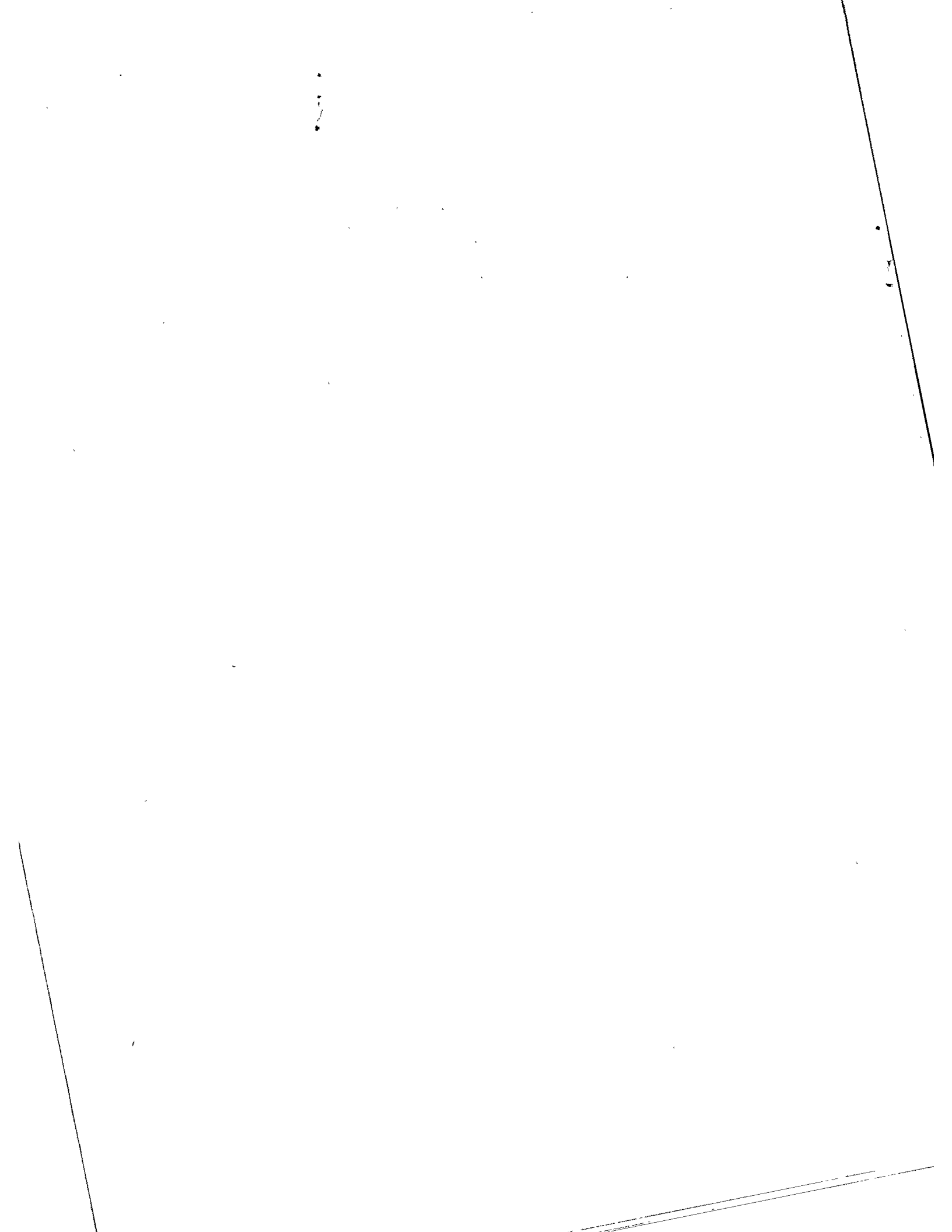




Office of Inspector General Report to The Congress for the Six Month Period

October 1, 1978 to March 31, 1979

Pursuant to Public Law 95-452





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

April 30, 1979

President of the Senate
Speaker of the House of Representatives

Dear Sirs:

In accordance with section 5 of the Inspector General Act of 1978, I respectfully submit the first report on the activities of the Office of Inspector General, Department of Housing and Urban Development, for the six month period October 1, 1978 to March 31, 1979.

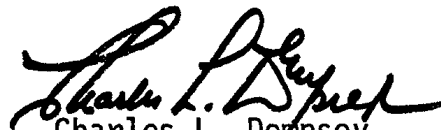

Charles L. Dempsey
Inspector General



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I. INTRODUCTION

This report, consisting of 11 parts, is the HUD Office of Inspector General's (OIG's) initial report to Congress pursuant to section 5 of the Inspector General Act of 1978 (Public Law 95-452).

Part II provides a brief summary of significant matters included in the report.

Part III includes some background material on the OIG's establishment, role, and organization.

Parts IV through X contain the semiannual report information specifically required by sections 5 and 4(a)(2) of the Inspector General Act of 1978.

Part XI provides information and statistical data relating to the activities and performance of the OIG since its inception in 1972 and for the last completed fiscal year 1978.

Some of the information included in the current semiannual report will not likely be repeated in future semiannual reports. Such information includes the background material in Part III and the statistical highlights from prior years as shown in Part XI. It is hoped, however, that the initial presentation of this information will be useful to Congress in assessing the role and impact of the OIG's audit and investigation programs in HUD.

II. SUMMARY

The Office of Inspector General (OIG), Department of Housing and Urban Development (HUD), was established by an administrative act of the Secretary on January 29, 1972. The establishment of the OIG provided for the consolidation of the audit, investigation, and personnel security operations of HUD into a single organization headed by an Inspector General reporting directly to the Secretary. With the signing of the Inspector General Act of 1978 on October 12, 1978, the establishment of Offices of Inspector General in the Executive Branch became a matter of law.

During the current reporting period October 1, 1978 to March 31, 1979, the OIG issued 300 external audit reports on the activities of HUD program participants and 75 internal audit reports encompassing key aspects of HUD management and program administration. These audits provided HUD officials with many important findings and recommendations. However, because of the Department's Audits Management System which ensures management's attention and timely response to audit recommendations; these recommendations were either resolved, or were in the process of being resolved at the close of the current reporting period. As a result, there were no significant problems, abuses, deficiencies and recommendations for corrective action in need of Congressional attention or action during the reporting period.

Many problems, however, have plagued HUD over the years and have impacted on the volume and intensity of OIG audits and investigations. The most serious of these problems has been insufficient program monitoring due to the low level of staff available in HUD for monitoring the activities of program participants. A contributing cause for the lack of monitoring has allegedly been insufficient travel funds to perform on-site reviews of such participants. OIG audit reports have often disclosed the lack of monitoring and on-site reviews of the activities of program participants by HUD program personnel. Inadequate monitoring and insufficient on-site reviews of program participants have seriously jeopardized HUD's interests and permitted waste and mismanagement to go unchecked. These conditions have laid the foundation for fraud and program abuse by some program participants. It is believed that the inability of HUD personnel to effectively monitor program participants has, in turn, resulted in an over-reliance on the OIG to review the performance of program participants.

With respect to investigation operations, the OIG referred 542 investigation cases for prosecutive consideration during the period October 1, 1978 to March 31, 1979. Of these cases, 269 were referred directly to the FBI with no investigation conducted by the OIG.

Also, during this period, a total of 70 investigation cases resulted in the indictment, or indictment and conviction, or conviction of 121 persons/firms having business with HUD. Of these 121 persons/firms, 92 were convicted during the reporting period. They received a total of 47 1/2 years imprisonment, 158 years probation, 8 years suspended sentences, \$315,464 in fines, and were required to make restitution amounting to \$11,500.

Pursuant to Section 4(a)(2) of the Inspector General Act, the OIG, during the current reporting period, reviewed 62 proposed new regulations or revisions to existing regulations, an undetermined number of existing regulations and statutes in conjunction with internal audits, and 27 proposed legislative bills. On the basis of these reviews, the OIG has no recommendations to Congress, as all major concerns as a result of such reviews have either been satisfactorily resolved or are in the process of being resolved.

SPECIAL MANAGEMENT IMPROVEMENT EFFORTS

AUDITS MANAGEMENT SYSTEM (AMS)

At the direction of Secretary Harris and in coordination with HUD management, the OIG participated in the implementation of a departmental Audits Management System (AMS) which was designed to eliminate an excessive inventory of unresolved audit findings and to assure that all future audit findings would be acted upon within specified time frames. About 99 percent of the backlog of open audit findings were closed within the AMS stated time frames. Of the 8,534 audit findings reported in FY 1978, 8,467 or 99 percent were closed under the AMS. The OIG is hopeful of similar success under the AMS in FY 1979.

COMPLETED INVESTIGATION CASES TRACKING SYSTEM

The OIG, at the direction of the Secretary, implemented a new management system to track and monitor completed investigation cases. The system was designed to draw management attention to completed cases and to accelerate the taking of initial administrative action on such cases. By the close of FY 1978, initial administrative action had been taken on 98 percent of the backlog of 965 cases awaiting initial action. The OIG expects similar success in FY 1979.

OFFICE OF FRAUD CONTROL AND MANAGEMENT OPERATIONS

The OIG established a new office to address fraud, waste and mismanagement in HUD programs. The new office, called the Office of Fraud Control and Management Operations, is headed by an Assistant Inspector General. Among other things, the office is generally

responsible for providing leadership and coordination and for recommending policies for activities designed to prevent and detect fraud and abuse in departmental programs and operations.

COMMITTEE ON FRAUD,
WASTE AND MISMANAGEMENT

In recognition of the major effort to curb fraud, waste and mismanagement in the administration of HUD programs and activities, the Secretary, on November 2, 1978, established the Committee on Fraud, Waste and Mismanagement. The Committee was created for the purpose of coordinating the review of the Department's efforts to minimize the opportunities for the occurrence of fraud, waste and mismanagement in its programs and advising the Secretary on related policy matters. The Committee, which is chaired by the Inspector General, consists of representatives from all principal offices in HUD, including Regional and Area Offices. As chairman of the Committee, the Inspector General serves primarily in an advisory and coordinating capacity.

HUD EMPLOYEE HOTLINE

A HUD employee telephone hotline was established in HUD effective February 1, 1979. The hotline is available to all HUD employees for the reporting of activities in the Department involving fraud, waste, or mismanagement.

OPERATIONAL SURVEYS

In June of 1972, the OIG introduced a joint audit and investigation team effort called the Operational Survey. These surveys are performed in selected HUD Field Offices and are for the purpose of searching out indicators of fraud and program abuse, as well as for determining the need for full-scale audits and investigations. In testimony before the Senate Subcommittee on Federal Spending Practices, Elmer Staats, Comptroller General of the U.S., stated that the HUD OIG's Operational Surveys are "the only on-going, systematic mechanism to actively look for fraud" in agencies his office reviewed. The OIG expanded Operational Surveys coverage to selected HUD programs during the current reporting period.

III. BACKGROUND

A. 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.

B. 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 the Department.

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, and employee conduct; and to recommend corrective actions when appropriate.

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

C. 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, reporter and advisor in ensuring that management is carrying out their responsibilities to protect and enhance the integrity and effectiveness of the Department's operations.

D. 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.

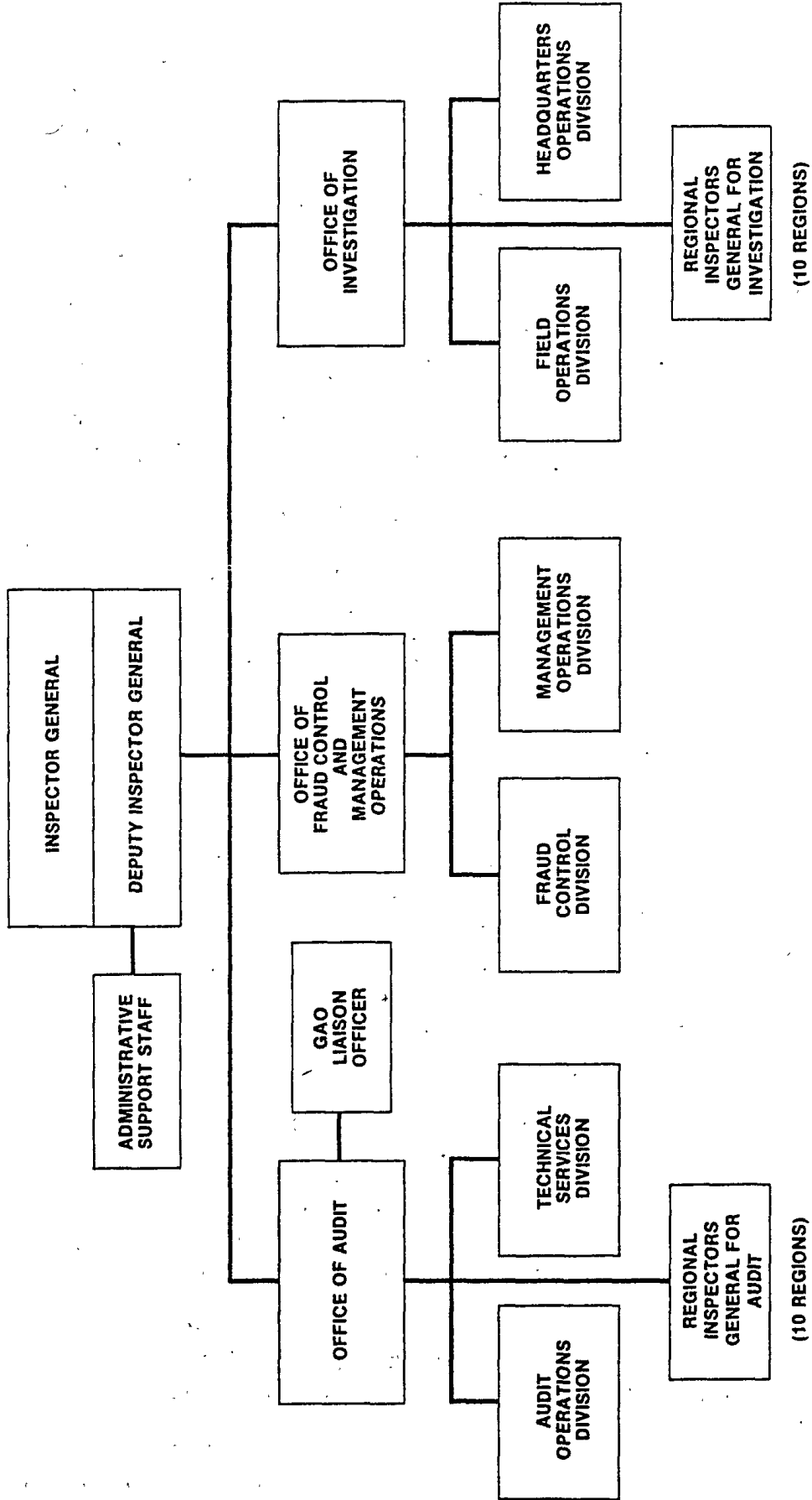
Within each of HUD's Regions is a Regional Inspector General for Audit who directs a staff of auditors, and a Regional Inspector General for Investigation who directs a staff of investigators. The Regional Inspectors General report to their counterpart Assistant Inspector General in Headquarters (See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

As of March 31, 1979, the OIG had a staff ceiling of 477 permanent full-time employees. This ceiling is distributed as follows:

	<u>Headquarters</u>	<u>Field</u>	<u>Total</u>
Inspector General (Immediate Office)	16	0	16
Office of Audit	47	296	343
Office of Investigation	19	82	101
Office of Fraud Control and Management Operations	<u>17</u>	<u>0</u>	<u>17</u>
Total OIG	<u>99</u>	<u>378</u>	<u>477</u>

DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT

OFFICE OF
INSPECTOR GENERAL



IV. DESCRIPTION OF SIGNIFICANT PROBLEMS, ABUSES AND DEFICIENCIES AND RECOMMENDATIONS FOR CORRECTIVE ACTION FOR PERIOD OCTOBER 1, 1978 TO MARCH 31, 1979

During the six months ended March 31, 1979, the OIG reported a number of important matters to HUD management, along with numerous recommendations for corrective action as evidenced by the reports shown in Part VIII (page 24). As a result of the Audits Management System (page 48) which ensures that all audit recommendations are speedily implemented or otherwise satisfactorily resolved, these significant recommendations were either closed or were in the process of being closed at March 31, 1979. As a result, the OIG has no significant problems, abuses, deficiencies, and recommendations for corrective action to report to the Congress for the current reporting period.

The Secretary, Under Secretary, Assistant Secretaries, Regional Administrators, and other HUD managers have been responsive to OIG-reported matters which have required corrective action. This fact was affirmed during the recent hearings before the Subcommittee on Legislation of the House Committee on Government Operations relative to the Department's efforts to resolve audit findings.

Two examples of significant matters which HUD management promptly responded to during the period October 1, 1978 to March 31, 1979 are described as follows:

1. IMPLEMENTATION OF CONTROLS AND PROCEDURES FOR INSURED MULTIFAMILY PROJECTS

a. Background

What has become known as the "Rockdale Investigation" resulted in a series of affirmative efforts on the OIG's part to assess the extent of fraud and abuse in HUD's multifamily mortgage insurance program. The Rockdale incident was a catalyst for some recent multifamily audit and investigation initiatives. An understanding of the Rockdale matter is essential to an understanding of the rationale for these initiatives.

The Rockdale Apartment Project was a 325-unit multifamily project located in Atlanta, Georgia. It was developed and constructed during the period 1968 through 1972 and subsequently demolished in 1975-1976. HUD had over \$4.3 million invested in the project at the time of its demolition. The OIG's subsequent investigation

identified deficiencies in site development, construction, and management. A lack of positive action by HUD to initiate corrective action was evident at the time, even though the project's deficiencies were well known to HUD Field officials. Specifically, the deficiencies included: approval of after-the-fact change orders; poor or unsatisfactory construction due to noncompliance with contract specifications; supervising architect and HUD inspectors' failing to insure correction of deficiencies and lack of action to correct deficiencies identified during HUD management reviews.

Action to remedy management and administrative deficiencies as identified by the Rockdale investigation included fixing individual responsibility for various tasks during development and construction phases of insured projects as disclosed during the Rockdale investigation; developing and implementing Department-wide training programs for those involved in multifamily areas; developing and implementing revised inspection procedures to ensure deficiencies are properly recorded, reported and remedial action effected; development of procedures to select supervisory architects with no identities of interest. Additionally, HUD Field Offices are now required to exercise greater initiative for introducing corrective action where management deficiencies have been detected and requiring Headquarters reviews of proposed demolition of projects. Among administrative responses to Rockdale the most significant has been the Secretarial dictate to HUD officials notifying them that they will be held individually accountable for their actions. Other positive actions include Departmental initiation of a nationwide review to determine the validity of all multifamily projects, and to identify projects where serious deficiencies in management and/or construction exist.

At the conclusion of the Rockdale investigation, four HUD employees received adverse action suspensions. A contractor and an architect also received debarment notices from the Department.

The HUD Under Secretary testified before the Subcommittee on Housing and Community Development, Housing Committee on Banking, Finance and Urban Affairs on February 22, 1978, on the facts surrounding the construction defects and demolition of the Rockdale Apartment project. The Under Secretary highlighted a number of measures which the Department was to undertake or had taken to strengthen the multifamily program operations.

As a result of the Rockdale hearing, 35 new or improved procedures were identified which HUD had or would implement to ensure the problems encountered on the Rockdale project would not be repeated. Generally, the procedures to be implemented in the Field were intended to improve departmental operations relating to identities-of-interest, accountability of management, architectural services and analysis, change orders, project management, training of multifamily technicians and supervisors, and the demolition of projects.

The procedures or steps to be performed in Headquarters primarily related to the identification and inspection of other projects with serious construction defects. To perform the inspections, the Department utilized a cadre of 23 retired HUD employees. The inspectors were employed on an individual purchase order basis and were paid a fixed fee for each inspection. The Housing staff in Headquarters was fully responsible for monitoring and reviewing the work of the inspectors. Approximately 700 projects were scheduled to be inspected by September 30, 1978. Any projects with serious problems were to be reported to the Regional Administrator for further action. A memorandum summarizing the results of the inspections has been issued.

At November 30, 1978, seven of the 35 procedures were still being developed by Headquarters. From the remaining 28, OIG selected 14 of the more significant procedures to be implemented by Field Offices for review, and three of the procedures relating to the identification of problem projects. Of the several procedures in draft, two have since been issued, while the remaining five procedures are still in process but near issuance or implementation.

b. Significant Findings

The OIG found that only three of the 14 controls and procedures it reviewed were fully implemented by each of the four Area Offices reviewed. Six of the 14 items were not fully implemented by two or more Area Offices, and five other requirements were not implemented by one Area Office.

With respect to the above, none of the four Area Offices consistently performed an analysis of drawings and specifications during the preparation stage at the architects' offices. One of the Area Offices did not perform a complete review of the plans and specifications during the preparation stage. Two of the Area Offices had not implemented the procedure to work directly with the general contractor in resolving questions raised in HUD's inspections of construction work in cases involving an

identity-of-interest between the owner and the contractor. A third Area Office partially implemented the new procedure. All four Area Offices failed to correctly implement procedures designed to discern identities-of-interest between the architects and the owners of construction companies.

In addition, the four Area Offices only partially implemented the requirement to perform management reviews of insured projects. The lowest percentage of required reviews made was one percent and the highest was 50 percent. Moreover, one Area Office did not implement six of the seven new procedures regarding the processing of construction change orders. Another Area Office did not implement three of the seven procedures.

The results of the Headquarters phase of the OIG's review indicated that steps proposed to identify projects with serious construction defects have not been fully implemented. In addition, effective measures to ensure the correction of construction deficiencies identified were not taken.

c. Recommendations

The OIG recommended that the Regional Administrators be required to report to Headquarters on the status of procedures not implemented and that specific criteria be established to identify projects with serious construction defects for referral to Headquarters. Also, the OIG is to be provided with information on and target dates for the implementation of the related tasks.

d. Status at Close of Reporting Period

The Assistant Secretary for Housing-Federal Housing Commissioner was responsive to the recommendations for ensuring that the improved multifamily procedures are fully implemented and that adequate measures are taken to provide for a continuing inspection program. The findings were thus closed.

2. HUD MONITORING OF PUBLIC HOUSING AGENCIES

a. Background

The U. S. Housing Act of 1937 states that local Public Housing Agencies were to be responsible for development, implementation and management of Low-Income Housing activities. Specific obligations and mutual responsibilities of HUD and PHAs are contained in a contract for financial assistance entitled the Annual Contributions Contract (ACC). The management portion of the ACC provides that the PHA is to: (1) operate the project for the benefit of low-income families by providing safe, decent, and sanitary dwellings within the financial means of such families; (2) establish maximum income limits subject to HUD approval and assure that income of families provided housing is within the income limits; (3) maintain the project in good repair; and (4) maintain the books and records in accordance with HUD requirements.

Within HUD Field Offices, the Housing Programs Management Branch of the Housing Management Division is responsible for monitoring and providing assistance in all matters affecting the management of PHAs. To accomplish this responsibility, the Branch provides PHAs with advice, assistance, and guidance on management methods and techniques, financial matters, occupancy, and property maintenance. The Branch keeps itself informed of PHA operations by performing on-site monitoring reviews and analyses of various PHA reports.

b. Significant Findings

Although the Field Offices were adequately monitoring the Modernization and Target Projects Programs, they were not monitoring the PHA's overall administration of the low-income housing programs. This monitoring, which should consist of engineering surveys, utility and management reviews and occupancy audits, was so deficient that the Field Offices had no assurance that PHAs were administering the low-income housing programs in accordance with statutory and contractual requirements.

For the 129 PHAs included in this audit, 237 HUD-required monitoring reviews had not been made within prescribed timeframes. Of the reviews made, only 636 of 1,976 deficiencies were resolved at the time of the audit and 1,037 findings remained unresolved for more than one year. Field Offices did not have, or had not implemented, supervisory review and control procedures to assure that quality monitoring was performed. Field Offices had not

implemented a follow-up system to assure that corrective action was taken by the PHAs on reported deficiencies.

Because Field Offices did not provide an overview of low-income housing programs, operating funds were used, or HUD provided substantive amounts of modernization money to correct project defects that should have been corrected under the contractors' warranties and which could have been prevented or reduced by good maintenance programs. For three projects where the costs could be monetized, the additional funds provided by HUD amounted to more than \$346,000.

In addition, weak PHA management practices resulted in unnecessary costs that reduced residual receipts and operating reserves which could have been used to reduce HUD's annual contributions. Some low-income families were living in housing that was not decent, safe and sanitary and some low-income tenants were charged rents in excess of the maximum permitted by law.

c. Recommendations

The OIG recommended that the Assistant Secretary for Housing-Federal Housing Commissioner: (1) issue a directive reemphasizing the need for monitoring PHAs and requiring Field Offices to follow Handbook monitoring requirements; (2) direct Field Offices to assist PHAs in obtaining correction of defects under contractors' warranties; and (3) revise HUD Handbook instructions to include specific requirements for supervisory review of monitors' work and for timely follow-up to assure deficiencies corrected.

d. Status at Close of Reporting Period

The Assistant Secretary for Housing-Federal Housing Commissioner agreed with the recommendations and initiated corrective actions. The report findings were closed during March 1979.

V. IDENTIFICATION OF UNRESOLVED SIGNIFICANT
RECOMMENDATIONS IN PREVIOUS
SEMIANNUAL REPORTS

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

Inasmuch as this is the initial semiannual report to Congress under the Inspector General Act of 1978, there is nothing to report under this section of the Act.

VI. SUMMARY OF MATTERS REFERRED TO PROSECUTIVE AUTHORITIES AND RESULTING PROSECUTIONS AND CONVICTIONS DURING THE PERIOD OCTOBER 1, 1978 TO MARCH 31, 1979

In accordance with Section 5(a)(4) of the Inspector General Act of 1978, the following is a summary of matters referred to prosecutive authorities during the period October 1, 1978 to March 31, 1979.

A. CASES REFERRED FOR PROSECUTION

During the period October 1, 1978 to March 31, 1979, the OIG referred 542 investigation cases for prosecutive consideration (Chart 1).

<u>Referred directly by OIG to:</u>	<u>No. of Cases</u>
FBI - No Investigation by OIG	269
FBI - Prima Facie Investigation by OIG	222
Department of Justice	51
Total	<u>542</u>

Chart 1. Investigation Cases Referred for Prosecutive Consideration - 1st Half of FY 1979

Although the FBI is not a prosecutive authority, matters referred to it are ultimately presented for prosecutive consideration (See page 60).

Chart 2 provides a breakdown of the 542 investigation cases by major HUD organizational component. As shown, 510 or 94 percent of the referred cases are in the Housing area.

<u>Organizational Component</u>	<u>No. of Cases</u>	<u>%</u>
Housing Management	253	47%
Housing Production (Not Title I)	176	32
Housing Production (Title I)	81	15
Miscellaneous	32	6
Total	<u>542</u>	<u>100%</u>

Chart 2. Investigation Cases Referred for Prosecution By Organizational Component - 1st Half of FY 1979

Chart 3 provides a breakdown of the 542 investigation cases by category of investigation. As shown, 382 or 70 percent of the referred cases relate to fraud and involve some type of false statement (e.g., false certification of income and/or misstating family composition on various housing assistance applications, fraudulent travel vouchers, false flood insurance claims, etc.).

<u>Category of Investigation</u>	<u>No. of Cases</u>	<u>%</u>
False Statements	382	70%
FHA Title I	81	15
Other	79	15
Total	<u>542</u>	<u>100%</u>

Chart 3. Investigation Cases Referred for Prosecution by Category of Investigation - 1st Half of FY 1979

The "Other" category shown in Chart 3 consists of embezzlement (19 cases), theft of government property (15 cases), and miscellaneous subjects (wage violations, kickbacks, conflicts of interest, bribery, etc.).

B. PROSECUTIONS AND CONVICTIONS

During the period October 1, 1978 to March 31, 1979, a total of 70 investigation cases resulted in the indictment, or indictment and conviction or conviction of 121 persons/firms having business with the Department (Chart 4). Of the 121 persons/firms, 89 were the result of investigation cases referred to prosecutive authorities/FBI by the OIG, and the remainder, or 32, were the result of investigations initiated solely by the FBI.

	<u>Cases Referred by OIG</u>		<u>Solely by FBI</u>	<u>Total</u>
	<u>Prior to 10/1/78 Persons/Firms</u>	<u>10/1/78-3/31/79 Persons/Firms</u>		
Indictment	19	2	8	29
Indictment and Conviction	37	2	19	58
Conviction	29	-	5	34
Totals	<u>85</u>	<u>4</u>	<u>32</u>	<u>121</u>

Chart 4. Indictments, Indictments and Convictions, and Convictions - 1st Half of FY 1979

Of the 89 persons/firms indicted, convicted or both as a result of OIG referrals, 85 were the result of 67 investigation cases referred to prosecutive authorities/FBI prior to October 1, 1978; the remainder or 4 persons/firms were the result of 3 cases referred during the period October 1, 1978 to March 31, 1979.

A total of 92 persons/firms were convicted during the period October 1, 1978 to March 31, 1979. They received a total of 47 1/2 years imprisonment, 158 years probation, suspended sentences of 8 years, fines amounting to \$315,464 and were required to make restitution amounting to \$11,500.

Prosecution was declined on 369 investigation cases during the period October 1, 1978 to March 31, 1979. However, the average universe of HUD investigation cases in the hands of prosecutive authorities during this period is not readily determinable; therefore the rate of declinations cannot be determined.

C. DESCRIPTION OF PROSECUTIVE ACTIONS ON CASES REFERRED AFTER OCTOBER 1, 1978

The following is a brief description of the indictments and convictions, the cases of which were referred to prosecutive authorities during the period October 1, 1978 to March 31, 1979.

Case #1 - Indictment and Conviction

The subject was a former Executive Director of a local housing authority who absconded with \$8,550 of authority funds while serving as the Executive Director of the authority. The subject pleaded guilty and was placed on three years probation after agreeing to make full restitution.

Case #2 - Indictment and Conviction

The subject submitted false information in order to secure a rent subsidy. The subject pled guilty and was sentenced to two years probation and was required to make full restitution.

Case #3 - Indictment Only

Two persons were indicted on March 7, 1979 for submitting false statements to HUD concerning improper classification of work and hours in connection with contractor payrolls.

D. DESCRIPTION OF PROSECUTIVE ACTIONS ON CASES REFERRED PRIOR TO OCTOBER 1, 1978

Selected prosecutive actions during the period October 1, 1978 to March 31, 1979 resulting from investigation cases referred to prosecutive authorities (including the FBI) prior to October 1, 1978 follow.

HOUSING

Broker Sentenced for Making False Statements to HUD

A real estate broker was sentenced to two years in prison on February 14, 1979 for one count of making false statements to HUD regarding employment, assets, owner occupancy, and a roofing certification. This was done to induce the Department to insure mortgages on properties for purchasers who would otherwise have been ineligible.

Speculator Sentenced for Purchasing as Owner/Occupant

After purchasing HUD-owned properties and submitting false certifications indicating that he would be an owner/occupant of the properties, a speculator pled guilty to conspiracy and false statements and was sentenced to two months in prison, fined \$1,000 and required to reimburse HUD \$3,500.

Former HUD Assistant to Area Office Director and Two Contractors Plead Guilty to Bribery

After being indicted in July 1978 for making payments for allowing work to be added to repair contracts under HUD's Section 518(a) program, a former HUD Assistant to an Area Office Director and two contractors pled guilty in October 1978 to three counts of violating Federal bribery statutes. The two contractors were involved in writing checks to a dummy corporation set up by the former Assistant in order to receive the money. In November 1978, each contractor was fined \$10,000; one was sentenced to six months in the work release program, and one was sentenced to three years probation. The former Assistant to the Area Office Director was sentenced to two years imprisonment and fined \$10,000.

Two Real Estate Salespersons Plead Guilty to Furnishing False Statements to HUD

Two real estate salespersons, in unrelated cases, each pled guilty to two counts of furnishing false statements to HUD in order to induce HUD to endorse mortgage insurance. Each had been indicted for causing the furnishing of false employment information to a HUD Area Office to qualify as purchasers for mortgage insurance.

Two Real Estate Brokers Indicted
for Conspiracy and Causing False
Statements to be Submitted to HUD

On December 27, 1978, two licensed real estate brokers were indicted for conspiracy and causing false statements to be submitted on properties purchased with either HUD-insured or guaranteed Veterans Administration (VA) mortgages. The 33-count indictment charged that one broker paid the other to apply for VA and HUD mortgages as an owner/occupant when it was never intended that the properties would be occupied. One broker certified to having invested personal funds, but never invested such funds. An escrow officer was also used to conceal these facts.

General Contractor and Subcontractor
Indicted for Furnishing False Payroll
Information

As a result of an OIG investigation, a general contractor and subcontractor were indicted on March 7, 1979 for causing false statements to be submitted to HUD concerning required overtime compensation and established wage scales (required by the Davis-Bacon Act) in regard to construction of an FHA-insured apartment development.

Project Resident Manager, Assistant Resident
Manager, and Associate Guilty of Conspiracy
and Fraud Involving a Section 8 Project

On January 15, 1979, the Resident Manager of a Section 8 project pled guilty to one count of conspiracy, four counts of false statements, and five counts of concealment in connection with a 27-count indictment by the Grand Jury in October 1978. The Resident Manager conspired with the Assistant Resident Manager and a personal friend to charge and collect rent over and above that certified by HUD's Section 8 Program. The Assistant Resident Manager, found guilty of conspiracy, aiding and abetting, and false statements/concealments, also deposited checks in his personal account and issued money orders in the name of tenants.

Project Manager Indicted for
Misappropriation of Funds

After embezzling funds from the mortgagor by means of fictitious payments and failure to deposit daily cash collections, a project manager was indicted in January 1979 and formally accused of misappropriating funds from the project.

Real Estate Broker and Spouse Indicted
for Submitting False Statements to HUD,
Embezzling HUD Funds, and Perjury

A Federal Grand Jury indicted a real estate broker and spouse on 11 counts in March 1979 for submitting false statements to conceal a transfer of cash from a project account to a personal account and embezzling funds under the pretense of payroll disbursements. The couple was also charged with embezzling funds from the project's checking accounts, and committing perjury while testifying before the Federal Grand Jury.

Two Insurance Adjusters Indicted on
Charges of Embezzling HUD Monies

In October 1978 and January 1979, two insurance adjusters were indicted and charged with embezzling insurance proceeds which should have been paid to HUD. A nonexistent mortgagee, rather than HUD, was named as payee for the amount of the proceeds. The investigation leading to the indictments was initiated on the basis of information provided by a HUD Area Manager.

Housing Authority Officials Convicted
of Extorting Kickbacks

Housing Authority officials, including the Section 8 Coordinator, were found guilty by a Federal Jury on various counts of racketeering, extortion, false statements to HUD and income tax evasion in connection with HUD-financed modernization programs. The defendants had been charged in a 21-count indictment for bid rigging and extorting kickbacks from suppliers, contractors, and the architect.

Developer Sentenced for Bribery
and False Statements to HUD

On November 17, 1978, a developer of several HUD-insured projects was sentenced to one year and one day imprisonment plus a fine of \$25,000 for giving illegal gratuities to a former HUD Area Office Director, and furnishing false statements to HUD concerning expenditures on three HUD-insured projects. The investigation and resulting charges stemmed from information developed in an OIG Operational Survey.

Six Sentenced for Fraudulent Activities
Involving a Housing Authority

The Director and former Director of a Housing Authority along with three contractors were convicted and sentenced to lengthy jail terms and/or had substantial fines imposed for various schemes to defraud

the Housing Authority over the past several years. OIG assisted in the Attorney General's investigation which resulted in the convictions.

NEIGHBORHOODS, VOLUNTARY ASSOCIATIONS
AND CONSUMER PROTECTION

Corporate President Indicted and Sentenced
for Mail Fraud and Land Sales Fraud

A Federal Grand Jury indicted a land development corporation and its Chief Executive Officer on October 17, 1978, charging both with making misrepresentations to purchasers during the sale of lots, and utilizing the U.S. Postal Service to perpetrate the fraud by mailing property reports containing false information on the lots. On January 30, 1979, the corporation president was sentenced to 18 months in prison on each of two counts of violating the Interstate Land Sales Full Disclosure Act. He was also sentenced to two years probation on each of two counts of mail fraud. The corporation was fined \$5,000 on each of two counts of land sales fraud and \$1,000 on each of two counts of mail fraud.

COMMUNITY PLANNING AND DEVELOPMENT

Former Community Development Director
Indicted for Embezzling Community
Development Block Grant (CDBG) Funds

A former Community Development Director was indicted by a Federal Grand Jury in January 1979 on six counts of embezzling CDBG funds and 19 counts of making false statements. There were indications that the Director had also received a kickback from a repair contractor. As a result of an OIG investigation into the kickback allegations, it was discovered that a fictitious firm had been established to receive payment out of CDBG funds. Proceeds of the funds were traced to the Director's personal bank accounts. Concurrent with the OIG investigation, an OIG audit of the CDBG and Section 8 programs, administered by the Community Development Director, uncovered numerous administrative weaknesses.

Former City Director of Demolition
and Five Others Indicted for
Embezzlement of CDBG Funds

In October 1978, a former City Director of Demolition, three city employees, and two contractors were indicted for their involvement in the submission of fraudulent requisitions for Federal funds for work which was never performed and conversion of these funds for their own use. In January 1979, all of the individuals pled guilty to one count of conspiracy. The former Director also pled guilty to an additional count involving embezzlement of Federal funds.

Mayor and City Manager Found Guilty
of Conspiracy Involving CDBG Funds

A Mayor and his City Manager were convicted in October 1978 of one count of conspiracy to defraud the United States. The two received kickbacks from a contractor who had been awarded contracts under the CDBG Program.

VII. SUMMARY OF EACH REPORT TO THE SECRETARY
ON UNREASONABLE REFUSAL OF
INFORMATION OR ASSISTANCE

In accordance with Section 5(a)(5) of the Inspector General Act of 1978, there were no instances reported to the Secretary, during the period October 1, 1978 to March 31, 1979, wherein the OIG was unreasonably refused information or assistance it had requested.

VIII. LISTING OF EACH AUDIT REPORT COMPLETED BY THE OIG DURING THE PERIOD OCTOBER 1, 1978 TO MARCH 31, 1979

In accordance with Section 5(a)(6) of the Inspector General Act of 1978, the following is a listing of each audit report completed by the OIG during the period October 1, 1978 to March 31, 1979.

INTERNAL AUDIT AND SURVEY REPORTS

<u>Description of Audit</u>	<u>Issuing Office</u>
<u>Housing (Total 40)</u>	
Servicing Delinquent Section 312 and Title I Loans	Region I
Servicing Delinquent Section 312 and Title I Loans	Region IV
Servicing Delinquent Section 312 and Title I Loans	Region V
Servicing Delinquent Section 312 and Title I Loans	Region VII
Use of Identity of Interest Companies by Management Agents for Project Services	Region III
Multifamily Project Operations Prior to Final Endorsement	Region IV
Multifamily Project Operations Prior to Final Endorsement	Region V (2 reports)
Multifamily Project Operations Prior to Final Endorsement	Region VII
Implementation of Multifamily Controls and Procedures	Region II
Implementation of Multifamily Controls and Procedures	Head- quarters
Review of Loan Management Branch, Field	Region II
Mortgage Credit Processing of Single Family Loans	Head- quarters
Single Family Processing in the Caribbean Area Office	Region II
Contractor Defaults on Construction on Multifamily Projects	Head- quarters
Limited Review of Mortgage-Backed Securities Activities	Head- quarters
Processing of Mortgage Insurance for Charles River Park "D"	Head- quarters
Monitoring of Project Managers	Region VI
Multifamily Property Disposition, Delay in Sales	Head- quarters
HUD Monitoring of Public Housing Authority Activities Relating to Tenant Accounts Receivable, Collection Losses and Vacancy Losses	Head- quarters
HUD Monitoring of Public Housing Authorities	Head- quarters

<u>Description of Audit</u>	<u>Issuing Office</u>
<u>Housing (Continued)</u>	
Management Agreements for Multifamily Projects	Head- quarters
Section 8, Leased Housing Program, New Construction and Substantial Rehabilitation	Head- quarters
Public Housing Authority Investment of Monies in Excess of Current Needs	Head- quarters
Selected Aspects of Public Housing Authority Maintenance Programs	Head- quarters
Single Family Acquired Property Sales, Pricing and Delays in Closing	Region X
Requisition of Funds and Voucher Processing for Section 8 and Section 23 Programs	Region I
Requisition of Funds and Voucher Processing for Section 8 and Section 23 Programs	Region VII
Requisition of Funds and Voucher Processing for Section 8 and Section 23 Programs	Region IX
Establishment of Fair Market Rents, Section 8 Program - New Construction and Substantial Rehabilitation	Region V
Public Housing Authority Maintenance Programs	Region II
Public Housing Authority Maintenance Programs	Region VIII
Review Process, Selection of Section 8 Proposals	Region I
Financial Management Specialists	Region II
Tax Payments - Single Family Acquired Properties	Region IV
Tax Payments - Single Family Acquired Properties	Region V
Federal Operated Project - Enid, OK	Region VI
Section 8 Preliminary Costs	Region IV
Section 8 Application Processing	Region IV
Delays In Issuing Actual Development	Region IV
 <u>Community Planning and Development (Total 6)</u>	
Comparison of Rehabilitation Programs - Section 312, Title I and CDBG	Region IV
Comparison of Rehabilitation Programs - Section 312, Title I and CDBG	Region V
Comparison of Rehabilitation Programs - Section 312, Title I and CDBG	Region IX
Use of CDBG Funds to Acquire and Improve Housing Sites (Survey)	Region III
CDBG Recipients Compliance with Audit Requirements	Head- quarters
Limited Review of the Use of CDBG Funds to Acquire/ Improve Housing Sites	Head- quarters
 <u>Fair Housing and Equal Opportunity (Total 3)</u>	
Voluntary Compliance Activities	Region III
Voluntary Compliance Activities	Region IV
Voluntary Compliance Activities	Region V

<u>Description of Audit</u>	<u>Issuing Office</u>
<u>Administration (Total 15)</u>	
Lead-Based Paint Escrow Procedures	Region II
Lead-Based Paint Escrow Procedures	Head- quarters
Regional Accounting Division Operations	Region III
Regional Accounting Division Operations	Region IV
Regional Accounting Division Operations	Region VII
Regional Accounting Division Operations	Region X
Regional Accounting Division Operations	Head- quarters
Financial Audit of FHA Accounts - Insured Housing	Region II
Financial Audit of FHA Accounts - Insured Housing	Region V
Financial Audit of FHA Accounts - Insured Housing	Region IX
Adequacy of Controls Over Receipt and Deposit of Funds	Region VI
Adequacy of Controls Over Receipt and Deposit of Funds	Region IX
Special Cash Audit	Region III
Observation of Annual Inventory	Region VIII
Review of Terminally Operated Personnel/Payroll System	Head- quarters
<u>Department-Wide Assistance (Total 8)</u>	
Monitoring of IPA Work - Hartford Area Office	Region I
Monitoring of IPA Work - Boston Area Office	Region I
Monitoring of IPA Work - Providence Service Office	Region I
Monitoring of IPA Work - Caribbean Area Office	Region II
Operational Survey - Hartford Area Office	Region I
Operational Survey - Pittsburgh Area Office	Region III
Operational Survey - Louisville Area Office	Region IV
Operational Survey - Las Vegas Service Office	Region IX
<u>Federal Disaster Assistance Administration (Total 3)</u>	
Operations of San Juan, P.R. Disaster Office	Region II
Disaster Assistance Provided by Federal Agencies	Head- quarters
Cost Effectiveness Study of the National Mobile Home Storage Program	Head- quarters
<u>GRAND TOTAL - INTERNAL AUDIT AND SURVEY REPORTS - 75</u>	

EXTERNAL AUDIT REPORTS

<u>Auditee</u>	<u>Location</u>	<u>Date Report Issued</u>
<u>HOUSING (Total 106)</u>		
Malmart Mortgage Corp.	Brookline, MA	01/12/79
Independence Plaza North	New York, NY	02/01/79
Union Mortgagee Corp.	Hempstead, NY	10/23/78
Jana Mortgage Bankers Corp	Santurce, PR	11/20/78
Jefferson Mortgage Co.	Cherry Hill, NJ	11/28/78
Capital America Management Corp.	Hato Rey, PR	12/20/78
R & G Mortgage Corp.	Puerto de Tierra, PR	12/22/78
Security Management & Finance Corp.	Rio Piedras, PR	12/23/78
Jersey Mortgage Corp.	Elizabeth, NJ	01/19/79
Coastal Funding Co.	Hato Rey, PR	01/19/79
Jeffries Management Corp.	Newark, NJ	12/08/78
Four Freedoms Management Corp.	Phila, PA & Miami, FL	12/14/78
Colonial Group, Inc.	Richmond, VA	12/11/78
Cambridge Square Apartments	Danville, VA	02/16/79
Lake Village Apartments/Riverside Apartments	Wilmington, NC	11/08/78
Madrid Gardens, Inc.	Ft. Lauderdale, FL	10/24/78
Sugar Creek Apartments	Atlanta, GA	11/09/78
Imperial Towers	Titusville, FL	11/17/78
Merritt Island Garden Apartments	Merritt Island, FL	12/05/78
Augusta Manor Apartments	Augusta, GA	12/15/78
Cedar Avenue Apartments	Albany, GA	02/23/79
Executive Point, Inc.	West Palm Beach, FL	02/23/79
Cameron Brown South, Inc.	Jackson, MS	10/26/78
Churchill Mortgage Co.	Atlanta, GA	02/09/79
Stone-Terrace	Chicago, IL	10/31/78
Broadway Grace	Chicago, IL	10/31/78
Briarcliff	Wheaton, IL	11/03/79
4640 Sheridan	Chicago, IL	11/07/78
Oak Ridge Estates	Dallas, TX	11/13/78
American Mortgage Co.	Philadelphia, PA	03/30/79
Washington Plaza	Portland, OR	03/08/79
Livingston-Baker	Seattle, WA	03/22/79
Church Street South	New Haven, CT	03/15/79
Westchester Towers	Wayne, MI	03/13/79
Westland Towers	Westland, MI	03/13/79
Meadow Village	Milwaukee, WI	03/13/79
Leyden Community Extended Care Center	Franklin Park, IL	03/13/79
Winthrop Tower Apartments	Chicago, IL	03/21/79
Woodridge Gardens	Grand Chute, WI	11/29/78
833 Buena Apartments	Chicago, IL	12/08/78
Murray Hill Square	Columbus, OH	12/13/78
Village Green Apartments	Columbus, OH	12/18/78
Lakeside Rentals	Chicago, IL	12/01/78
Wrightown Apartments	Milwaukee, WI	12/27/78
Roosevelt-Halsted Co.	Chicago, IL	12/20/78
Village Green Apartments	Carol Stream, IL	01/08/79
Belmont Harbor Tower	Chicago, IL	01/12/79
Neighborhood Commons	Chicago, IL	02/07/79
Hillcrest Convalescence Home, Inc.	Milwaukee, WI	02/27/79
Canon Lodge	Canon City, CO	03/16/79

<u>Auditee</u>	<u>Location</u>	<u>Date Report Issued</u>
<u>HOUSING (Continued)</u>		
Eastwood Park Apartments	Madison, WI	02/21/79
Leader Mortgage Co.	Cleveland, OH	10/27/78
Kingsville Lulac Manor	Kingsville, TX	02/14/79
Delta Mortgage Co.	New Orleans, LA	10/31/78
Jacob Rubiola & Co.	San Antonio, TX	11/29/78
Briarwood Apartments	Grandview, MO	11/30/78
Highland Park Townhouses	Kansas City, KS	01/10/79
Sycamore Hills	Kansas City, MO	01/24/79
Amortibanc	Wichita, KS	11/09/78
Central Mortgage Bankshares	Springfield, MO	10/17/78
Missouri Valley Investment	Kansas City, MO	10/19/78
Marcella Manor Apartments	Arvada, CO	01/30/79
Americana Apartments	Denver, CO	10/18/78
Sunset Park Apartments	Denver, CO	02/02/79
E.V. Chilson & Co.	Aspen, CO	12/08/78
Westmare Mortgage Corp.	Salt Lake City, UT	12/11/78
Reliance Mortgage Corp.	Englewood, CO	12/12/78
Franmar Manor	Phoenix, AR	11/22/78
John Muir Homes	Martinez, CA	12/12/78
Huntington Park Apartments	Fresno, CA	01/05/79
Weyerhaeuser Mortgage Co.	Los Angeles, CA	10/18/78
Uni-Cal Mortgage Corp.	Fountain Valley, CA	12/08/78
William Walters Co., Project Manager	Los Angeles, CA	11/15/78
Investors Property Management	Rolling Hills Estates, CA	11/30/78
Oakland Management & Development (OMAD)	Oakland, CA	02/16/79
Alpine Apartments	Boise, ID	02/23/79
Pacific West Mortgage Co.	Burien, WA	01/17/79
Continental, Inc.	Seattle, WA	01/30/79
Percy Wilson Mortgage & Finance Corp.	Chicago, IL	03/27/79
Valley View Lodge at Rossmoor	Walnut Creek, CA	03/05/79
Trans Mortgage Co.	Encino, CA	03/15/79
River Crossing Apartments	Thunderbolt, CA	03/14/79
Broadway Terrace Apartments	Clinton, MS	03/02/79
Bagwell Enterprises (Forest Park Estates Mobile Home Park)	Spartanburg, SC	03/09/79
Tabernacle Apartments	Knoxville, TN	03/23/79
Presbyterian Apartments	Huntsville, AL	03/16/79
Urban Housing Corp. North	Newark, NJ	03/14/79
Windmill Apartments	Ft. Collins, CO	03/15/79
Kaweah Management Co.	Visalia, CA	02/23/79
UMOJA, Inc.	Boston, MA	10/10/78
Danbury H.A.	Danbury, CT	12/27/78
Brookline H.A.	Brookline, MA	12/29/78
Philadelphia H.A.	Philadelphia, PA	11/29/78
H.A. of Louisville, KY	Louisville, KY	01/26/79
H.A. of Marietta, GA	Marietta, GA	11/03/78
H.A. of High Point, NC	High Point, NC	11/09/78
H.A. of Georgetown, SC	Georgetown, SC	11/22/78
MTE Realty, Inc.	Little Rock, AK	11/29/78
Omaha Tribal Authority	Macy, NE	02/29/79
Clarence Marshall Real Estate Co.	Kansas City, MO	12/22/78
H.A. of San Mateo	San Mateo, CA	11/28/78

<u>Auditee</u>	<u>Location</u>	<u>Date Report Issued</u>
<u>HOUSING (Continued)</u>		
Crawford Homes Project	Washington, DC	03/20/79
Dave Scott, Inc. Section 8 Consultant	Wilmington, MA	03/22/79
Housing Authority of the City and County of Sacramento	Sacramento, CA	03/14/79
City of Albany	Albany, NY	03/13/79
Housing Authority of Ponca Tribe of Indians	Ponca City, OK	03/22/79
<u>COMMUNITY PLANNING AND DEVELOPMENT (Total 74)</u>		
City of Springfield	Springfield, MA	11/03/78
Town of Hull	Hull, MA	12/28/78
New Rochelle	New Rochelle, NY	10/25/78
Mount Kisco	Mount Kisco, NY	11/09/78
Jersey City	Jersey City, NJ	12/08/78
Village of Nyack	Nyack, NY	01/05/79
Municipality of Toa Baja	Toa Baja, PR	02/23/79
Department of State	Albany, NY	11/27/78
City of Troy	Troy, NY	02/23/79
Office of Planning and Budget	San Juan, PR	10/10/78
Howard County	Ellicott City, MD	12/15/78
Petersburg, VA	Petersburg, VA	01/11/79
Pineville, KY	Pineville, KY	01/10/79
City of Dyersburg, TN	Dyersburg, TN	10/20/78
City of Athens, GA	Athens, GA	11/09/78
City of Burlington, NC	Burlington, NC	11/22/78
City of Pineville, KY	Pineville, KY	10/27/78
Mecklenburg County, NC	Mecklenburg, NC	12/13/78
Bacon County, GA	Bacon County, GA	01/12/79
City of Indianapolis	Indianapolis, IN	10/10/78
City of Detroit	Detroit, MI	10/19/78
City of Bloomington	Bloomington, IN	12/05/78
City of Chicago	Chicago, IL	02/26/79
City of Madison	Madison, IN	12/14/78
City of Ann Arbor	Ann Arbor, MI	11/21/78
City of Ann Arbor	Ann Arbor, MI	01/17/79
City Demonstration Agency of Houston	Houston, TX	01/30/79
Community Development Agency of Jefferson Parish, LA	Metairie, LA	10/24/78
LCRA-St. Louis, MO	St. Louis, MO	10/19/78
Anaconda-Deer Lodge County	Anaconda, MO	10/09/78
Contra Costa County, CA	Martinez, CA	10/23/78
City of Pasadena, CA	Pasadena, CA	02/23/79
King County	Seattle, WA	12/08/78
City of Everett	Everett, WA	12/12/78
Pittsburgh Model Cities	Pittsburgh, PA	03/06/79
City of Milwaukie	Milwaukie, OR	03/13/79
City of Bellingham	Bellingham, WA	03/28/79
Skokomish Indian Tribe	Shelton, WA	03/21/79
City of New Bedford	New Bedford, MA	03/05/79
Derby Redevelopment Agency Proj: Comm. R-85	Derby, CT	03/02/79
New Haven Redevelopment Agency Proj: Comm R-20	New Haven, CT	03/22/79
Proj: Comm R-71	New Haven, CT	03/30/79

<u>Auditee</u>	<u>Location</u>	<u>Date Report Issued</u>
<u>COMMUNITY PLANNING AND DEVELOPMENT (Continued)</u>		
City of Bloomington	Bloomington, IL	03/30/79
City of Euclid	Euclid, OH	03/26/79
City of Santa Cruz	Santa Cruz, CA	03/22/79
Redevelopment Agency of the City and County of San Francisco	San Francisco, CA	03/19/79
City of Charlotte (NC-1008-0S)	Charlotte, NC	03/13/79
City of Atlanta	Atlanta, GA	03/02/79
City of Clarksville	Clarksville, TN	03/08/79
City of Marietta	Marietta, GA	03/30/79
Sylacauga, AL	Sylacauga, AL	03/28/79
Osceola County, FL	Kissimmee, FL	03/23/79
Town of Holly Hill, SC	Holly Hill, SC	03/19/79
Town of St. Mathews, SC	St. Mathews, SC	03/22/79
Town of North	North, SC	03/21/79
Town of Clover	Clover, SC	03/21/79
Town of Carlisle	Carlisle, SC	03/22/79
Chester County, SC	Chester, SC	03/27/79
Town of Spring Lake	Spring Lake, NC	03/29/79
Town of Whitmire	Whitmire, SC	03/27/79
Town of Westminster	Westminster, SC	03/27/79
Town of Batesburg	Batesburg, SC	03/26/79
Town of Lenoir	Lenoir, NC	03/27/79
Atlantic Beach, SC	Atlantic Beach, SC	03/27/79
City of Glen Cove	Glen Cove, NY	03/07/79
City of Rome	Rome, NY	03/01/79
City of Albany	Albany, NY	03/14/79
City of Albany	Albany, NY	03/14/79
Police Jury of Tensas Parish	Tensas Parish, LA	03/30/79
Town of St. Joseph	St. Joseph, LA	03/27/79
City of Ponchatoula	Ponchatoula, LA	03/27/79
Police Jury of Madison Parish	Madison Parish, LA	03/27/79
Town of New Roads	New Roads, LA	03/27/79
City of New Braunfels	New Braunfels, TX	03/01/79

FEDERAL DISASTER ASSISTANCE (Total 31)

County of Monmouth	Monmouth, NJ	12/28/78
Hampden Township	Cumberland Co., PA	10/27/78
Lockhaven, PA	Lockhaven, PA	11/08/78
Penn Dot - District 4	Dunsmore, PA	11/08/78
Penn Dot - District 5	Various Cities, PA	12/04/78
Lower Allen Township	Cumberland, PA	12/11/78
Borough of Kingston	Kingston, PA	12/28/78
Wilkes-Barre PA	Wilkes-Barre, PA	01/19/79
Penn Dot - District 3		
Part 2 (340-DR-DOT-1)	Various Counties, PA	01/25/79
Part 1 (340-DR-DOT-1)	Various Counties, PA	02/12/79
Leslie County, KY	Leslie County, KY	10/11/78
State of North Carolina	Raleigh, NC	01/23/79
Harlan County, KY	Harlan County, KY	02/14/79
Dept. of Natural Resources	St. Paul, MN	10/12/78
Beltram Highway Dept.	Bemidji, MN	10/16/78
Dept. of Natural Resources	St. Paul, MN	10/10/78
Wayne County Road Commission	Detroit, MI	10/19/78
City of Wickliffe	Wickliffe, OH	10/24/78
Dept. of Natural Resources	Indianapolis, IN	11/15/78

<u>Auditee</u>	<u>Location</u>	<u>Date Report Issued</u>
<u>FEDERAL DISASTER ASSISTANCE (Continued)</u>		
Diocese of Cleveland	Cleveland, OH	11/21/78
City of Shaker Heights	Shaker Heights, OH	11/28/78
City of Hart	Hart, MI	12/21/78
State of Ohio	Columbus, OH	12/21/78
Oakland County Road Commission	Birmingham, OH	02/06/79
South Central Power Plan District	Nelson, NE	11/17/78
Mountrail County	Stanley, ND	10/13/78
Bottineau County	Bottineau, ND	10/25/78
Cass County	Fargo, ND	11/09/78
State of Washington, Dept. of Social and Health Services	Olympia, WA	03/21/79
Planned Parenthood of Western Missouri and Kansas	Kansas City, MO	03/22/79
Montana Dept. of Natural Resources	Helena, MT	03/02/79
<u>ADMINISTRATION (Total 89)</u>		
Goldmark Communication Corp.	Stamford, CN	10/23/78
Inquilinos Boricuoslen Accion	Boston, MA	10/31/78
Greater Roxbury Development Corp.	Roxbury, MA	12/04/78
Hamilton Engineering Associates	Nashua, NH	12/18/78
National Fire Protection Association	Boston, MA	01/02/79
New England Municipal Center	Durham, NH	01/10/79
Development Management Consultants	Boston, MA	02/02/79
National Fire Protection Agency	Boston, MA	02/14/79
Tri-City Citizens Union for Progress	Newark, NJ	10/02/78
Southside United Housing Development Fund	Brooklyn, NY	10/11/78
Urban Homesteading Assistance Board	New York, NY	10/13/78
Urbitron Associates	New York, NY	10/23/78
Steven Winter Associates	New York, NY	10/23/78
Bedford Stuyvesant Restoration Corp.	Brooklyn, NY	10/30/78
Interfaith Adopt A-Building, Inc.	New York, NY	10/31/78
Northward Educational & Cultural Center	Newark, NJ	11/15/78
Syska & Hennessey	New York, NY	11/15/78
Chemical Bank	New York, NY	01/04/79
Suburban Action Institute	New York, NY	01/10/79
Southeast Development, Inc.	Baltimore, MD	10/11/78
National Institute of Building Sciences	Washington, DC	10/25/78
William Brill Associates	Annapolis, MD	10/31/78
National Academy of Code Administration	McLean, VA	11/21/78
National Conferences on Bldg. Codes	McLean, VA	11/21/78
National Association of Housing and Redevelopment Officials	Washington, DC	01/11/79
National Hispanic Coalition of Better Housing	Washington, DC	01/15/79
Southwest VA Community Development Fund	Roanoke, VA	01/15/79
Hittman Associates	Columbia, MD	01/15/79
Great Lake Tribal Council	Great Lake, WI	12/15/78

<u>Auditee</u>	<u>Location</u>	<u>Date Report Issued</u>
<u>ADMINISTRATION (Continued)</u>		
National Council for Urban Economic Development	Washington, DC	01/16/79
University Research Corp.	Washington, DC	01/17/79
Joint Center for Political Studies	Washington, DC	01/23/79
Mark Battle Associates	Washington, DC	01/23/79
McLure - Lundberg Associates	Washington, DC	01/26/79
McLure - Lundberg Associates	Washington, DC	01/26/79
National Citizens Participation Council	Washington, DC	01/26/79
National Conference of States on Bldg. Codes & Standards, Inc.	McLean, VA	01/26/79
National Urban Coalition	Washington, DC	01/30/79
National Institute for Advanced Studies	Washington, DC	01/30/79
William Brill Associates	Annapolis, MD	01/31/79
Data Mail	Alexandria, VA	02/02/79
National Association of Housing & Redevelopment Officials	Washington, DC	02/09/79
Buchart Horn	York, PA	02/12/79
ABL Associates	Washington, DC	02/27/79
National Urban Coalition	Washington, DC	02/28/79
Greensboro Housing Authority	Greensboro, NC	10/05/78
Exodus, Inc.	Atlanta, GA	11/15/78
Mississippi Action for Community Education	Greenville, MI	11/28/78
Moore Gardner & Associates	Asheboro, NC	01/10/79
American Bar Association	Chicago, IL	10/11/78
River East Economic Revitalization Corp.	Toledo, OH	10/16/78
Project for Pride-In-Living	Minneapolis, MN	10/16/78
South Austin Realty Association	Chicago, IL	10/19/78
Johnson & Anderson	Pontiac, MI	12/06/78
Woodlawn Organization	Chicago, IL	12/12/78
Leadership Council for Metropolitan Open Communities	Chicago, IL	01/15/79
Preachers United to Save Housing (PUSH)	Chicago, IL	01/30/79
Carl C. Crane	Madison, WI	02/28/79
E.D.S. Federal Corporation	Dallas, TX	11/15/78
Mexican American Unity Council	San Antonio, TX	12/06/78
Wilson & Co. Engineers & Architects	Salina, KA	10/27/78
Carr Square Tenant Management Corp.	St. Louis, MO	11/30/78
City of St. Louis	St. Louis, MO	02/07/79
ICPR Public Relations	Los Angeles, CA	10/17/78
Resource for Communications	Los Angeles, CA	10/17/78
Group Management Associates	Encino, CA	10/17/78
Watts Labor Community Action	Los Angeles, CA	11/21/78
Human Resources Corp.	San Francisco, CA	12/12/78
County of Pinal, AZ	Florence, AZ	02/06/79
State of Washington	Olympia, WA	12/04/78
Dobson & Associates	Washington, DC	11/22/78
Avcom Corp.	Washington, DC	02/02/79
Middlesex County Southern District	Cambridge, MA	03/07/79
Goldmark Communications	Bridgeport, CN	03/07/79
National Bureau of Economic Research	Cambridge, MA	03/28/79
Peoples Development Corp.	Bronx, NY	02/23/79
Perkins & Will/The Ehrenkratz Group	New York, NY	03/09/79

<u>Auditee</u>	<u>Location</u>	<u>Date Report Issued</u>
<u>ADMINISTRATION (Continued)</u>		
National Urban League	New York, NY	03/20/79
Genasys Corporation	Washington, DC	03/07/79
Afro American Institute for Historic Preservation	Washington, DC	03/14/79
National Governors' Association	Washington, DC	03/14/79
National Capital Housing Authority	Washington, DC	03/15/79
Systems Research Company	Philadelphia, PA	03/21/79
The BLK Group	Washington, DC	03/28/79
National Committee Against Discrimination in Housing	Washington, DC	03/29/79
P & L Investment Corporation	Boutte, LA	03/06/79
Howard Needles, Tammen & Bergendoff	Alexandria, VA	03/15/79
Market Compilation & Research Bureau	North Hollywood, CA	03/21/79
S.B. Barnes & Associates	Los Angeles, CA	03/14/79

GRAND TOTAL - EXTERNAL AUDIT REPORTS - 300

IX. REVIEW OF LEGISLATION AND REGULATIONS

Section 4(a)(2) of the Inspector General Act of 1978 requires the Inspector General to review existing and proposed legislation and regulations relating to programs and operations of the Department and to make recommendations in the semiannual reports 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 period October 1, 1978 to March 31, 1979, the OIG reviewed 62 proposed new regulations or revisions to existing regulations, an undetermined number of existing regulations and statutes in conjunction with internal audits, and 27 proposed legislative bills.

On the basis of the above reviews, the OIG has no recommendations to Congress, as all concerns as a result of such reviews have either been satisfactorily resolved or are in the process of being resolved.

X. OTHER SIGNIFICANT CONCERNS - DEPARTMENTAL STAFFING AND TRAVEL FUNDS

Many problems have plagued HUD over the years and have impacted on the volume and intensity of OIG audits and investigations. The most serious of these problems has been insufficient program monitoring due to the low level of staff in the Department for monitoring the activities of program participants. A contributing cause for the lack of monitoring has allegedly been insufficient travel funds to perform on-site reviews of such participants.

OIG internal audit reports have often disclosed the lack of monitoring and on-site reviews of the activities of program participants by HUD program personnel. Such participants have included, among others, mortgagees, mortgagors, area management brokers, and Community Development Block Grant recipients. The primary causes of these conditions have been found to be the lack of sufficient staff and travel funds. Inadequate monitoring and insufficient on-site reviews of program participants have seriously jeopardized HUD's interests and permitted waste and mismanagement to go unchecked. These conditions have laid the foundation for fraud and abuse by some program participants. It is believed the inability of HUD program personnel to effectively monitor program participants has, in turn, resulted in an over-reliance on the OIG to detect waste, mismanagement, regulatory noncompliances, fraud, and other program abuses on the part of program participants. Such reliance has strained the OIG's resources. Any further reduction in travel funds or staffing for monitoring will tend to aggravate the situation.

XI. ACTIVITIES AND PERFORMANCE INDICATORS

The purpose of this part of the report is to provide general orientation on the activities and performance of the HUD-OIG. In effect, it is designed to provide the basic framework for assessing the operations of the OIG and its accomplishments in HUD since its inception in 1972 and for the last full fiscal year. Comparative figures on completed activities are not shown for the first half of FY 1979 inasmuch as this would not be a fair and accurate indication of the entire year's performance. Statistical data covering the full fiscal year will be included in the second semiannual report issued each year.

Some of the data presented in this part covering operations from the OIG's inception will not be repeated in subsequent semiannual reports; therefore the OIG is hopeful that this initial presentation of activities and performance indicators will be useful to Congress in assessing both the information in Part I and the impact of the OIG's comprehensive audit and investigation programs in HUD.

AUDIT OPERATIONS

A. HIGHLIGHTS OF FY 1978 ACTIVITIES

The following are highlights of some of the OIG's more important audit activities during FY 1978:

- At the direction of the Secretary and in coordination with HUD management, implemented an Audits Management System to eliminate an excessive inventory of unresolved audit findings and to assure that all future audit findings would be acted upon within specified time frames.
- Spent the equivalent of 270.5 direct audit staff years on audits.
- Devoted 54.6% of total direct audit time to external audits and 45.4% to internal audits and related activities.
- Issued 185 internal audit and survey reports.
- Issued 929 external audit reports.

- Accepted 176 audit reports covering HUD activities prepared by other Federal agencies.
- Reviewed and accepted 4,037 external audit reports prepared by non-Federal auditors, i.e., Independent Public Accountants (IPAs) and state/local auditors.
- Spent the equivalent of 26 staff years monitoring the work of IPAs to ensure compliance with established audit standards.
- Spent the equivalent of 12.6 direct audit staff years following up on audit findings.
- Resolved at March 31, 1979, 8,467 audit findings or 99% of the 8,534 findings reported during FY 1978.
- Produced audit cash savings of \$8.3 million and pricing proposal reductions of over \$661,000.
- Monitored IPA audits which produced an additional cash savings of \$5.1 million.
- Referred 9 mortgagee companies to HUD's Mortgagee Review Board for appropriate action.
- Devoted over seven staff years to assisting United States Attorneys in their prosecutive efforts.

B. AUDIT PLANNING

1. ANNUAL AUDIT PLAN

Audit planning is one of the OIG's most critical tasks. When carried out successfully, this task is a significant factor in achieving the maximum return to HUD on its audit investment.

The Office of Management and Budget has issued instructions in the form of OMB Circular A-73 (Revised), which require that each agency of the Federal Government prepare an audit plan at least annually. The OIG's Annual Audit Plan, which is scheduled for issuance on September 1 of each year, represents the OIG's formal plan of action for the management of audit resources and workload during the fiscal year. Development of the plan is a process which requires many months of research and preparation. It is based upon information and suggestions obtained from all levels of OIG and HUD program staff, and recognizes the interest and concerns of Congress, other Federal agencies and the general public.

The Plan, however, is sufficiently flexible in that it may be revised to accomodate changes in priorities which may occur during the implementation stage. It permits the shifting of audit emphasis and staff resources from planned audit assignments to newly determined areas in urgent need of audit attention.

All audits included in the Annual Audit Plan can be classified as being internal, external or combinations of both (See Appendix I for definitions of internal and external audits). However, for the sake of clarity and accountability, the Plan divides the audit workload into four functional areas as follows:

- Scheduled internal audits
- Fraud control and detection audits
- External audits
- Departmentwide Assistance activities*

Although external audits and Departmentwide Assistance activities involve nearly two-thirds of OIG's audit resources each year, the planning requirements for internal and fraud control audits are far more involved. This is due in part to the fact that internal and fraud control audit subjects are almost without limit. Moreover, these kinds of audits lend themselves to a greater degree of flexibility than do external audits or Departmentwide Assistance activities.

2. AUDIT PLANNING CRITERIA

OMB Circular No. A-73 (Revised) prescribes nine criteria which are to be applied to audit subjects under consideration for annual audit plans. OIG's policy regarding priority assignment of audit subjects not only recognizes each of OMB's criteria, it also includes two additional considerations. One is the Inspector General Act's mandate to detect and prevent fraud and program abuse. The other involves recognition of areas being emphasized by the President and the Secretary.

* Departmentwide Assistance includes following up on audit findings, monitoring Independent Public Accountant (IPA) audits, operational surveys, and assistance to U.S. Attorneys.

The following are the criteria which OIG uses in its audit planning process and the weight assigned to each during the FY 1979 planning cycle:

<u>Factors</u>	<u>Points</u> (Maximum: 70 points)
- Susceptibility to occurrence of fraud, embezzlement, program manipulation, or other type of irregularities	0-10
- Mandatory requirements of legislation or other Congressional or GAO recommendations	0-10
- Emphasis by the President and the Secretary	0-10
- Management needs to be met as developed in consultation with HUD Primary Organization Heads	0-08
- Newness, changed conditions, or sensitivity of the organization, program, activity, or function	0-07
- Dollar magnitude, duration, or resources involved	0-06
- Prior audit experience, including the adequacy of the financial management system and controls	0-05
- Extent of Federal participation either in terms of resources or regulatory authority	0-05
- Availability of audit resources	0-05
- Timeliness, reliability, and coverage of audit reports prepared by others, such as State and local governments and Independent Public Accountants	0-04

The relative weight assigned each planning criterion is subject to change depending on the circumstances which exist at the time the potential audit subjects are being evaluated.

3. FY 1979 PLANNED ALLOCATION OF DIRECT AUDIT TIME

The OIG's current internal and external audit workload is contained in the FY 1979 Annual Audit Plan, as amended. Chart 1 provides a comparison of the latest planned audit staff year allocations by functional area for FY 1979 with actual direct audit time incurred in FY 1978.

Chart 1 shows that more than two-thirds of available direct audit time is planned for HUD's two principal program areas, namely Housing and Community Planning and Development.

Most of the universe of external audit workload is performed by Independent Public Accountants (IPAs); however, as shown in Chart 1, 53 percent of total direct audit staff time is being allocated to external audit work during FY 1979. The balance of direct audit time, or 47 percent, is being allocated to internal audit work.

During FY 1979, the OIG plans to spend 249 direct audit staff years on internal and external audits. Compared to actual direct audit staff years spent in FY 1978, this represents an eight percent decrease in available direct audit time as a result of fewer field audit positions. Direct audit time is expected to increase in FY 1980 based on a planned increase in field audit positions.

Chart 1 shows that, when viewed as a percentage of total direct audit time, the direct audit staff years planned in the external and internal audit areas during FY 1979 is very close to what was actually spent in these areas in FY 1978. However, when looked at from the standpoint of the absolute number of direct audit staff years in each area, 11 percent less direct audit time is being planned in the external audit area in FY 1979 and five percent less time in the internal audit area. Once again, this is due to fewer field audit positions in FY 1979.

In FY 1979, direct audit time in the Federal Disaster Assistance Administration (FDAA) area will decrease 87 percent from FY 1978. This is due to the transfer of FDAA to the Federal Emergency Management Agency consistent with the President's Reorganization Plan No. 3 of 1978.

Lastly, the trend toward increased internal audit and related work will continue in FY 1979. For example, in FY 1977 the OIG spent 35.8 percent of its total direct audit time on internal audit and related work. In contrast, the OIG is planning to spend 47 percent of total direct audit time in this area during FY 1979. However, while the OIG continues to place increased emphasis on internal

DISTRIBUTION OF DIRECT AUDIT STAFF YEARS
FISCAL YEARS 1978 AND 1979 (PLANNED)

Program/Activity	External Audits		Internal Audits		Total		Percentage Increase (+) Decrease (-) FY78 vs. FY79
	FY 1978 Actual	FY 1979 Planned	FY 1978 Actual	FY 1979 Planned	FY 1978 Actual	FY 1979 Planned	
Housing	69.0	61.1	33.0	45.4	102.0	106.5	+ 4%
Community Planning and Development	54.4	56.8	9.9	14.2	64.3	71.0	+10%
Administration and Other	11.9	12.2	21.2	14.1	33.1	26.3	-21%
Federal Disaster Assistance Adm.	12.3	2.0	3.4	-	15.7	2.0	-87%
Departmentwide Assistance	-	-	55.4	43.3	55.4	43.3	-22%
Total	147.6	132.1	122.9	117.0	270.5	249.1	- 8%
As a Percentage of Total Direct Audit Time	54.6%	53.0%	45.4%	47.0%			
Percentage Increase(+) Decrease (-) From FY 1978		-11%		- 5%			

Chart 1. Distribution of Direct Audit Time by Actual and Planned Audit Staff Years - Fiscal Years 1978-1979.

audits, this is not being done at the expense of providing less audit coverage of HUD program participants. Rather, audits of HUD program participants by Independent Public Accountants (IPAs) continue to increase and the OIG's monitoring of such audits likewise continues to increase. Moreover, internal audits normally entail reviewing selected operations of a sample number of HUD program participants (external audit work). Thus, while the OIG's direct external audit time has been decreasing, this is compensated for by relying on IPA audits and the external audit work which is performed in conjunction with internal audits.

C. AUDIT AND SURVEY REPORTS ISSUED BY THE OIG

1. INTERNAL AUDIT AND SURVEY REPORTS

The OIG issued 185 internal audit and survey reports in FY 1978 (Chart 2). Of these reports, 18 were nationwide reports, i.e., reports which summarized the results of several Regional Office audit reports and which disclosed major trends in adverse conditions or significant deficiencies in program administration. Nationwide reports are directed to the applicable Assistant Secretary or equivalent for appropriate action on the report's findings and recommendations. As shown in Chart 2, about 39 percent of the OIG's internal audit and survey reports issued during FY 1978 were in the Housing area.

<u>Program/Activity</u>	<u>Internal Audit and Survey Reports Issued - FY 1978</u>	
	<u>Number</u>	<u>%</u>
Housing	72	39%
Departmentwide Assistance Administration	39	21
Community Planning and Development	36	20
Other (Federal Disaster Assist., Federal Insurance, Fair Housing, etc.)	28	15
Total	<u>185</u>	<u>100%</u>

Chart 2. Internal Audit and Survey Reports Issued By Major Program or Activity - Fiscal Year 1978

Included in the 185 internal audit and survey reports were 432 findings with one or more recommendations to HUD management per each finding. Of the 432 findings, 332 or about 77 percent have been closed to date.

2. EXTERNAL AUDIT REPORTS

During FY 1978, the OIG issued 929 external audit reports (Chart 3). As shown, reports issued were fairly evenly distributed among the various program/activity categories.

<u>Program/Activity</u>	<u>External Audit Reports Issued - FY 1978</u>	
	<u>Number</u>	<u>%</u>
Administration (Contract Cost Audits and Pricing Proposals)	254	27%
Housing	247	27
Federal Disaster Assistance Admin.	221	24
Community Planning and Development	207	22
Total	<u>929</u>	<u>100%</u>

Chart 3. OIG-Issued External Audit Reports by Major Program or Activity - Fiscal Year 1978

The main thrusts of the OIG's external audits during FY 1978 were directed toward mortgagee operations (86 reports), multifamily mortgagor operations (83 reports) and community development block grant activities (124 reports).

A decrease in the number of OIG-issued external audit reports will likely occur in FY 1979 as a result of the transfer of the Federal Disaster Assistance Administration from HUD. As shown in Chart 3, 24 percent of the external audit reports that the OIG issued in FY 1978 were in the Federal Disaster Assistance area.

3. EXTERNAL AUDIT FINDINGS

As mentioned in the previous section, the OIG issued 929 external audit reports in FY 1978. In addition, the OIG in FY 1978 reviewed and accepted 4,037 external audit reports on HUD program participants which were prepared by Independent Public Accountants (IPAs) and state and local auditors.

Together, these 4,966 OIG and IPA reports produced 8,102 external audit findings which had to be controlled, i.e., followed up for corrective action and a decision made to clear or not to clear each finding. About 54 percent of the findings were in the Community Planning and Development area while 45 percent were in the Housing area.

Of the 8,102 external audit findings reported and controlled during FY 1978, 8,035 or about 99 percent have been closed to date.

D. AUDIT REPORTS PREPARED BY NON-FEDERAL AUDITORS

1. USE OF INDEPENDENT PUBLIC ACCOUNTANTS
AND STATE AND LOCAL AUDITORS

The universe of potential external audits of HUD program participants is extremely large. (OIG's last estimate of this universe was over 48,000; however, the universe varies at any given time). The magnitude of this universe is evidenced by the fact that the OIG directly audited about two percent of HUD's auditable program participants during FY 1978, yet, as shown in Chart 1 (page 41), these audits consumed 147.6 direct audit staff years or nearly 55 percent of the OIG's total direct audit time during FY 1978. To perform an audit of each member of this universe on a reasonably-timed basis would be beyond the capabilities of existing staff resources.

Because of the large universe of potential annual external audits, HUD and the OIG must rely on Independent Public Accountants (IPAs) and state and local auditors to perform most of the audits of recipients of HUD assistance (See Appendix 2). The vast majority of non-OIG audits of HUD program participants, however, are performed by IPAs in contrast to state or local government auditors. In addition, some program audits, such as in the Community Development Block Grant Program, are required by statute.

Generally, an IPA is defined as either: (1) a public accountant licensed or registered on or before December 31, 1970 by a regulatory authority of a State or other political subdivision of the U.S. and, who meets any legal requirements concerning registration by the State in which the auditee is located; or (2) a Certified Public Accountant.

HUD's first effort at using IPAs was in FY 1972. This effort consisted of a pilot program wherein IPAs were used to audit public housing agencies. The program was later expanded to encompass other HUD program participants as illustrated in Appendix 2. FY 1973, however, was the first year to reflect HUD's policy of relying on IPAs to the greatest extent possible.

The extent to which IPAs will be used in the future will be governed by the size of HUD's audit universe and OIG staff.

Chart 4 shows, by major program area, the number of IPA audit reports reviewed and accepted during FY 1978. As shown, 87 percent of the reports are in the Low-Rent Housing and Community Development Block Grant Programs.

Program*	FY 1978	
	<u>Reports Reviewed and Accepted Number</u>	<u>%</u>
Community Development Block Grant Program	1,963	49%
Low Rent Housing	1,530	38
Comprehensive Planning (Section 701)	314	8
Urban Renewal (UR) & Neighborhood Development Programs (NDP)	168	4
Combined LRH & UR/NDP	48	1
Neighborhood Facility Grants	11	-
Public Facility Loans	3	-
Totals	<u>4,037</u>	<u>100%</u>

Chart 4. IPA Audit Reports Reviewed and Accepted By Major Program Area - Fiscal Year 1978

The largest increase (170%) in IPA reports reviewed and accepted during FY 1978 was in the Community Development Block Grant Program. This program also comprised 49 percent of the IPA reports reviewed and accepted during FY 1978. This was the largest percentage of any program category. The increase, however, was partly offset by the phasing out of the various categorical grant programs.

In FY 1973 the OIG reviewed and accepted 103 audit reports prepared by IPAs. In contrast, during FY 1978 the OIG reviewed and accepted 4,037 IPA reports. As shown in Chart 5, the number of IPA reports reviewed and accepted has been steadily increasing each year since FY 1973. The increase just since FY 1977 has been 54 percent.

* The OIG does not have review and acceptance responsibility for IPA reports in the insured housing area. This area constitutes the largest portion of the external audit universe.

2. MONITORING INDEPENDENT PUBLIC ACCOUNTANTS

The OIG has been monitoring the audit work performed by IPAs since the time the IPA program was first established in 1972. The Inspector General Act of 1978 now requires each OIG to take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions.

The IPA monitoring program consists of reviewing IPA reports for acceptability, conducting selected field reviews of IPA working papers, and evaluating the scope of IPA audit work.

Since the inception of the IPA program through FY 1978 the OIG has spent 19,269 staff days (approximately 96 staff years) monitoring the work of IPAs (Chart 5). The increase in IPA monitoring time over this period has been nearly 950 percent.

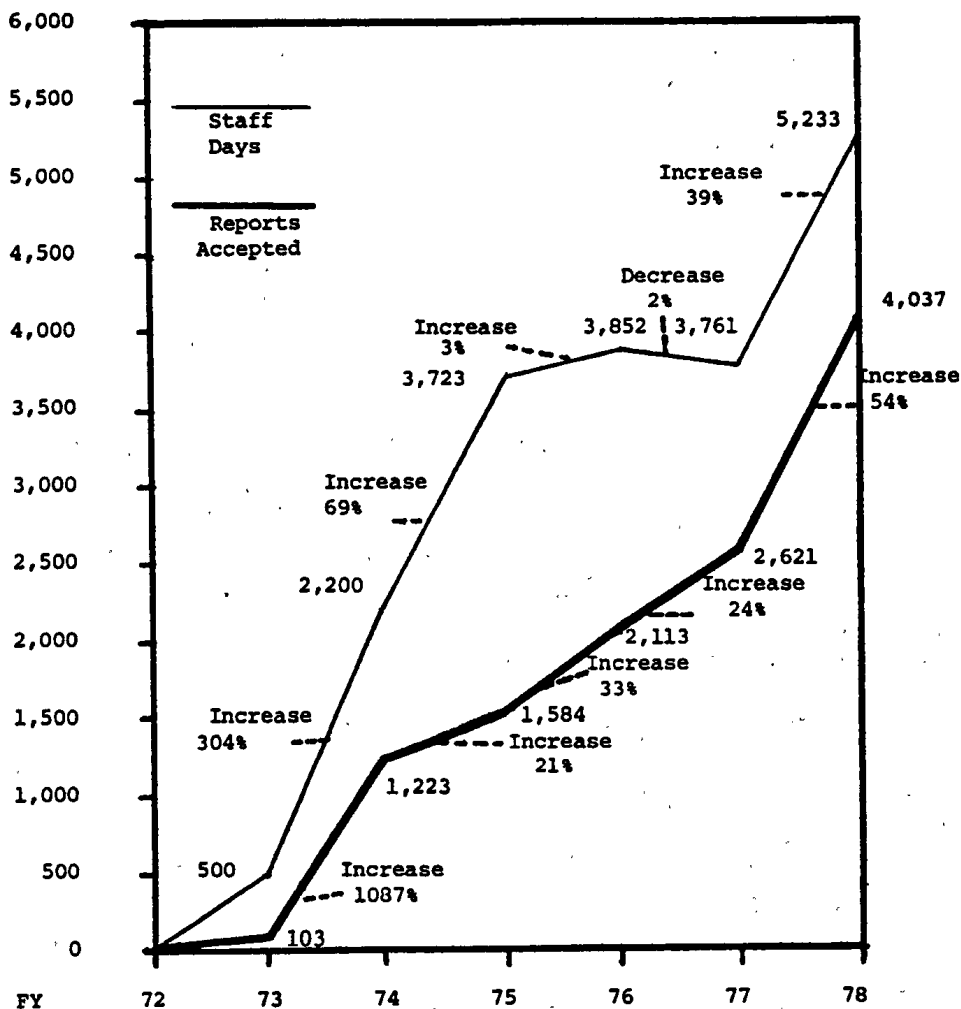


Chart 5. Comparison of IPA Monitoring Staff Days with Number of IPA Reports Accepted - 1972 to 1978

Except for a slight decrease in FY 1977, the OIG's IPA monitoring time has increased each year since the IPA program began in 1972. The decrease in FY 1977 resulted from a transfer of the IPA price proposal review function from the OIG to HUD Field Offices in March of 1977.

As shown in Chart 5, the OIG spent 5,233 staff days (26 staff years) on IPA monitoring during FY 1978 in contrast to 3,761 staff days (18 staff years) in FY 1977; a 39-percent increase.

The OIG is currently reviewing ways of improving IPA monitoring efforts without detracting from the quality of IPA audit reports. Specifically, the criteria and procedures for reviewing IPA reports are being closely evaluated.

The OIG is also responsible for initiating sanctions against IPAs. Such sanctions usually consist of referral to the appropriate State regulatory authority, State accounting board, or American Institute of Certified Public Accountants (AICPA), for review and adjudication and/or initiation of a recommendation to the responsible HUD official to suspend or debar the IPA from participating in the Department's programs.

During FY 1978, actions were initiated to debar an IPA from participating in HUD programs. The OIG was successful in this connection and the IPA was debarred from participating in HUD programs for a 3-year period. In addition, three IPAs were referred to the AICPA for appropriate action. The reasons for these actions were (1) work which failed to meet auditing standards and (2) lack of cooperation on the part of the IPA in making his audit working papers available for review.

E. AUDIT REPORTS PREPARED BY OTHER AGENCIES

Some Federal agencies (including HUD) have audit cognizance responsibilities with respect to specific program participants receiving funds from the Federal Government, either under a grant or contract arrangement. In HUD's case, these agencies are responsible for conducting the audits of HUD activities which are carried out by these participants, and 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, Education, and Welfare. In FY 1978, the OIG accepted 176 audit reports covering HUD activities which were prepared by other Federal agencies.

F. FOLLOW UP AND CLEARANCE OF AUDIT FINDINGS AND RECOMMENDATIONS

1. AUDITS MANAGEMENT SYSTEM

The most significant management improvement that occurred in the audit area during FY 1978 was the establishment of the Audits Management System on December 22, 1977. The Secretary directed that this system be established in an effort to eliminate an excessive inventory of unresolved audit findings and to assure that all future audit findings would be acted upon within specified time frames. The Audits Management System became operational in May 1978.

Over the past several years, the OIG has placed considerable emphasis on attempting to get HUD management to act promptly on audit findings. Unfortunately, until the Secretary began to emphasize the closing of audit findings as a top departmental priority, HUD did not have the necessary commitment of management to do an effective job of resolving audit findings. In her first year of tenure, the Secretary became concerned that over 4,600 audit findings had not been acted upon promptly by managers. She therefore decided to change this unacceptable situation by calling for the establishment of the Audits Management System.

The Secretary directed that a two-pronged system be implemented. First, to correct the mistakes of the past and to ensure prompt action on audit recommendations, the Secretary directed that a concerted effort be implemented to clean up the large backlog of open audit findings. The effort was completed and the backlog was virtually eliminated in April 1978.

The second part of the Audits Management System is designed to ensure not only that new audits are closed out promptly by HUD managers, but that all audit recommendations are speedily implemented or otherwise satisfactorily resolved.*

The Audits Management System assures 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.

* This part of the Audits Management System is designed to ensure that new audits, including those performed by non-Federal auditors, are closed out within a maximum of 105 days for internal audits and 180 days for external audits.

Findings that are not resolved within prescribed time frames are now automatically referred to Headquarters and then to the Audits Resolution Committee for final determination.

The implementation of the Audits Management System has resulted in a more rapid resolution of recommendations contained in audit reports concerning HUD program participants and internal HUD activities. Resolution of the open audit findings contained in the backlog of 4,616 external and internal audit findings resulted in recouping from program participants about \$6.4 million in ineligibly spent program funds. In addition, another \$23.1 million was concurred in by HUD officials and they have requested program participants to make resolution. As a result, a significant portion of this amount could eventually produce cash savings to HUD. The savings from external audit findings become available for use by HUD on other approved grants or funded projects under the programs involved. But perhaps more important is that resolution of audit findings and recommendations result in numerous improvements in management and internal control practices.

Although implementation of the Audits Management System involved a learning process for HUD officials, the operating results for FY 1978 were extremely favorable. About 99 percent of the 4,616 backlog of open audit findings were closed within the Secretary's stated 90-day time frame. Since the inception of the Audits Management System, only 10 percent of the findings for which the Audits Management System specified time frames had elapsed had to be referred to HUD Headquarters for resolution. In other words, the vast majority of findings were resolved within established time frames at the HUD Field level.

The record of achievement speaks well for the effectiveness of the Audits Management System. Of the 8,534 audit findings reported in FY 1978, 8,467 or 99 percent have been closed as of March 31, 1979.

2. POST-AUDIT REVIEW AND VERIFICATION OF CLOSED AUDIT FINDINGS

In order to verify the actual implementation of the OIG's 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 OIG 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.

To date, over 500 findings have been referred by the OIG for post-audit verification. Top management is not only involved in resolving findings on a timely basis, but also in ensuring that post-audit verifications are made to check the quality of actions taken by the auditee on selected closed audit recommendations. In this regard, the Deputy Under Secretary for Field Coordination has issued guidelines for regional verification systems. In addition, his staff makes periodic field reviews to (1) determine if the region has adopted and is using the guidelines, and (2) verify selected closed audit recommendations.

Reviews to date have shown that the post-audit verification system is being carried out and appropriate corrective actions on audit findings, with few exceptions, are being taken.

3. DIRECT INTERNAL AUDIT TIME

The OIG continues to spend a considerable amount of time following up on audit findings. In FY 1978 the OIG spent the equivalent of 12.6 direct audit staff years in this area. This represented over 10 percent of direct internal audit time during FY 1978.

The relatively high amount of direct audit time in this area was primarily due to the establishment and implementation of the Audits Management System (AMS) and the fact that audit findings reported during FY 1978 increased by 32 percent over FY 1977. The FY 1979 Annual Audit Plan provides for the equivalent of 8 staff years to follow up on audit findings.

The OIG continues to look upon this area as being of critical importance to the Department's audit efforts which are aimed at bringing about positive improvements in the administration of HUD programs and activities through implementation of audit recommendations or appropriate consideration of the information contained in audit reports.

G. MONETIZED AUDIT FINDINGS CONCURRED IN BY HUD AND RESULTANT CASH SAVINGS

As indicated in the previous section, HUD officials agreed with many of the OIG's audit findings and recommendations in FY 1978. While all of the findings that are reported cannot be expressed in monetary terms, the findings that were so expressed and concurred in by HUD during FY 1978 amounted to about \$29 million (Chart 6). Such findings, since the OIG's inception in 1972 through FY 1978, have amounted to nearly \$146 million (Chart 7). These findings are normally in the external audit area and are not reported until the OIG is advised in writing by the applicable HUD program official that he/she has concurred in the audit findings and has requested the recipient of the program funds to make restitution or take other corrective action.

HUD's procedures to implement the Claims Collection Act of 1966 include the collection of receivables from audit recommendations. When an audit recommendation is recognized as a valid receivable by HUD, it is recorded as an accounts receivable and processed in accordance with the Department's accounting and collection controls.

Cash savings to HUD as a result of OIG external audits totaled \$8.3 million in FY 1978 (Chart 6). This brings total audit cash savings to HUD since the time of the OIG's inception to over \$62 million (Chart 7).

<u>Program/Activity</u>	<u>Fiscal Year 1978</u>	
	<u>Concurred-in Audit Findings</u>	<u>Cash Savings</u>
Model Cities	\$13,626,541	\$1,515,873
Urban Renewal, NDP	3,443,582	817,378
Community Development Block Grant	4,227,325	1,811,315
Federal Disaster Assistance	2,104,037	2,099,896
Multifamily Mortgagor Operations	1,528,315	199,335
Comprehensive Planning	570,518	8,501
Low-Rent Housing	760,513	287,186
Code Enforcement	595,318	216,221
Mortgagee Operations	436,370	524,474
Urban Beautification	519,429	142,578
Multifamily Mortgagor Cost	193,920	27,077
Combined Low-Rent Housing/ Urban Renewal	174,205	174,205
Neighborhood Facilities	68,190	11,042
Integrated Grant Administration/ Cost Allocation Plans	49,413	41,938
Housing Management Brokers	49,522	2,362
Open Space Land Grants	501,564	169,549
Community Development Training	-0-	45,410
Interim Assistance	142,311	13,203
Cost Reimbursement Contracts	198,021	198,021
Totals	<u>\$29,189,094</u>	<u>\$8,305,564</u>

Chart 6. Monetized Audit Findings Concurred In By HUD And Resultant Cash Savings By Program/Activity - Fiscal Year 1978

<u>Fiscal Year</u>	<u>Concurred-in Audit Findings</u>	<u>Cash Savings</u>
1972	\$7,984,678	\$4,135,507
1973	9,446,571	5,052,352
1974	16,101,956	8,131,077
1975	14,807,141	7,511,005
1976	33,799,805	18,765,109
1977	34,580,444	10,550,285
1978	<u>29,189,094</u>	<u>8,305,564</u>
Totals	<u>\$145,909,689</u>	<u>\$62,450,899</u>

Chart 7. Monetized Audit Findings Concurred In By HUD
And Resultant Cash Savings - Fiscal Years
1972 - 1978

IPA audits produced an additional \$5.1 million of cash savings during FY 1978. Cash savings are reported only after the OIG has evidence that HUD's program costs have actually been reduced. Such savings become available for reprogramming to grantees or funded projects within the programs involved. In addition, price reductions of \$661,633 were obtained through OIG pricing proposal evaluations.

The phasing out of the categorical grant programs, which have specific allowable cost elements, will most likely result in reducing the amount of OIG cash savings in future years.

As shown in Chart 7, there is no definite trend or pattern in the amount of monetized audit findings concurred in by HUD or cash savings from year to year. Such annual audit findings and cash savings are affected by a variety of factors such as type of program audited, amount of program funds audited, extraordinary items, type of costs incurred, internal versus external audit emphasis and so on.

While monetized audit findings and cash savings are important, the impact of the OIG's comprehensive audit program should not be looked upon only in terms of resultant cash savings. Some audit findings do not lend themselves to being expressed in terms of dollar savings. Rather, of more importance is the positive influence audit findings and recommendations have had on the way HUD and program participants administer their programs and activities. This has been particularly true in FY 1978 primarily because of the establishment of the Audits Management System which has served to focus top management attention on the implementation of audit recommendations.

H. REFERRALS TO MORTGAGEE REVIEW BOARD

In 1975 HUD established the Mortgagee Review Board in order to strengthen the Department's monitoring and control of mortgagee performance, to ensure better responses to consumer complaints, and to act on poor performance by mortgagees. The regulation (24 C.F.R., Part 25, 40 FR43026) establishing the Board was published September 12, 1975. The Board has the authority to take a range of sanctions up to and including the withdrawal of the HUD-approved status of mortgagees. The Board is composed of the Assistant Secretaries for Housing, Administration, Neighborhoods, Voluntary Associations and Consumer Protection, and the HUD General Counsel.

Findings cited in audit reports, deficiencies disclosed in monitoring reviews and other transgressions by mortgagees which come to the attention of the Department and which are significant, are to be directed to the Board for a determination of whether a HUD approved mortgagee should have its approved status withdrawn. The procedures of the Board are intended to assure consideration of all matters referred and require the unanimous decision of all Board members to withdraw a mortgagee's approval. A dissenting vote by any Member will cause the case to be referred to the Under Secretary for a determination of appropriate action. Mortgagees are assured of due process, including the right to appeal to a hearing officer and ultimately to the Secretary.

Matters considered can generally be divided into two categories: Actions against mortgagees who fail to submit required financial statements, and actions against mortgagees for improper performance. The establishment of the Board has served to improve mortgagee performance and exclude from participation in HUD programs those mortgagees who do not comply with the Department's procedures.

In FY 1978, the OIG referred 9 mortgage companies to the Mortgagee Review Board for appropriate action. Reviews of these companies disclosed program violations such as: loans not handled in accordance with HUD requirements; overcharges to mortgagors for credit reports and loan closing; failure to report mortgagor liabilities on loan applications; mortgagee kickbacks (e.g., referral fees and rebates, etc.) and branch offices operating contrary to HUD approval agreements. Of the 9 cases referred, the Board withdrew mortgagee approval in 4 cases, placed one mortgagee on probation for one year, issued one letter of reprimand, required two mortgagees to enter into indemnification agreements, and required another to obtain refunds of kickbacks to brokers.

I. IDENTIFICATION OF TRENDS AND PATTERNS IN AUDIT REPORT FINDINGS

The OIG does not consider its job complete once an audit report is issued. Attempts are made to evaluate issued reports in a given program area to determine the existence of adverse trends or patterns in reported deficiencies. The findings of these evaluations are used to refine internal audit planning requirements for the upcoming fiscal year, to modify audit guides to better cover problem areas and, if necessary, to alert the Primary Organization Head responsible for administering the program regarding the need for close attention and/or corrective action.

Examples of some of the program areas covered by FY 1978 evaluations are: (1) OIG/IPA-issued external audit reports on Public Housing Authorities; (2) OIG/IPA-issued reports on Community Development Block Grant Program recipients; and (3) audit findings dealing with diversions of funds in FHA-insured multifamily projects.

The OIG also prepares quarterly reports on significant audit findings and adverse trends and submits these reports to HUD Primary Organization Heads. These reports summarize outstanding significant audit findings, describe management action planned or taken, and disclose past findings for which satisfactory corrective action has not been initiated. Finally, the OIG follows up on the status of open audit finding suggestions for correcting any adverse trends. When requested, the recipients of these reports are briefed on the matters disclosed.

INVESTIGATION OPERATIONS

A. HIGHLIGHTS OF FY 1978 ACTIVITIES

The following are highlights of some of the OIG's more important investigation activities during FY 1978:

- Opened 2,237 investigation cases involving HUD personnel, or persons or firms doing business with HUD.
- Implemented a new management system to track and monitor completed investigation cases which accelerated initial administrative action on such cases.
- Aided in the indictment of 189 persons or firms having business with HUD.

- Carried out investigations which led to the conviction of 139 persons or firms who received fines totaling nearly \$1.2 million and prison sentences totaling nearly 260 years.
- Conducted investigations which led to 400 debarments and 291 suspensions of persons or firms having business with HUD.
- Produced cash recoveries as a result of investigations amounting to \$1.6 million.
- Intensified training in the area of white collar crime in cooperation with other agencies.

B. INVESTIGATION WORKLOAD ACTIVITY

1. CASES OPENED AND CLOSED

In FY 1978 the OIG opened 2,237 new investigation cases involving HUD personnel, and/or persons or firms doing business with HUD.* Chart 8 shows a breakdown of these cases by category of investigative matter. Of the 2,237 investigation case openings, 2,044 or 91 percent were opened by the OIG's Office of Investigation; the remaining 193 cases were originated by the FBI and other agencies.

2. PROFILE OF NEW CASES

As indicated in Chart 8, 60 percent of the 2,237 investigations opened during FY 1978 involved some type of suspected false statement (i.e., to obtain an insured mortgage or rental subsidy benefits, to acquire a HUD-owned property, false crime/flood insurance claims, false travel vouchers, etc.). Over 90 percent of the 1,346 false statement investigations dealt with single family mortgage insurance programs. The remaining case load of 891 investigations were spread across program lines and pertained to allegations/complaints such as bribery, embezzlement, conflict of interest, labor violations, home improvement loans, complaints of discrimination in employment and HUD employee misconduct.

* Since its inception in January 1972 through FY 1978, the OIG has now opened almost 19,000 investigation cases.

<u>Investigation Category</u>	<u>Number of Cases</u>
False Statements	1,346
FHA - Title I Administration	185
Preemployment Checks	138
HUD Personnel (Misconduct)	122
Embezzlement	113
Wage Violations	57
HUD Employee Complaints of Discrimination	47
Miscellaneous (Impersonation, Hatch Act, etc.)	45
Kickbacks	45
Conflict of Interest	40
Theft	38
Bribery	34
	27
Total	<u>2,237</u>

Chart 8. New Investigation Cases Opened by Category of Investigation Matter - Fiscal Year 1978

3. MATTERS IMPACTING ON TIME REQUIRED FOR INVESTIGATIONS

During the past several years, certain forces have impacted on the overall staff time required for OIG investigations. These forces intensified in FY 1978 and will likely be significant factors affecting investigation time in the years to come. Briefly, some of these forces can be described as follows:

- The magnitude of white collar crime and the potential for fraud in Government programs is now being recognized.
- Attitudinal and operational changes within the FBI which have broadened cooperative efforts and at the same time shifted greater responsibilities to OIG investigators.
- Changes in dealings with the Department of Justice and United States Attorneys have paralleled those of the FBI, requiring more intensive and prolonged involvement in investigations which are considered for or which ultimately result in criminal prosecutions.
- Interest in seeking civil recoveries is increasing and this is requiring more post-investigation attention.

- Greater attention is being given to the imposition of administrative sanctions.

The new result of the impact of these forces on the OIG's investigation operations has been to increase the overall staff time required for each investigation.

The overall workload, in terms of the general character and types of cases being worked, is essentially reflective of cases in previous years. It is anticipated that this trend will continue for the foreseeable future with possible changes being influenced by (1) the volume and type of complaints, which are not entirely controllable, (2) an increase in complex investigations requiring increased staff intensiveness, and (3) the nature of any new programs or applicable legislation.

4. 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 on which the investigation has not been completed by the OIG, FBI or other agency.

At September 30, 1978, OIG had 2,637 investigation cases either in process or awaiting investigation (pending cases). Of these cases 1,401 were FBI cases and 1,236 were OIG cases.

5. ACTIONS ON PENDING INACTIVE OR COMPLETED CASES

Pending inactive refers to the status of an investigation during that period between completion of field investigation activity and acceptance of a Disposition Report executed by the appropriate HUD official. Investigations are pending inactive when in the hands of a HUD official for review, action and execution of a Disposition Report. A pending inactive investigation is closed when all final action has been taken and reported by the proper authority.

In February 1978, the OIG, at the direction of the Secretary, implemented a new management system to track and monitor completed investigation cases. The system was designed to draw management attention to completed cases and to accelerate the taking of initial administrative action on such cases. Initial administrative action is the initial documented action taken by the appropriate administrative action officer leading to disposition of the case, based on investigative information.

As of January 31, 1978, there were 965 completed investigation cases in a backlog status awaiting initial administrative action. By September 30, 1978, initial administrative action had been taken on 98 percent of these cases. This action was achieved through the diligence and hard work of HUD's program officials in cooperation with the OIG.

Under the newly completed investigation cases tracking system, HUD program officials are allowed 120 days to initiate initial administrative action. Of the 938 investigation cases completed between February and September 30, 1978, 547 were issued during February through May 1978. The 120-day time limit for this period expired at September 30. The number of cases on which initial administrative action was initiated totaled 488. This meant that 89 percent of the cases had administrative action initiated within the prescribed time frame. The remaining 391 cases require action during FY 1979.

During the period October 1978 through February 1979, 480 additional completed investigations were issued to program officials. Actions initiated on investigations completed and awaiting initial administrative action during the period February 1978 to February 1979 are graphically displayed in Chart 9.

INVESTIGATION
CASES

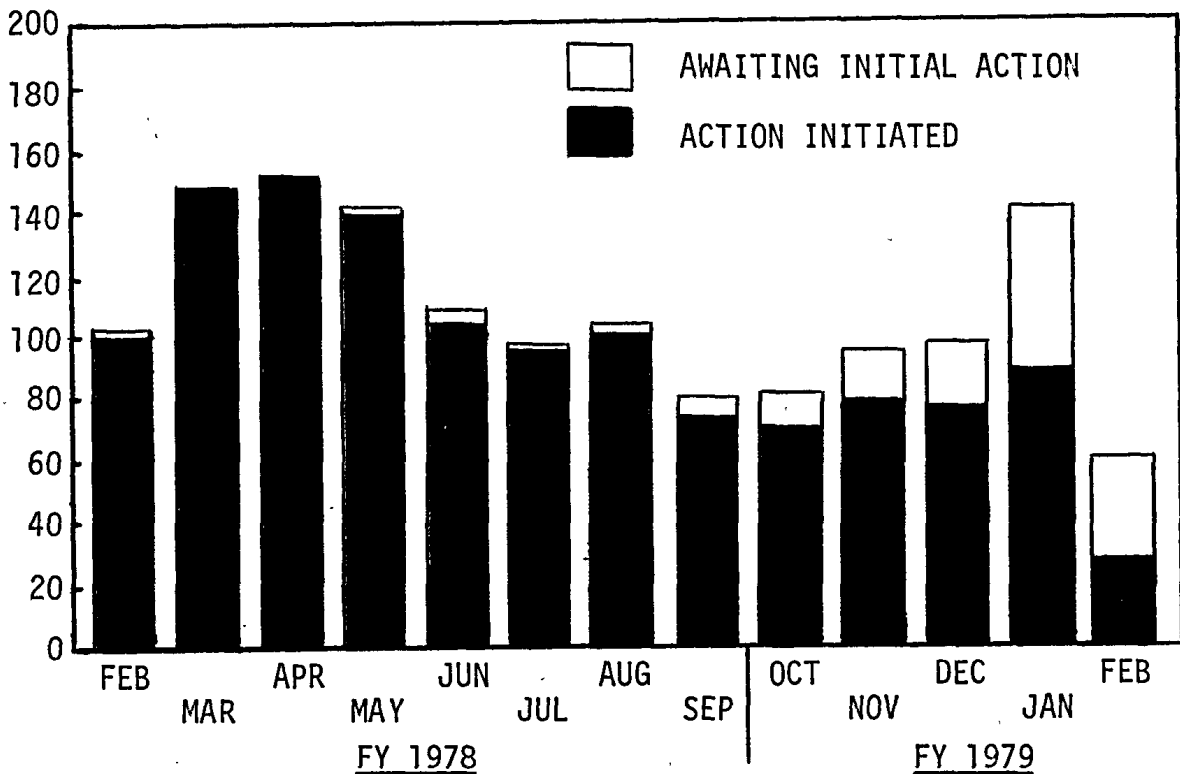


Chart 9. Actions Initiated on Investigation Cases Completed and Awaiting Initial Administrative Action (Feb 1978 - Feb 1979)

Another management improvement made pertained to initiating administrative action on completed investigation cases relating to HUD employees within 30 days of the date the report is sent to the appropriate program official. HUD employee cases are brought to the attention of the Under Secretary through biweekly briefings. It is a good example of the interest which HUD management has shown in ensuring that OIG investigation disclosures are receiving proper attention and action.

C. ACTIONS ON INVESTIGATION RESULTS

Action with respect to investigations comes in many forms. The most common of these are:

- Indictment and prosecution within the courts.
- Civil relief through the filing of a civil court action or the claims collection process.
- Suspension or debarment in accordance with HUD's regulations.
- Withdrawal of approval for a mortgage company to originate and/or service HUD insured mortgages.
- A "temporary denial of participation," which is a procedure similar to suspension/debarment, but less severe.
- An adverse action up to and including possible dismissal of an agency employee.
- No action warranted, for those situations wherein the evidence will not sustain an action, or the available evidence disproves the original complaint or allegation.

It is also important to keep in mind that final action with respect to any given investigation may not occur within the same fiscal or calendar year in which the investigation was completed. Actions reported hereafter were accomplished during FY 1978 and may have resulted from investigations completed before and during FY 1978.

1. PROCESSES FOR REFERRING MATTERS FOR PROSECUTIVE CONSIDERATION

The referral of investigation matters for prosecutive consideration by United States Attorneys and the Criminal Division of the Justice Department are accomplished in a number of ways. Currently, matters are brought to the attention of the appropriate U.S. Attorney in the following ways:

- Through Other Enforcement Agencies. Fraud and other types of violations of HUD programs have been historically referred to appropriate law enforcement agencies (e.g., the IRS, Postal Inspection Service, Secret Service, and the FBI) for investigation, when (1) the complaint or allegation is specific enough to indicate the matter falls within the investigative jurisdiction of the particular agency, (2) investigation by the OIG develops information similar to that described in (1) above or (3) requested to do so by a United States Attorney following preliminary investigation by the OIG. The vast majority of cases falling into this category are directed to and processed in cooperation with the FBI.
- Direct Presentation by the OIG. Investigators of the OIG present information on on-going investigations to United States Attorneys for consideration of criminal prosecution in situations wherein (1) legal advice with respect to criminal procedures is needed, (2) guidance with respect to the direction of any specific investigation is needed, and (3) a decision as to whether or not to prosecute a given matter is needed.

2. PROSECUTION DECLINATIONS

During FY 1978, United States Attorneys declined prosecution in 1,042 HUD-related cases referred to them. Of these cases, 811 were analyzed (246 referred by the OIG and 565 referred by other agencies) and the following were found to be the primary reasons for declining prosecution:

- The matter lacked jury appeal.
- There was no evidence of a Federal Crime.
- A technical violation may have existed, but there was no evidence of real harm to the Government or the public.
- The particular matter was not part of a pattern and when viewed as an isolated incident would not warrant Federal prosecution.

- Statute of limitations had expired.

No significant problems were encountered during FY 1978 in dealing with United States Attorneys concerning declinations of prosecution on HUD related matters.

3. INDICTMENTS AND CONVICTIONS

OIG investigation efforts during FY 1978 aided in the indictment of 189 persons or firms having business with HUD, including indictments of four HUD employees. Moreover, a total of 139 persons or firms, including one HUD employee, were convicted of offenses during FY 1978 ranging from the submission of false statements to bribery. Fines assessed against these offenders totaled about \$1,200,000. Convictions obtained in FY 1978 resulted in 33 persons receiving prison sentences totaling nearly 70 years and 106 persons receiving probated sentences totaling nearly 260 years.

From the establishment of the OIG in January 1972 through the close of FY 1978, 1,921 persons and firms have been indicted, 1,417 have been sentenced/fined, 272 have been dismissed/acquitted, and 232 cases are currently pending (Chart 10). Likewise, during the same period, 97 HUD employees were indicted for bribery and other offenses related to their misuse of office, 80 employees were sentenced/fined, 15 were dismissed/acquitted, and two cases are currently pending. Chart 11 provides a breakdown of HUD employees indicted/sentenced by job position.

4. ADMINISTRATIVE AND OTHER SANCTIONS

HUD Management has been aggressive in imposing sanctions or taking other types of administrative actions which complement or otherwise act as an alternative to criminal prosecution. The results of OIG investigations have contributed to this process by supporting HUD managers in their efforts to protect HUD's programs. The success of these efforts is illustrated in part by the following figures showing nationwide debarments, suspensions, and monetary recoveries for FY 1978.

Total Debarments	400
Total Suspensions	291
Savings and Recoveries	
To HUD	\$1,135,000
To Others	\$ 465,000

Debarment and suspensions are defined in Appendix 1.

<u>Region</u>	<u>Sentenced/ Fined</u>	<u>Dismissed/ Acquitted</u>	<u>Pending</u>	<u>Total Indicts.</u>
I	62	7	7	76
II	189	39	41	269
III	136	56	7	199
IV	185	26	36	247
V	388	78	55	521
VI	124	19	27	170
VII	32	4	6	42
VIII	23	0	0	23
IX	233	35	44	312
X	<u>45</u>	<u>8</u>	<u>9</u>	<u>62</u>
Total	<u>1,417</u>	<u>272</u>	<u>232</u>	<u>1,921</u>

Chart 10. Status of Indictments By Regions -
Fiscal Years 1972 - 1978

<u>HUD Job Position</u>	<u>Indicted</u>	<u>Sentenced</u>	<u>Dismissed Acquitted</u>	<u>Pending</u>
Director	11	9	1	1
Deputy Director	4	3	1	-
Division Chiefs and Deputies	13	10	3	-
Underwriter	2	1	1	-
Appraiser	22	18	4	-
Realty Specialist	15	14	1	-
Mortgage Credit Specialist	6	6	-	-
Construction Analyst	7	6	1	-
Inspector	7	5	2	-
Administrative Clerks	4	4	-	-
Miscellaneous	<u>6</u>	<u>4</u>	<u>1</u>	<u>1</u>
Total	<u>97</u>	<u>80</u>	<u>15</u>	<u>2</u>

Chart 11. HUD Employees Indicted/Sentenced -
Fiscal Years 1972 - 1978

In addition to these accomplishments, HUD managers initiated personnel actions against 36 agency employees, issued 157 warning letters to persons involved in HUD programs, and in two reported instances took steps to revise Departmental regulations.

D. COOPERATION WITH OTHER AGENCIES

The importance of an effective relationship between the OIG and investigative arms of other agencies cannot be overemphasized. This is particularly true with respect to components of the Department of Justice--especially the FBI, the Fraud Section of the Criminal Division, and the United States Attorneys.

An analysis of 100 investigations reaching the indictment, information, or commitment and judgement order stage, amply demonstrates the cooperative involvement between the OIG and the FBI. Chart 12 graphically describes that while the OIG had no involvement in the origination of active investigation of 14 FBI-originated and investigated cases and two Grand Jury investigations, there were various levels of cooperation achieved in the accomplishment of the remaining 84 investigations.

	HUD REGIONS										TOTAL
	I	II	III	IV	V	VI	VII	VIII	IX	X	
OIG Direct Referral to FBI	1	5	2	5	10	3	3	-	6	2	37
OIG Referral to FBI After Investigation	1	3	1	1	8	3	2	-	9	1	29
OIG Originated & Investigated	1	-	1	13	1	2	-	-	-	-	18
FBI Originated & Investigated	-	2	2	2	3	2	-	-	3	-	14
Grand Jury Investigation	-	-	-	<u>1</u>	<u>1</u>	-	-	-	-	-	<u>2</u>
TOTALS	<u>3</u>	<u>10</u>	<u>6</u>	<u>22</u>	<u>23</u>	<u>10</u>	<u>5</u>	<u>-</u>	<u>18</u>	<u>3</u>	<u>100</u>

Chart 12. Analysis of OIG Involvement in Sample of Cases Reaching Indictment Stage

E. STANDARDS OF CONDUCT BRIEFINGS

During FY 1978 the OIG held 51 Standards of Conduct briefings for the benefit of HUD employees. Over the past two years, OIG's Office of Investigation has conducted 130 such briefings. While these briefings are especially geared to new HUD employees, they are also held for the benefit of employees who are not new to the Department. These briefings are part of the OIG's continuing program to promote Departmental integrity. The briefings are instrumental in familiarizing HUD employees with the conduct that is expected of them as stipulated in Section 735, Title 24 of the Code of Federal Regulations.

F. WHITE COLLAR CRIME TRAINING

OIG training in the area of white collar crime was intensified during FY 1978. Existing programs such as the Advanced Investigator Course and utilization of the Federal Law Enforcement Training Center for entry level investigators were continued, and additional efforts were made to: (1) work with the Departments of Agriculture and HEW in the design and presentation of a course specializing in fraud recognition investigation techniques for experienced agency investigators and auditors; and (2) work with the Federal Law Enforcement Training Center to develop an overall course to deal with computer crimes, program fraud, and the like, for auditors and investigators in all Federal agencies. The first of these advanced courses involved auditors and investigators from Agriculture, HEW, and HUD and took place at the HUD Training Center in Columbia, Maryland during the period November 27 through December 8, 1978.

SPECIAL EFFORTS TO CONTROL
FRAUD, WASTE AND MISMANAGEMENT

A. BACKGROUND

During FY 1979, the Department continued its efforts toward the establishment and operation of a comprehensive, long-term program aimed at detecting and preventing fraud, waste, and mismanagement in the delivery of its programs. Recent actions were prompted by several events:

- A report by the General Accounting Office, dated September 19, 1978, entitled: "Federal Agencies Can Do More to Combat Fraud in Government Programs." The report indicated that more affirmative efforts were needed by agencies to detect and prevent fraud and program abuse.
- The enactment into law of the Inspector General Act of 1978 which created Offices of Inspector General in major departments

and agencies and gave them the responsibility of providing leadership and coordination aimed at detecting and preventing fraud and program abuse in their organization's programs and activities.

- The President's initiatives which were expressed in his letter to departmental and agency heads dated December 13, 1978. This letter stressed the need for the government to be well-managed, free of waste, fraud and inefficiency; and that these efforts must be placed on the same priority level as each department's and agency's program objectives.

Shortly after the enactment of the Inspector General Act of 1978 and prior to the President's letter of December 13, 1978, the Under Secretary of HUD, on November 2, 1978, issued a memorandum to all Primary Organization Heads in the Department stating that HUD's OIG would perform the following:

- Establish a separate organizational unit to be the focal point for HUD's fraud control efforts, and carry leadership responsibility for fraud control policy coordination and direction.
- Continue to maintain liaison with the Department of Justice and other governmental agencies involved in criminal matters.
- Continue to provide the Department with balanced independent audit and investigative coverage, including operational surveys, and furnish data to Assistant Secretaries and other Principal Staff with recommendations to strengthen management and internal controls.
- Establish working relationships with appropriate Departmental offices to obtain, process, and coordinate the information obtained to date, or to be obtained.
- Study and develop long range strategies and goals to mount a Departmental program that will minimize the opportunities for the occurrence of fraud and abuse.

B. ESTABLISHMENT OF OFFICE OF FRAUD
CONTROL AND MANAGEMENT OPERATIONS

In order to carry out the legislative provisions of the Inspector General Act of 1978 and to comply with the directives of the President, the General Accounting Office, and the Under Secretary; the OIG, during FY 1979, established a new office to address fraud, waste, and mismanagement in the Department.

The new office, called the Office of Fraud Control and Management Operations, is headed by an Assistant Inspector General and consists of a Fraud Control Division and a Management Operations Division (See Organizational Chart on page 7).

With respect to fraud control, the new office is responsible for:

- Reviewing and analyzing Departmental programs, activities, or functions to identify and isolate those areas considered sensitive to fraud and abuse.
- Developing and maintaining a listing of the management or internal controls for all HUD programs, activities, and functions which may be susceptible to fraud.
- Developing and implementing strategies that minimize the opportunities for the occurrence of fraud and waste.
- Providing leadership, and coordinating and participating in a Departmental committee and other Departmental activities dealing with fraud detection and prevention activities including planning, monitoring and resource requirements. (See page 68).
- Researching, developing, and testing innovative techniques and systems for the detection of fraud. In developing such techniques, the Division considers existing or proposed regulations and procedures of HUD and other governmental agencies or private firms for the control of fraud.
- Disseminating information concerning fraud detection and prevention to appropriate disciplines within HUD and coordinating implementation of the techniques by appropriate staff including auditors, investigators and program evaluation groups.
- Identifying the management or internal controls best suited for detecting and preventing fraud in the Department's programs and functions.
- Reviewing the results of audits, investigations and Headquarters and regional management reviews to determine the effectiveness of fraud preventive measures.
- Coordinating and participating with other HUD offices, in the development and implementation of fraud impact statements for all existing, new or substantially revised Departmental programs.

- Operating as principal liaison with HUD and other government agencies on fraud control matters other than those in which the OIG's Office of Audit or Office of Investigation are involved from an operational standpoint.
- Developing and implementing methods to educate, instruct and train appropriate HUD personnel in fraud detection and prevention activities.
- Reviewing proposed legislation and regulations for their impact on the control of fraud and abuse within HUD programs and operations.
- Maintaining a "hotline" for the receipt, screening, and disposition of employee complaints concerning the possible existence of an activity constituting a violation of law, rules, or regulations or mismanagement, gross misuse of funds, or fraud.

The Office's Fraud Control Division has recently been involved in the following activities:

- Establishment of the Committee on Fraud, Waste and Mismanagement in the Department and serving as a coordinator and advisor to the Committee. (See Page 68).
- Establishment of a HUD employee hotline together with related procedures for receiving and acting on complaints.
- Coordination with the GAO Fraud Task Force in order to receive and act on complaints involving HUD which come through GAO's hotline.
- Issuance of weekly reports on hotline activity and analyzing complaints for possible trends and patterns.
- Carrying out of a questionnaire survey, sponsored by the Committee on Fraud, Waste and Mismanagement, concerning various aspects of fraud, waste and mismanagement in HUD programs. (The results of this survey are currently being analyzed).
- Initiation of a long-range project dealing with the establishment of an inventory of HUD programs and activities and related management controls. This inventory is designed to provide OIG and the Committee on Fraud, Waste and Mismanagement with a basis for conducting in-depth reviews of certain programs or to identify areas where controls can be improved and standardized for similar programs and activities.

C. COMMITTEE ON FRAUD,
WASTE AND MISMANAGEMENT

In recognition of the major effort to curb fraud, waste and mismanagement in the administration of HUD programs and activities, the Secretary, on November 2, 1978, established the Committee on Fraud, Waste and Mismanagement. The Committee was created for the purpose of coordinating the review of the Department's efforts to minimize the opportunities for the occurrence of fraud, waste and mismanagement in its programs and advising the Secretary on related policy matters. The Committee, which is chaired by the Inspector General, consists of representatives from all principal offices in HUD, including Regional and Area Offices. As chairman of the Committee, the Inspector General serves primarily in an advisory and coordinating capacity.

The Committee members speak for their program areas and perform the following:

- Chair or participate in working groups that plan and implement Committee actions.
- Coordinate provisions of technical expertise from program areas when needed.
- Act as focal points for information to and from the Committee.
- Prepare reports to the Committee for review and approval when applicable.

The responsibilities of the OIG and specifically the Fraud Control unit with regard to the Committee are to:

- Provide support, coordination, advice, and assistance to the Committee.
- Provide liaison with other governmental agencies for the Committee.
- Provide a bridge between the Committee and the OIG's Offices of Audit and Investigation for in-depth coverage of areas susceptible to fraud, waste and mismanagement.
- Furnish data to the Committee that illustrates inadequate management and internal controls and make appropriate recommendations to strengthen these areas.
- Establish working relationships with appropriate departmental offices to gather, process, and coordinate the information obtained as a result of Committee activity.

- Study and develop long range strategies and goals to mount a departmental program that will minimize the opportunities for the occurrence of fraud, waste, and mismanagement.

Since its establishment, the Committee has made considerable progress and has laid a firm foundation for carrying out efforts to minimize the opportunities for fraud, waste and mismanagement in HUD programs. At the Committee's initial meeting on December 18, 1978, the Under Secretary presented the group with a set of basic objectives and outlined a proposed charter to serve as guidelines for the Committee's work. Subsequently, monthly Committee meetings were held and four major efforts were undertaken. They were:

- Drafting a Committee Handbook setting forth the makeup, functions, responsibilities and objectives of the Committee. This task was accomplished and the draft is currently in clearance.
- Development of a Fraud Impact Statement which the Committee has recommended be adopted as HUD policy and be issued as a set of guidelines. These guidelines were designed to assure that, during various drafting stages of handbooks and programmatic instructions, programs will be assessed for their vulnerability to fraud, waste and mismanagement. Perceived vulnerability will then be offset by various control mechanisms prior to program implementation.
- Study and approval of a series of short and long-term plans to serve as the basis for conducting future Committee activities. Basically, the plans fall into four general categories; education/awareness, procedural matters, program reviews and process reviews.
- Initiation of a project to assess the vulnerability of HUD's programs to fraud, waste and mismanagement. Questionnaires were developed and forwarded to selected employees. Committee members will analyze responses in their own program areas and report them to the Committee. When complete, this survey should provide data that will assist the Committee in planning for future efforts.

Future OIG reports to the Congress will update the activities and accomplishments of this Committee.

D. HUD EMPLOYEE HOTLINE

A HUD employee telephone hotline was established effective February 1, 1979. The hotline is available to all HUD employees for the reporting of activities in the Department involving fraud, waste, or mismanagement. The hotline phone is located in the OIG's Fraud

Control Division and is staffed by a professional employee from 8:45 a.m. to 5:15 p.m. An answering service records all incoming calls during nonworking hours. The existence of the hotline was made known by issuance of a staff bulletin to all employees of the Department.

The OIG's Fraud Control Division is responsible for screening all hotline calls and referring them to the proper organization for appropriate action. This responsibility extends to both HUD hotline calls and referrals from a similar hotline established by the General Accounting Office.

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

Procedures have been established for all aspects of the new hotline system. They are briefly described as follows:

- On all incoming hotline calls, basic information is obtained on the allegation, the details are written up on a pre-numbered control record and the caller is provided with a control number for future reference.
- As the numbered forms come to the Fraud Control Division, a preliminary screening is conducted to gather additional information relative to the allegation and eliminate allegations that are non-substantive.
- The allegation, after the preliminary screening, is then referred to the appropriate organization for further action. The referral options are: (1) refer to audit, (2) refer to investigation, (3) refer to affected program office through its Committee on Fraud, Waste and Mismanagement member, or (4) close out the case due to the non-substantive nature of the allegation or lack of sufficient information.
- The office to which referrals are made then proceeds with its action and the Fraud Control Division is advised of any actions taken. Applicable case files are maintained by the Fraud Control Division.
- The Fraud Control Division performs an analysis of all calls in order to identify any trends and/or patterns useful in fraud control.

The period February 1, 1979 through March 31, 1979 resulted in 77 hotline calls being received by the OIG's Fraud Control Division. Of the 77 calls, 26 were received through the HUD hotline and 51 were referred to the OIG from the GAO hotline. Forty-two of the 77 calls were received during the last two weeks of the period. As of the close of the reporting period, 71 of the calls received their preliminary screening. The 71 calls have been referred as follows:

- 25 to the OIG's Office of Audit
- 13 to the OIG's Office of Investigation
- 7 to the Office of Assistant Secretary for Housing
- 7 to the Office of the Assistant Secretary for Community Planning and Development
- 4 to the Office of Personnel
- 15 were closed because they were non-substantive

Of the 38 calls referred to the OIG's Office of Audit and Office of Investigation, 27 were undergoing audit/investigative review at March 31, 1979. For 7 calls, a determination was made that the underlying allegations were unfounded. One of the calls was referred to HEW for action and another call will be addressed by the Office of the Assistant Secretary for Housing. Two calls were awaiting final determination of action at March 31, 1979.

Of the 18 calls referred to other HUD organizations at March 31, 1979, 10 calls were undergoing review to determine what action was necessary; three calls were closed after review because the underlying allegations were unfounded; three other calls resulted in resolving the allegations; and one call was referred to DOT because HUD funds were not involved. One call resulted in a decision to debar a Section 8 landlord from future participation in the program.

At this early stage of the hotline program, any conclusions concerning trends and patterns regarding the nature of the allegations would be premature. A sufficient volume of complaints does not exist to draw any conclusions.

A breakdown of the 71 calls received and screened during the reporting period follows. It shows by program and area where the complaints are occurring.

<u>Community Planning and Development</u>	<u>Number</u>
CD Block Grant Program - subgrantee and contracting problems	13
Section 312 or CD Block Grant rehab.	8
Urban Development Action Grant - application processing	2
Other	<u>2</u>
	<u>25</u>
<u>Housing (Assisted)</u>	
Processing projects	3
Management Operations	6
Property Disposition	6
Section 8	<u>5</u>
	<u>20</u>
<u>Housing (Insured)</u>	
Processing/Construction	4
Other	<u>2</u>
	<u>6</u>
<u>Administration</u>	
Payroll problems	3
Hiring Practices	5
Leave and Overtime	5
Travel	3
Other	<u>2</u>
	<u>18</u>
<u>Federal Insurance Administration</u>	
Contracting	1
Flood Plain Management	<u>1</u>
	<u>2</u>
Total	<u>71</u>

E. CHECKS AND BALANCES

A number of checks and balances or systems have been put into effect to prevent, identify and/or deal with problems of fraud, waste, and mismanagement. The Department and OIG have taken and are preparing to take preventive steps to restrict opportunities for fraud, waste, and mismanagement. These steps include:

- Building checks and balances into operating and processing procedures and accounting systems (manual or computer) dealing with program administration.
- Using a system of management reviews and on-site or remote monitoring by officials at all levels of Department operations and transactions.
- Simplifying and standardizing all new and existing programs wherever possible and practical.
- Using brainstorming sessions with outside entities who either deal with the Department or have similar interests in order to disclose more efficient and secure methods of operations. These entities include mortgage bankers, insurance companies, developers, contractors, etc.
- Conducting evaluations that are closely linked to policy development. Program evaluation provides information on the costs and benefits of departmental programs, with particular emphasis on determining the changes in program design which would decrease costs or increase benefits.
- Implementing an Executive Management Reporting System designed to track and measure monthly progress of departmental programs and activities. Program managers responsible for program delivery are held accountable for and critically judged on their performance.
- Initiating efforts to use ADP resources to assist auditors and investigators in employing independent methods for testing and retrieving information stored in existing ADP systems and in using ADP resources more effectively in conducting audits and investigations. The Department has also developed a comprehensive plan to safeguard ADP systems and information.

OPERATIONAL SURVEYS

A. HIGHLIGHTS OF FY 1978 ACTIVITIES

The following are highlights of some of the OIG's more significant Operational Surveys activities during FY 1978:

- Issued Operational Survey reports covering HUD field offices which resulted in the opening of 119 investigation cases.
- Conducted special Section 8 Operational Surveys in eight regions which resulted in the opening of 111 investigation cases.

B. PURPOSE AND SCOPE

In June of 1972, the OIG introduced a joint audit and investigation team effort called the Operational Survey. These surveys are performed in selected HUD Field Offices and are conducted for the purpose of searching out indicators of fraud and program abuse, as well as for determining the need for full-scale audits and investigations. The indicators, when identified, are examined in sufficient depth for the possible presence of fraud, bribery, kickbacks, favoritism or administrative irregularities by HUD personnel or by persons or firms doing business with HUD.

These surveys cover major operations of the office being reviewed and include coverage of mortgagees, area management brokers and other activities when circumstances dictate. The surveys are directed toward the examination of multifamily and single family operations, property disposition activities and other areas as considered appropriate.

C. REPORTS ISSUED AND INVESTIGATIONS

As shown in Chart 13, during FY 1978, the OIG issued 11 Operational Survey reports which resulted in the opening of 119 investigation cases to date.

Since the inception of the Operational Surveys Program in 1972 through FY 1978, the OIG has issued 58 reports which have resulted in the opening of 1,353 investigation cases (Chart 13).

<u>Fiscal Year</u>	<u>Operational Survey Reports Issued</u>	<u>Investigation Cases Opened</u>	<u>Average Per Survey</u>
1973-1974	20	542	27
1975	10	258	26
1976	8	142	18
1977	9	292	32
1978	<u>11</u>	<u>119</u>	<u>11</u>
Totals	<u>58</u>	<u>1,353</u>	<u>23</u>

Chart 13. Operational Survey Reports Issued and Cases Opened - Fiscal Years 1973-1978

The Operational Surveys Program has been instrumental in detecting instances of fraud and program abuse in HUD operations, and in identifying areas which are prone to fraud and program abuse. The Program has also benefited audit planning efforts since it has greatly expanded the OIG's knowledge of vulnerable operations and programs. The Program is also a good example of how the expertise of both auditors and investigators can be effectively complemented. In testimony before the Senate Subcommittee on Federal Spending Practices, Elmer Staats, Comptroller General of the U.S., stated that the OIG's Operational Surveys are "the only on-going, systematic mechanism to actively look for fraud" in agencies his office reviewed.

D. SPECIAL SECTION 8 OPERATIONAL SURVEYS

In contrast to the OIG's conventional Operational Surveys, during FY 1978 the Operational Survey approach was applied to particular programs. In so doing, a series of special Operational Surveys of the Section 8 Lower Income Housing Assistance Payments Program was completed. These surveys were conducted in eight regions and covered 20 public housing agencies which administered a Section 8 Program for existing units and 24 projects with HUD-held or HUD-insured mortgages. The surveys resulted in 111 investigation cases being opened, with 60 of the cases related to the public housing agencies and 51 related to the projects with HUD-held or HUD-insured mortgages.

E. RESULTS OF OPERATIONAL SURVEYS

This section provides a brief summary of some of the results of the Operational Surveys the OIG performed in FY 1978.

1. MULTIFAMILY OPERATIONS

Operational Surveys revealed many instances of false statements submitted to HUD under programs dealing with multifamily housing. Statements of false income and family size were submitted to gain admittance to, and retain possession of, low rent housing units. False statements and certifications dealing with payment of fees and expenses were submitted by one mortgagor, providing him with an unearned, insured advance of funds. Mortgagors, contractors, subcontractors and architects also submitted false statements and certifications of fees, bond premiums, liabilities and rebates.

Violations by mortgagors, developers and contractors included: misuse of project funds; accounting deficiencies; cases of undisclosed identities of interest; and cases where the employee was paid less than the prevailing wage. Also found was a violation of the Regulatory Agreement concerning the sale of a multifamily project by a nonprofit organization to a limited dividend organization.

2. SINGLE FAMILY OPERATIONS

Operational Surveys revealed several instances of false statements and false certifications of HUD documents relating to single family operations. Mortgagors submitted false information regarding deposits, employment, and income on their applications. Seven mortgagors of record did not occupy their property though they certified that they were owner-occupants. The seven properties were being rented. One mortgagor purchased property as an owner-occupant in order to get a high ratio mortgage, and then sold it a few days later. Eighteen loan applications for mortgage insurance contained false information about income, assets, liabilities and/or employment. One mortgagor failed to disclose a previously defaulted FHA insured mortgage. Numerous applications for mortgage forbearance and HUD/FHA insuring binders contained false information regarding owner occupancy, secondary financing, assets, liabilities, and ownership of other real estate. Also disclosed was one false claim for repair submitted by a homeowner, and one kickback by a contractor.

3. PROPERTY DISPOSITION OPERATIONS

Operational Surveys disclosed many instances of false statements and certifications of HUD documents dealing with property disposition operations. A review of case binders disclosed 32 instances of false owner-occupant certifications submitted by purchasers of HUD-owned properties. Three matters were disclosed, and referred to the FBI, in which the purchasers were investors rather than owner-occupants as certified. Another four cases disclosed false statements regarding the purchasers intention to occupy their property. Also, in one case a husband and wife purchased seven HUD acquired properties in a period of one and one half years, certifying that they would be owner-occupants of the properties, and then sold the properties through the same real estate broker. Other cases of false information included a false bid submitted to give the appearance of competitive bidding, and false certifications for incomplete repairs.

Operational Surveys also disclosed the following: collusion by contractors to eliminate competitive bidding; alterations of bids by Area Management Brokers (AMB); misuse of funds by AMBs; an identity of interest between an AMB and a HUD repair contractor; duplication of payment for appliances and questionable payments to contractors for repairs.

4. ADMINISTRATIVE VIOLATIONS

Operational Surveys have resulted in the reporting of many types of administrative problems. For example, the OIG found that monitoring over Area Management Broker (AMB) practices in contracting for and inspecting repairs to HUD acquired single family properties was inadequate. Noted were several instances of poor workmanship by contractors, faulty inspection practices by AMBs, and instances where approved repair specifications did not provide for making all repairs needed to restore the properties to desired standards. In addition, bid specifications were "tailored" apparently to avoid award of contracts in excess of \$2,000, in order to preclude formal advertising, compliance with Davis-Bacon Labor Standards, and related statutes and procedures. In some cases, AMBs were not required to follow bid requirements or requirements aimed at giving all repair contractors an equal opportunity to compete for business. Also, weekly contractor/subcontractor payrolls were not obtained, payrolls were inaccurate, and wage interviews were insufficient.

Also found were violations of HUD Standards of Conduct. For example, employees were found to be engaging in real estate activities and some employees had conflicts of interest with former business interests.

Supervisory reviews of fee/staff appraisals and inspections were insufficient and problems with fee panels were noted. There was also a need to strengthen AMB contracting procedures related to: (1) bid solicitations; (2) inaccurate or incomplete bids; (3) contract awards, and (4) bid splitting.

5. SECTION 8 PROGRAM

Owner-related investigations accounted for 28 of the 60 investigation cases opened relative to Public Housing Agencies (PHAs). Tenant-type fraud abuse accounted for 19 cases, while investigations dealing with collusion made up the remaining 13 cases. In contrast, tenant-related fraud represented 35 of the 51 cases for the projects with HUD-held or HUD-insured mortgages, with owner/manager fraud accounting for only five cases. The remaining 11 cases for these projects dealt with collusion.

The most common type of tenant fraud/abuse for both PHAs and the projects with HUD-held or HUD-insured mortgages was filing false applications and recertification information by not reporting all income. Owner/Manager abuses included increasing rents without justification when entering the Section 8 program, certifying substandard units as standard, and negotiating payments for amenities that were to be included with the unit. At the PHAs, collusion generally involved PHA personnel and unit owners and abuses included accepting false information from owners as to bedroom sizes, accepting payments for certifying substandard units as standard, and allowing excessive rents. For the other projects, collusion consisted mainly of the owner/manager working with or inducing tenants to falsify basic eligibility or to increase improperly the amount of assistance.

During the surveys, a large number and variety of administrative deficiencies were noted. The most prevalent deficiency for both PHAs and projects with HUD-held or HUD insured mortgages was an inadequate system for verifying income. This deficiency contributed to the most frequently noted tenant fraud/abuse--that of filing false application and/or recertification information by not reporting all income.

The administrative deficiencies were reported to the appropriate Field Office directors, along with suggestions for correcting these deficiencies.

The OIG is expanding survey coverage of the Section 8 Program in FY 1979. The OIG hopes to be in a better position to project occurrences of fraud or irregularities across the entire Section 8 Program universe. Significant matters resulting from these surveys will be included in the next report to Congress.

OTHER SUPPORTING OPERATIONS AND ACTIVITIES

A. HIGHLIGHTS OF FY 1978 ACTIVITIES

The following are highlights of some of the OIG's other supporting operations during FY 1978:

- Carried out a Departmentwide program for coordination and liaison with the General Accounting Office.
- Under HUD's personnel security program, monitored 239 Full Field Investigations and 3,410 National Agency Checks and Inquiries; reinvestigated 57 incumbents holding critical-sensitive positions and conducted 289 preappointment National Agency Checks.
- Administered a document security program for HUD covering more than 457 classified documents.
- Processed 40,900 requests for information on the previous participation of individuals and firms applying to participate in HUD programs.

B. SECURITY OPERATIONS

1. DEPARTMENTAL PERSONNEL SECURITY PROGRAM

Under the Department's personnel security program, OIG monitored 239 Full Field Investigations in FY 1978 and 3,410 National Agency Checks and Inquiries; reinvestigated 57 incumbents holding critical-sensitive positions and conducted 289 preappointment National Agency Checks. The Department's personnel security program is aimed at determining the suitability, integrity, and character of HUD employees, and prospective employees in accordance with Executive Order 10450, entitled, "Security Requirements for Government Employees".

2. CLASSIFIED DOCUMENT SECURITY PROGRAM

The OIG also administered a document security program covering more than 457 classified documents. The program is designed to provide some constraints on the dissemination of information or material which is classified as top secret, secret or confidential in accordance with Executive Order 12065 entitled, "National Security Information".

C. ASSISTANCE TO UNITED STATES ATTORNEYS
AND TARGET CITIES

Allegations of massive abuses of certain HUD programs was the subject of several Congressional hearings which received heavy media publicity in 1971. Initial investigation proved most of the allegations to be true. HUD and the Department of Justice recognized the need for a systematic attack on these abuses. In January 1972 this recognition resulted in the concept known as the "Target Cities" approach. Target Cities are cities which have been designated for intensive investigative/prosecutive efforts by task forces composed of U.S. Attorneys, FBI Agents, Postal Inspectors and HUD Investigators and Auditors, to combat abuses of HUD programs.

The objectives of the Target Cities effort are to (1) eliminate fraud and corruption in various HUD programs, and (2) improve internal controls to discourage and prevent future violations.

Since 1972, Justice Department statistics show, on a nationwide basis, that a total of 867 indictments have been returned against 1,182 defendants. These indictments have resulted in 893 convictions involving HUD.

In FY 1978, OIG devoted over seven staff years to assisting in the Target Cities effort and generally assisting United States Attorneys in their prosecutive efforts. Just in audit effort alone, the OIG has spent, during the past five years, the equivalent of nearly 39 staff years assisting United States Attorneys.

D. COORDINATION AND LIAISON
ACTIVITIES RELATING TO THE
GENERAL ACCOUNTING OFFICE

During FY 1978, the OIG's GAO Liaison Officer monitored and alerted HUD management to 98 new assignments involving HUD activities which were started by the GAO. The GAO Liaison Officer also received for review, processing and monitoring 133 GAO draft, published or letter reports on HUD activities; prepared 108 abstracts on GAO reports to the Secretary and Under Secretary; and cleared 82 replies to GAO reports or letters.

Section 4(c) of the Inspector General Act of 1978 states that the Inspector General shall give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and insuring effective coordination and cooperation. The OIG's ongoing relationship and liaison with the GAO, through the GAO Liaison Officer unit, will ensure the meeting of this legislative requirement.

E. REQUESTS PROCESSED UNDER THE
PREVIOUS PARTICIPATION PROGRAM

Departmental policy requires that grants and contracts be awarded only to entities who can demonstrate that Federal funds will be used properly and in accordance with applicable statutes. The Previous Participation Program provides information as to what previous experience, if any, HUD has had with individuals or firms who are applying for participation in Departmental programs. This is accomplished by searching for reference the OIG alphabetical indices, which contain over 350,000 names of persons involved in an investigation, audit, or a debarment or suspension act.

Applications resulting in approximately 40,900 requests were processed in FY 1978 for information on the previous participation of individuals and firms applying to participate in HUD programs. About 42,900 similar requests were processed by OIG in FY 1977.

F. FREEDOM OF INFORMATION AND
PRIVACY ACT REQUESTS

The authority for releasing OIG-maintained information to the public, other than issued audit reports, rests with the Inspector General. The release of issued audit reports is made by the action addressee of the report with the knowledge of the appropriate program Assistant Secretary or equivalent and the concurrence of the Inspector General.

During FY 1978, the OIG processed 130 requests for information under the provisions of the Freedom of Information Act and 13 requests under the provisions of the Privacy Act. All requests for information are processed within 10 days of receipt. It is anticipated that requests for reports and information will increase in the future based on the requirements of Section 5 of the Inspector General Act of 1978. The Act requires Offices of Inspector General to submit semiannual reports of their activities to the Congress, and to include in these reports, among other matters, a listing of each audit report completed during the reporting period. The Act requires that the semiannual reports be made available to the public. Requests for individual audit reports will likely increase once this listing is made available to the public.

G. EMPLOYEE TRAINING AND DEVELOPMENT

The OIG had over 750 enrollments in training courses, seminars, and symposiums during FY 1978, accounting for more than 3,200 workdays. The number of enrollments in FY 1978 far exceeded the 600 such enrollments in FY 1977. FY 1978 was noteworthy, in that the OIG conducted 12 different training courses (total of 17 class sessions) at the HUD National Training Center, including five new programs. Also, the Chicago, New York, and Atlanta Regional Audit Offices were the sites for the following training courses: Auditing the Community Development Block Grant Program, Preparation of Audit Workingpapers, and Data Retrieval from Automated Systems. Because of the growing ADP capacity of HUD, the auditing of ADP systems continued to be emphasized. In this regard, OIG auditors and investigators participated in two new in-house training programs: Introduction to Automated Systems and Using Automated Systems in Auditing.

The OIG also initiated new training courses in IPA Monitoring, Auditing Cost Allocation Plans, and Editing Draft Audit Findings. A major push was made in FY 1978 to provide an additional 42 staff members with training in statistical sampling. FY 1978 was also marked by a continuing effort to develop and present formal audit training courses specifically oriented toward various HUD program areas.

Besides the OIG's Annual Conference of Assistant Inspectors General and Regional Inspectors General, some 200 OIG staff members (not included in the 750 enrollments cited above) participated in formal three-day conference/training workshops. Each staff conference is locally developed in order to meet the particular needs of each region.

Furthermore, in FY 1978 the OIG participated with the Departments of HEW and Agriculture in planning for an interdepartmental training program concerning ways to detect white collar crime and combat fraud in Federal programs.

The OIG also took the initiative in FY 1978 to arrange for 22 of its supervisors and managers (GS-13 and above) to attend the 8-day Personnel Management for Executives course presented by the Department of the Army's Regional Training Centers. Additionally, several OIG supervisors/managers attended the Office of Personnel Management's (OPM's) Executive Seminar Centers, as well as management training courses given by the OPM's Management Sciences Training Center and the HUD National Training Center.

A selected number of OIG employees were also provided with mobility assignments designed to enhance the development of the employee and to benefit the OIG and HUD upon the employee's return to duty. For instance, during FY 1978, two staff members went on mobility assignment with the Surveys and Investigations Staff of the House Appropriations Committee. For the past five years the OIG has had one or more of its employees on a mobility assignment with the House Staff.

During FY 1978, the OIG also continued to use the Treasury Department's Federal Law Enforcement Training Center (Glynco, Georgia) for the initial training of new investigator trainees.

White collar crime training initiatives are described on page 64.

H. RELATIONSHIP WITH GENERAL COUNSEL

In January 1979 the OIG executed a Memorandum of Understanding with the HUD General Counsel (See Appendix 3).

The Memorandum provides for the rendering of legal advice and services by the Office of General Counsel to the OIG, including:

- The proper interpretation of statutes, regulations, and policy directives governing the administration of the Department's programs.
- Investigative procedures and techniques, such as subpoenaing documents and admonishing witnesses.
- The interpretation of statutes applicable to the OIG and to other officials of the Department.
- The legal implications and conclusions to be drawn from audit and investigative material produced by the OIG.

Also, in accordance with the Memorandum, the Office of General Counsel will keep the OIG informed of any communications it has with the Department of Justice, or any other enforcement or investigative agency, concerning any matter that has been or might be the subject of investigation or inquiry by the OIG.



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 used 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 cost 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 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. There are generally four types of investigations made by the OIG: (1) investigations of criminal matters, e.g., false statements/fraud against the Government; (2) discrimination in HUD employment cases; (3) violations of the Interstate Land Sales Full Disclosure Act (OILSR); and, (4) 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 Civil Service Commission 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 Civil Service Commission investigators, is the maximum type of personnel security investigation. In addition to a check of FBI, Civil Service Commission 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.

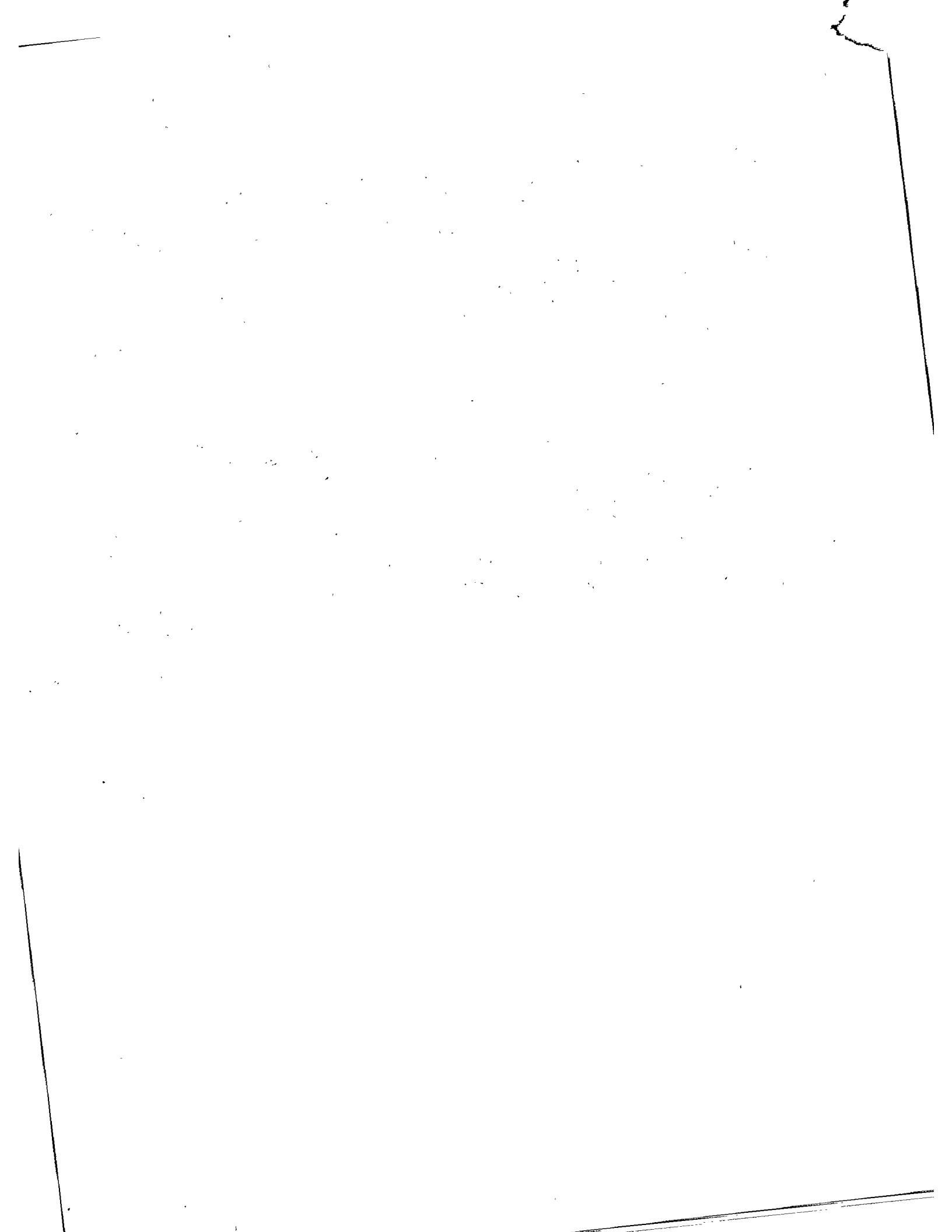
Consolidated List. A list of all contractors and grantees against whom any or all of the measures referred to in this part have been invoked. It includes past performance data and the status of a participant on any debarment, suspension, or ineligibility list.

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.



AUDITS OF HUD PROGRAM PARTICIPANTS BY
INDEPENDENT PUBLIC ACCOUNTANTS AND
STATE OR LOCAL AUDITORS

By law or Secretarial directive, audits of the records of participants in various HUD programs are made by Independent Public Accountants (IPAs), state audit agencies, or local auditing departments. Descriptions of the various programs and related audit requirements are stated below.

1. Multifamily Mortgagors. Multifamily mortgagors are required to submit audited financial statements to HUD, as required by the Regulatory Agreement. These audits are made by IPAs as prescribed in HUD Handbook 4372.1. There are approximately 14,800 multifamily mortgagors. OIG audit efforts usually are directed to problem cases.
2. Nonsupervised Mortgagees. Annual audits of nonsupervised mortgagees (those not supervised or regulated by another governmental agency) are made by IPAs, following audit guidelines prescribed in HUD Handbook IG 4000.3 REV. There are about 1,650 such nonsupervised mortgagees. OIG audits about 50 nonsupervised mortgagees each year, selected on the basis of rate of activity, problems and foreclosures.
3. Public Facility Loans. Part II of the Federal Loan Agreement requires the borrower to obtain a financial audit of the facility's operations, and sets forth the minimum acceptable audit coverage. Audits are made by IPAs or State auditors as prescribed in HUD Handbook IG 6230.5. There are 1,550 borrowers required to submit annual audits to HUD.
4. College Housing Loans. There are about 3,400 borrowers required to submit to HUD an annual audit of their operations of the project on which a loan was made. Audit requirements are included in part II of the Loan Agreement. These audits are made by IPAs.
5. Elderly Housing Loans. The Regulatory Agreement provides that the borrower furnish HUD an annual audit report covering its operations of the housing project. There are about 300 borrowers under this program. Audits are made by IPAs.
6. Community Development Block Grants. There are approximately 5,200 recipients in this program. Under the applicable regulations (Part 570 of Title 24 of the Code of Federal Regulations), recipients are required to make or obtain an audit on at least a biennial basis. The audit may be made by IPAs, State or local auditors, and is to be performed in accordance with the audit requirements in HUD Handbook IG 6505.2.

7. Model Cities Operating Agencies. Audits of cities' administration of Model Cities programs are made by the OIG. Under the Model Cities program, funds are sub-granted by the city to operating agencies (OAs) actually carrying out individual activities. Audits of the OAs are made by IPAs, State or local auditors following the requirements of HUD Handbook MCGR 3100.8. There are approximately 300 OAs still operating Model Cities activities.
8. New Communities. There are 13 New Communities for which HUD has guaranteed loans. Under the terms of the Project Agreement for a community, the developer is required to submit annual financial statements, certified by an IPA.
9. Low-Income Housing. There are approximately 3,400 local agencies operating housing projects for low-income persons. HUD guarantees loan repayment on such projects. Audits are required biennially on such projects, to be made in conformity with requirements contained in HUD's "Audit Guide for Audits of Public Housing Agencies" (HUD Handbook IG 7476.3) issued August 1978. These audits may be made by IPAs, State or local auditors. The OIG may audit a local agency if it is determined that serious problems exist.
10. Urban Renewal. Although this program is being terminated, there are still about 400 local agencies operating urban renewal projects. These agencies are required to obtain audits of their urban renewal projects on a biennial basis, following audit guidelines contained in HUD Handbook 7217.1. HUD may audit some of these projects, primarily to expedite their closeout.
11. Comprehensive Planning Assistance. This program provides grants to planning agencies to carry out overall comprehensive planning for the agency's jurisdiction. There are about 600 planning agencies directly receiving HUD grants. These agencies are required to obtain audits at least biennially, following guidelines prescribed in HUD Handbook IG 6042.2. Audits may be made by IPAs, State or local auditors.
12. Mortgagor Cost Certifications. Upon completion of the construction of a multifamily insured project, the mortgagor must obtain a certification from an IPA of the cost of constructing the project. HUD Handbook IG 4200.1A contains the requirements for cost certification. There are approximately 1,100 projects currently to be completed.
13. Other Construction Cost Audits. A one-time construction cost audit is required of program participants receiving assistance in the Water and Sewer Grant, Public Facility Loans, Neighborhood Facilities Grant and New Communities guarantee programs. There are about 400 participants which will have to obtain an audit. These audits may be made by IPAs, State or local auditors, following guidelines contained in the loan agreement or HUD Handbook.

MEMORANDUM OF UNDERSTANDING BETWEEN
THE GENERAL COUNSEL AND THE INSPECTOR GENERAL

Under the provisions of the Inspector General Act of 1978, P.L. 95-452, the Inspector General is an independent and objective unit under the general supervision of the Secretary of the Department of Housing and Urban Development. In performing its functions under the statute, however, the Office of Inspector General (OIG) recognizes its need for legal advice. The OIG also recognizes that the Office of General Counsel (OGC) is the sole office within the Department responsible for rendering legal advice to all offices within the Department. For these reasons it is necessary to delineate the relationship between the OIG and OGC in this memorandum.

I. Independence of the OIG

In keeping with its statutory mandate to be an independent and objective unit, the OIG shall not be subject to clearance or approval by the OGC of any of its activities under the statute, including:

- A. Initiating or pursuing any inquiry or investigation;
- B. Transmitting to the Department of Justice or to any other enforcement or investigating agency any complaints, information, or investigative and audit reports in its possession;
- C. Conducting investigations and audits, and the determination of their direction and scope; or
- D. Preparing and submitting reports and recommendations for transmission to the Secretary and the Congress.

II. Availability of Legal Services to the OIG

In accordance with procedures prescribed by the Secretary the OIG shall be entitled to legal advice and services from the OGC, including:

- A. The proper interpretation of statutes, regulations, and policy directives governing the administration of the Department's programs;
- B. Investigative procedures and techniques, such as subpoenaing documents and admonishing witnesses;

- C. The interpretation of statutes applicable to the OIG and to other officials of the Department; and
- D. The legal implications and conclusions to be drawn from audit and investigative material produced by the OIG.

III. Exchange of Information

OGC shall keep OIG informed of any communications between OGC and the Department of Justice, or any other enforcement or investigative agency, concerning any matter that has been or might be the subject of investigation or inquiry by OIG.

The OIG in his discretion may keep OGC informed of investigations and inquiries initiated or completed and any transmittals outside the Department by the OIG of the results of its activities.

Where the Inspector General determines that the subject matter of an inquiry or investigation is of such a nature that communication of its substance to the OGC would impair or undermine the OIG's function, the Inspector General may limit his communications to only those members of the OGC who have been specifically designated to advise the IG. Thereafter, those members of OGC shall not communicate information received from the OIG concerning such inquiry or investigation without specific authorization from OIG.

The purpose of this proviso is to insure the Inspector General of continuous access to the resources of OGC without fear that the Inspector General's independence will be compromised.

APPROVED:

Charles L. Dempsey 1/5/79

 Charles L. Dempsey Date
 Inspector General

APPROVED:

Ruth T. Prokop 1/5/79

 Ruth T. Prokop Date
 General Counsel

