funds are questionable because the Fire Department failed to identify and/or document the expenditures involved.		\$ 14,105
92. Procurement requirements of FMC 74-4, Appendix "O", which provides that contracts over \$10,000 be solicited through advertising and sealed bid procedures were circumvented.		\$ 189,600
93. Questionable costs involved in the use of in-house facilities were incurred for the printing of program matter (such as layouts, installation and user instructions) which exceeded an inspector's estimate of probable costs using the City's standard printing price list.		\$ 9,094
94. Costs charged to CDBG funds should be reduced because 75% of the Manhattan field force's daily activity did not involve the cleaning of vacant lots.		\$ 80,128
95. Program goals were not adhered to because 51% of the vacant lots cleaned were outside the designated target areas, and 23 of the program's 57 sanitation men were assigned to the three city boroughs not included in target area CPD's.		\$ 684,180
96. Procedures for recovery of costs of cleaning privately-owned vacant lots were deficient in the delayed preparation of bills, poor follow-up of collections, failure by the Department of Health to record collections as CDBG income (\$1,588 should have been so recorded during the audit period), and failure to impose liens subject to Action-In-Rem on property for unpaid bills prior to November 1, 1979.		\$ 1,588
97. Costs of the Self-Help Sanitation Program were overstated by charging for the entire audit period salary cost of a sanitation man transferred to other duties on November 18, 1978.		\$ 4,824

Other Agencies Programs (Cont'd)

<u>Summary of Findings</u>	<u>Disallowances (Adjustments)</u>	<u>Questionable Costs</u>
98. All Self-Help Sanitation Program costs charged to CDBG are questionable because program activities are not restricted to the designated target areas - 48% of the regular field activity and 78% of the complaints handled are not in the target areas, and 75% of meetings held were with non-target area community groups.		\$ 183,826
99. Discrepancies were found in the maintenance of statistical records of complaints processed and meetings held with community groups. No summary records are prepared for regular field work performed.		Undetermined
100. Costs of the Rodent Control Program are questionable because of failure of the Department of Health to provide documentation for payroll costs charged to CDBG funds.		\$ 300,320
101. Although the Rodent Control Program is an eligible CDBG activity, rodent control services were provided in non-target areas.		Undetermined
102. Fourteen of the 30 Community Service Aides (CSA's) do not reside in the target areas.		Undetermined
103. There was no record of billings and collections for rodent control services provided for privately-owned property, and because of a computer breakdown, the department has not billed private owners for any rodent extermination and cleaning work performed since July 1978.		Undetermined
104. The Department of Health's statistical records were inadequate.		Undetermined
105. All Department of Transportation (DOT) Street Repair costs charged to CDBG (except payments to private contractors) are questionable because of extensive inaccuracies in reported costs disclosed by the audit, as follows: 15,229 potholes out of a total of 16,991 charged were of the ineligible Class A and B types, and 45% of the work was performed in ineligible maintenance sectors (where less than 75% of the streets were within low and moderate income tracts); \$447,127 of Manhattan material costs were duplicated and \$363,127 of Queens labor costs were overstated by applying the daily labor rate to man hours worked; a test-check of Manhattan and Brooklyn work gang reports showed an excessive number of man days used to calculate labor costs, producing a possible overcharge of \$322,000; additional overcharges of \$107,000 and \$8,428 resulted from the erroneous inclusion of CETA labor costs and the use of a \$22 per ton rate instead of the correct \$18 rate for costing asphalt material in Queens; and miscellaneous costs were duplicated by the inclusion of the same amount with material costs. Offsetting these errors, we found that DOT failed to claim work performed in eligible areas; under-charged costs by about \$214,000 by not applying the correct indirect labor rates in all boroughs; and consistently understated direct labor wage rates, especially for highway repairers, who comprise 80% of the work force.		\$ 4,251,945
106. Despite continuing urgent need for pothole repairs, DOT failed to utilize available funding expeditiously. Out of a total of \$25.9 million allocated in the third and fourth program years, only \$5.1 million was expended at 2/28/79 of which \$900,000 was for employing private contractors. DOT should consider hiring more private contractors if it cannot utilize available funding within a reasonable time.		Undetermined
107. The Victim Services Agency improperly used excess advances to temporarily fund non-CDBG operations. The amount of \$3,996 which could have been earned in interest on these excess advances should be remitted to the Federal Government.		\$ 3,996

Other Agencies Programs (Cont'd)

Summary of Findings	Disallowances (Adjustments)	Questionable Costs
108. Costs were charged to CDBG funds prior to the HUD fund release date of October 23, 1978 (Victim Witness Assistance and Victim Services Agency Programs)		\$ 100,000
109. The needs of area residents were not adequately served since 64% of the victims of crime receiving Victim Witness Assistance and Victim Services Agency aid do not reside within the target areas.		\$ 331,991
110. Efforts should be made to effect restitution from employees making improper telephone toll calls to Long Island and New Jersey at a total cost of \$160.		\$ 160
111. The needs of area residents were not adequately served in the Neighborhood Work Program since 61% of the released inmates employed by the program do not reside within the target areas, and 54% of the work is not performed in the designated target areas.		\$ 305,250
112. Although no one receiving welfare payments is eligible for Program employment, the Program does not check its employee files with Social Service records and an audit test disclosed that many employees may be improperly receiving public assistance.		Undetermined
113. Costs were charged to CDBG funds prior to the HUD fund release date of October 23, 1978 (Neighborhood Work Program).		\$ 5,716
114. Pending submission by the Department of City Planning of documentation to support the validity of all charges to its holding account, all costs charged to CDBG through this account must be considered questionable.		\$ 8,984
115. All costs charged for the project to provide certain improvements in and around the 42nd Street theatre district are questionable pending a review by HUD to determine its eligibility under Section 570.2 of CDBG Regulations, which requires that a project principally benefit persons of low and moderate income.		\$ 61,151
116. The City's agreements with sub-grantees to provide fidelity insurance for all persons handling cash were not complied with by two local community groups under contract with the Office of Economic Development (OED).		Undetermined
117. As of 2/28/79, the City had unnecessarily paid out \$29.6 million in tax levy funds to meet the cash needs of the CDBG Program. This resulted because the City's Office of Management and Budget (OMB) had failed to meet its responsibility to draw down sufficient funds on a timely basis from the Federal Government to meet program needs. Review indicated that except for the month of August 1977, the City had continuously subsidized the CDBG program with tax levy funds ranging from \$1 million on 7/31/77 to \$50.2 million on 12/31/78.		Undetermined
118. The Financial Information Services Agency (FISA) assumed responsibility for operating the City data processing system in July 1977. OMB was unsuccessful in working with FISA and a private consultant in implementing a viable automated sub-system to readily identify costs chargeable to CDBG funds timely. Also, OMB was unable to establish an interim manual system to accomplish this. As a result, OMB's cash requests were little more than guesses. The \$29.6 million shortfall at 2/28/79 consisted of \$15 million of recorded costs, and \$14.6 million of fringe benefit costs not yet recorded by OMB as charges to CDBG funds at that date. Although this \$29.6 million will ultimately be recouped, HUD regulations prevent the City from recovering the interest costs incurred by the City in funding CDBG operations, which were calculated at \$2.6 million for the audit period.		
119. OMB failed to track and monitor program income which CDBG regulations require to be applied to program needs before any additional drawdown requests. Program audits indicated income from programs of \$959,563 and expenditures applied of \$233,920.		Undetermined
120. Advances charged as expenditures - various programs	\$ 314,909	

