OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2013 – SEPTEMBER 30, 2013

OFFICE of INSPECTOR GENERAL
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OUR **MISSION**

As the Office of Inspector General (OIG) for the U.S. Department of Housing and Urban Development (HUD), we remain an independent and objective organization, conducting and supervising audits, evaluations, and investigations relating to the Department's programs and operations. • We promote economy, efficiency, and effectiveness in these programs and operations as we also prevent and detect fraud, abuse, and mismanagement. • We are committed to keeping the HUD Secretary, Congress, and our stakeholders fully and currently informed about problems and deficiencies and the necessity for and progress of corrective action.


DEPARTMENT
OF
HOUSING
AND
URBAN
DEVELOPMENT

OUR **VALUES**

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

OUR **VISION**

❶ **To promote** fiscal responsibility and financial accountability in HUD programs and operations, ❷ **To improve** the execution of and accountability for grant funds, ❸ **To strengthen** the soundness of public and Indian housing programs, ❹ **To protect** the integrity of housing insurance and guarantee programs, ❺ **To assist** HUD in determining whether it is successful in achieving its goals, ❻ **To look ahead** for emerging trends or weaknesses that create risk and program inefficiencies, ❼ **To produce** innovative work products that are timely and of high quality, ❽ **To benchmark** best practices as a means to guide HUD, and ❾ **To have** a significant impact on improving the way HUD does business.

Diversity and Equal Opportunity

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

PROFILE OF PERFORMANCE

Audit profile of performance for the period April 1, 2013, to September 30, 2013

RESULTS	THIS REPORTING PERIOD	FISCAL YEAR 2013
Recommendations that funds be put to better use	$449,671,330	$1,189,182,593
Recommended questioned costs	$175,287,800	$945,701,227
Collections from audits	$33,864,609	$1,054,946,663
Administrative sanctions	1	2
Subpoenas	96	207

Investigation profile of performance for the period April 1, 2013, to September 30, 2013

RESULTS	THIS REPORTING PERIOD	FISCAL YEAR 2013
Recoveries and receivables	$84,323,769	$159,309,255
Arrests	235	431
Indictments and informations	298	523
Convictions, pleas, and pretrial diversions	244	514
Civil actions	24	45
Total administrative sanctions	139	251
Suspensions	46	97
Debarments	55	105
Removal from program participation	6	17
Systemic implication reports	1	8
Personnel actions[1]	28	44
Search warrants	36	69
Subpoenas	497	976

Hotline profile of performance for the period April 1, 2013, to September 30, 2013

RESULTS	THIS REPORTING PERIOD	
Funds Put to better use	$57,939,481[2]	$59,510,652
Recoveries and receivables	$776,571	$929,141
Hotline complaints processed related to OIG mission	708	1,408

1 Personnel actions include reprimands, suspensions, demotions, or termination of the employees of Federal, State, or local governments or of Federal contractors and grantees as the result of OIG activities.

2 This reporting period saw a significant jump in the funds put to better use due to recommendations found in Audit Report: 2013-LA-1008.

DURING THIS REPORTING PERIOD, WE HAD NEARLY **$450 MILLION** IN FUNDS PUT TO BETTER USE, QUESTIONED COSTS OF **$175 MILLION**, NEARLY **$34 MILLION** IN COLLECTIONS FROM AUDITS, AND MORE THAN **$84 MILLION** IN RECOVERIES DUE TO OUR INVESTIGATIVE EFFORTS.

IT IS WITH A SENSE OF SINCERE **GRATITUDE** AND **COMMENDATION** TO OUR STAFF that I present to you the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) Semiannual Report to Congress for the second half of fiscal year 2013. This report is the culmination of amazing efforts by a dedicated group of auditors, investigators, evaluators, attorneys, and various support staff. I am grateful to be surrounded by a remarkable and talented staff.

Despite a very challenging budget environment and managing the effects of budget cuts due to sequestration, we were able to successfully manage our resources without having to resort to staff furloughs or layoffs. Over a year ago, in anticipation of reduced funding and our desire to be good stewards and cost conscious of our program, we began to reduce our staffing levels through attrition, consolidated regional offices, and closed offices or canceled planned office openings. By realigning our limited resources to better focus on where HUD program dollars are disbursed and where HUD's greatest challenges exist, we continue to address congressional mandates and priorities and issue products that address the systemic concerns faced by HUD.

During what could only be described as a trying and uncertain reporting period, we amazingly had nearly $450 million in funds put to better use, questioned costs of $175 million, nearly $34 million in collections from audits, and more than $84 million in recoveries due to our investigative efforts. We also had 298 indictments and informations, 244 convictions, and 235 arrests during this reporting period. These results can only be described as extraordinary work by dedicated public servants who, even in the face of uncertainty, rise to levels of effort that make me proud to be their Inspector General. Their efforts have contributed to better accountability of HUD programs and operations, which benefits all Americans.

Our high-profile audit and investigative work continues to target HUD's high-risk areas. In particular, civil fraud investigations continue to be an area of emphasis in addressing fraud against the Federal Housing Administration's (FHA) single-family programs. During the reporting period, I testified about the state of these programs and our concerns about the level of oversight and risk taken on by FHA and the effect on its financial health. To help recover FHA's losses, OIG continues to aggressively review lender origination and underwriting practices, working closely with the U.S. Department of Justice, U.S. Attorney's Offices, and HUD's Office of General Counsel. In the past year, joint efforts have resulted in nearly $1.3 billion in settlements and court-ordered judgments. Mortgage-related fraud will continue to be an important area of emphasis, as we complete an initiative begun in early 2012 to focus on the underwriting practices of the largest FHA-approved lenders.

Office of Public and Indian Housing (PIH) programs have long been a source of concern to OIG, and we are focusing our work products over the next year on spotlighting issues with these programs to help develop solutions. By way of example, we audited the Harris County Housing Authority (Houston, TX) to determine whether the Authority's procurement, expenses, and financial records complied with HUD's requirements. The Authority's management and board of commissioners (1) failed to establish a control environment designed to provide reasonable assurance that the Authority complied with Federal requirements; (2) failed to enact policies and procedures to ensure the integrity of financial operations and compliance with procurement requirements and neglected their management and oversight responsibilities; (3) wasted Authority funds, at times for personal gain; (4) circumvented existing internal controls; and (5) manipulated accounting records. As a result, the Authority incurred questioned costs of more than $27 million. Further, the Authority's former executive director and board put the Authority in a precarious financial position, and the Authority did not have sufficient funds to repay a $3.8 million debt due to HUD. More troubling was that the Authority did not maintain accounting records that supported its sources and uses of funds or justified accounting entries in its books and records.

Our investigative activity in the PIH program area also continues to be significant. Of continuing concern is the level of public corruption exhibited by some local government officials entrusted to administer these programs. To highlight a recent example, the former executive director of the Chelsea, MA, Housing Authority pled guilty and was sentenced to 36 months in prison, followed by 2 years supervised release, for falsely reporting his salary in annual budgets required by HUD and the Massachusetts Department of Housing and Community Development. He was also indicted by the Commonwealth of Massachusetts for unlawfully soliciting contributions from State employees and other individuals to support multiple political campaigns.

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

David A. Montoya | Inspector General

TRENDING

SUPERSTORM SANDY

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

HUD OIG has been working jointly with HUD's disaster staff to ensure that the lessons learned from previous disasters will be considered in the approval of the grantees' work plans and HUD's disaster guidance.
During this reporting period, the Office of Investigation opened a total of four complaints and investigations. Three training sessions were provided to HUD personnel, grantees, and other law enforcement partners tasked with investigating disaster fraud. Lessons learned from previous disaster programs were highlighted as well as tips on identifying fraud. A total of 10 outreach sessions were conducted with grantees and administrators of Superstorm Sandy funds in the New York and New Jersey areas. Grantees were briefed on the mission of the HUD OIG Offices of Investigation and Audit, and fraud identification and prevention steps were discussed.

CIVIL FRAUD

Civil fraud investigations continue to be an area of emphasis. In 2010, HUD OIG created a separate and distinct team of employees, who focused solely on civil fraud. Recently, HUD OIG enhanced the group by dedicating investigative expertise and renaming it the Joint Civil Fraud Division. This division is tasked with investigating fraud nationwide and pursuing civil actions and administrative sanctions against entities and individuals that commit fraud against HUD.

The Joint Civil Fraud Division pursues civil actions and administrative sanctions under a variety of statutes, including the False Claims Act; Program Fraud Civil Remedies Act; and Financial Institutions Reform, Recovery, and Enforcement Act. The division also pursues debarments, suspensions, and limited denials of participation. Besides the more traditional use of civil and administrative tools, the division is pursuing referrals to State boards of licensing agencies for entities and individuals that commit civil fraud to the detriment of HUD (for example, independent public accountants, notaries, attorneys, etc.).

The division works closely with the U.S. Department of Justice, U.S. Attorney's Offices, and HUD's Office of General Counsel to investigate and convey civil cases. The partnerships forged between the division and prosecutors have yielded unprecedented outcomes. In the past year, joint efforts have resulted in nearly $1.3 billion in settlements and court-ordered judgments. Mortgage-related fraud will continue to be an important area of investigation, as the division is currently conducting a number of mortgage fraud-related cases. Additionally, the Joint Civil Fraud Division is expanding its focus to conduct more investigative work in HUD's other main program areas of community planning and development, public housing, and multifamily housing with an emphasis on grant fraud.

JOINT INITIATIVES

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

- FHA appraisals and high-risk appraisers,
- Strengthening HUD's real estate-owned program,
- Community planning and development program oversight and grantee performance,
- Review of lender oversight,
- Operation Home Rules – Englewood Joint Initiative,
- City of Detroit MI's Neighborhood Stabilization Program-funded demolition activities,
- Community planning and development subrecipients and developers,
- Multifamily housing programs, and
- Preforeclosure sales.

The impact of these initiatives is under review and will be reported in a later report.

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ONE SINGLE-FAMILY **PROGRAMS**

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

AUDIT

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

KEY PROGRAM RESULTS	14 audits
QUESTIONED COSTS	$37,506,724
FUNDS PUT TO BETTER USE	$255,590,322

REVIEW OF PAID CLAIMS THAT LACKED CONTACT OR COLLECTION ACTIVITIES WITH COBORROWERS

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), audited HUD's Office of Single Family Housing to determine whether lenders contacted all borrowers on each FHA loan before proceeding to claim.

HUD paid claims on approximately 2,109 FHA loans when the lenders did not contact, attempt collection from, or otherwise include all borrowers during the loss mitigation process. As a result, HUD could not ensure that the FHA insurance fund paid proper claims.

OIG recommended that HUD (1) strengthen monitoring to check for proper contact with each borrower during loan servicing, (2) enhance data collection to begin collecting information on each coborrower, and (3) educate lenders and remind them of their responsibility to contact all borrowers during servicing. (Audit Report: **2013-KC-0004)**

REVIEW OF LOANS UNDERWRITTEN BY THE LENDING COMPANY

HUD OIG audited The Lending Company, Inc., in **Phoenix, AZ**, to determine whether The Lending Company complied with HUD requirements when it used gift programs, originated and underwrote FHA loans, and implemented its quality control functions.

The Lending Company used gift programs through two nonprofit organizations that did not comply with HUD's requirements. It approved 789 FHA-insured loans that contained unallowable gifts. As a result, 725 loans put the FHA mortgage insurance fund at risk for losses, and losses of more than $284,000 were incurred for 7 loans. Further, The Lending Company did not always originate and approve FHA-insured loans in accordance with HUD requirements. Specifically, 28 of the 31 loans reviewed contained underwriting deficiencies, with 9 containing material underwriting deficiencies that impacted the insurability of the loans. As a result, HUD incurred losses of nearly $422,000 for five loans. The remaining four loans with material underwriting deficiencies also had an unallowable gift. Lastly, The Lending Company did not always follow HUD quality control requirements. As a result, the FHA mortgage insurance fund was placed at an increased risk for losses.

OIG recommended that HUD determine legal sufficiency and if legally sufficient, pursue civil remedies, civil money penalties, or other administrative action against The Lending Company, its principals, or both for incorrectly certifying to the integrity of the data or that due diligence was exercised during the origination of FHA-insured mortgages. OIG also recommended that HUD require The Lending Company to (1) indemnify HUD against losses for the 725 FHA-insured loans with an unallowable gift in the amount of $97.3 million, thereby putting an estimated loss to HUD of $55.4 million to better use; (2) reimburse the FHA insurance fund for the losses resulting from the amount of claims and associated expenses paid on 7 loans that contained an unallowable gift; (3) support or repay the FHA insurance fund nearly $5,500 for the loss mitigation claims paid as of April 30, 2013, on 7 loans that contained an unallowable gift; (4) reimburse the FHA insurance fund for the losses resulting from the amount of claims and associated expenses paid on 5 loans with material underwriting deficiencies; (5) pay down the principal balance by more than $1,100 for the 1 overinsured loan as a result of an excessive seller contribution; (6) fully implement its quality control plan and provide HUD with periodic reports for 12 months to ensure that its quality control reviews are conducted in accordance with HUD requirements; and (7) provide training to ensure that its quality control staff is aware of HUD's quality control program requirements. (Audit Report: **2013-LA-1008**)

REVIEW OF PROHIBITED RESTRICTIVE COVENANTS

HUD OIG conducted a limited review of FHA loans underwritten by Pulte Mortgage, LLC, in **Englewood, CO**, to determine the extent to which Pulte Mortgage failed to prevent the recording of prohibited restrictive covenants with potential liens in connection with FHA-insured loans closed between January 1, 2008, and December 31, 2011.

Pulte Mortgage did not follow HUD requirements regarding free assumability and liens when it underwrote loans that had executed and recorded agreements between Pulte Homes and the FHA borrower, containing prohibited restrictive covenants and liens in connection with FHA-insured properties. As a result of a projection, 1,106 FHA-insured loans (181 claim loans and 925 active loans) were found with a corresponding prohibited restrictive covenant with a potential lien recorded with the applicable county recording office, and Pulte Mortgage placed the FHA fund at unnecessary risk for potential losses.

OIG recommended that HUD determine legal sufficiency and if legally sufficient, pursue civil remedies, civil money penalties, or other administrative action against Pulte Mortgage, its principals, or both for incorrectly certifying to the integrity of the data or that due diligence was exercised during the origination of FHA-insured mortgages. OIG also recommended that HUD require Pulte Mortgage to (1) reimburse the FHA fund for more than $9.9 million in actual losses resulting from the amount of claims and associated expenses paid on 82 loans that contained prohibited restrictive covenants and liens, (2) support the eligibility of nearly $11.9 million in claims paid or execute an indemnification agreement requiring any unsupported amounts to be repaid for claims paid on 99 loans for which HUD has paid claims but has not sold the properties, (3) analyze all FHA loans originated (including the 11 active loans identified in the sample) or underwritten beginning January 1, 2008, and nullify all active restrictive covenants or execute indemnification agreements that prohibit it from submitting claims on those loans identified, and (4) follow 24 CFR (Code of Federal Regulations) 203.32 and 203.41 by excluding restrictive language and prohibited liens for all new FHA-insured loan originations and ensure that policies and procedures reflect FHA requirements. The 11 active loans with prohibited restrictive covenants had a total unpaid mortgage balance of more than $2.3 million, which carries a potential loss of more than $1.3 million that could be put to better use. (Audit Memorandum: **2013-LA-1802**)

HUD OIG conducted a limited review of FHA loans underwritten by CTX Mortgage Company, LLC, in **Dallas TX**, to determine the extent to which CTX Mortgage failed to prevent the recording of prohibited restrictive covenants with potential liens in connection with FHA-insured loans closed between January 1, 2008, and December 31, 2011.

CTX Mortgage did not follow HUD requirements regarding free assumability and liens when it underwrote loans that had executed and recorded agreements between sellers and the FHA borrower, containing prohibited restrictive covenants and potential liens in connection with FHA-insured properties. As a result of a projection, 683 FHA-insured loans (128 claim loans and 555 active loans) were found with a corresponding prohibited restrictive covenant with a potential lien recorded with the applicable county recording office, and CTX Mortgage placed the FHA fund at unnecessary risk for potential losses.

OIG recommended that HUD determine legal sufficiency and if legally sufficient, pursue civil remedies, civil money penalties, or other administrative action against CTX Mortgage, its principals, or both for incorrectly certifying to the integrity of the data or that due diligence was exercised during the origination of FHA-insured mortgages. OIG also recommended that HUD require CTX Mortgage to (1) reimburse the FHA fund for the nearly $5.3 million in actual losses resulting from the amount of claims and associated expenses paid on 51 loans that contained prohibited restrictive covenants and potential liens, (2) support the eligibility of nearly $8 million in claims paid or execute an indemnification agreement requiring any unsupported amounts to be repaid for claims paid on 77 loans for which HUD has paid claims but has not sold the properties, and (3) analyze all FHA loans originated (including the 8 active loans identified in the sample) or underwritten beginning January 1, 2008, and nullify all active restrictive covenants or execute indemnification agreements that prohibit it from submitting claims on those loans identified. The eight active loans with prohibited restrictive covenants had a total unpaid mortgage balance of nearly $1.6 million, which carries a potential loss of more than $892,000 that could be put to better use. (Audit Memorandum: **2013-LA-1803**)

HUD OIG conducted a limited review of HUD's oversight of loans underwritten by HUD-approved FHA lenders to summarize recently completed OIG external audits and determine the extent to which HUD had identified and discouraged prohibited restrictive covenant agreements.

Seven audits of six FHA lenders demonstrated that HUD needs to strengthen its oversight of prohibited restrictive covenants in connection with FHA-insured properties. HUD has regulations in place to prevent prohibited restrictions on conveyance of FHA-insured properties; however, 4 recent OIG audits, 2 of which are mentioned above, found an estimated 2,479 loans with prohibited restrictive covenants. As a result, FHA insured ineligible loans and incurred unnecessary losses. With the six lenders reviewed, OIG identified more than $67 million in potential losses that would not have otherwise occurred, putting the FHA fund at unnecessary risk.

OIG recommended that HUD (1) reinforce its regulatory requirements concerning restrictive covenant agreements to the industry, including lenders and builders; (2) develop and implement specific review procedures to identify prohibited restrictive covenants during Homeownership Center loan reviews and provide education to Homeownership Center personnel to reiterate the importance of identifying the various types of prohibited restrictive covenant agreements; (3) develop and implement specific procedures detailing penalties and corrective actions that can be applied consistently to each violating lender and builder; and (4) develop and implement procedures for tracking loans identified with prohibited restrictive covenants, including the type of restriction. (Audit Memorandum: **2013-LA-0803**)

REVIEW OF THE PREFORECLOSURE SALE PROGRAM

HUD OIG audited the FHA Preforeclosure Sale Program claim process to determine whether HUD paid ineligible preforeclosure sale claims that did not meet the net sales proceeds requirements.

FHA paid preforeclosure sale claims that did not meet the sales proceeds criteria and were, therefore, not eligible. Of 95 claims reviewed, paid from September 1, 2011, through November 30, 2012, 47 did not meet the minimum net sales proceeds criteria or were approved based upon variances without a documented justification. A projection of these results showed that HUD paid an estimated $404 million in claims for 4,457 preforeclosure claims that did not meet the Program requirements. Sales proceeds were deficient in these cases by an estimated amount of $8.62 million.

OIG recommended that HUD (1) design and implement controls to ensure that lenders comply with the Program's minimum sales proceeds requirements to put nearly $6.9 million to better use, (2) evaluate the risk associated with HUD's claim system controls over data reasonableness and consider additional measures to address this risk, (3) immediately discontinue the practice of approving variance requests without a valid documented justification, and (4) design and implement controls to evaluate the quality of preforeclosure sale claim property valuations and detect or prevent possible Program abuse involving undervaluation. (Audit Report: **2013-LA-0002**)

HUD OIG audited the Utah Housing Corporation in **West Valley City, UT**, to determine whether the Corporation properly determined that borrowers were eligible to participate in FHA's Preforeclosure Sale Program.

The Corporation did not always properly determine that borrowers were eligible to participate in the Program. Of the 39 preforeclosure sales reviewed, it inappropriately approved 3 borrowers who had more than one FHA-insured loan and 2 borrowers who did not meet the definition of facing imminent default at the time of approval. Additionally, the Corporation did not independently verify expenses used in the financial analysis of these 5 borrowers plus an additional 32 borrowers. As a result, the FHA insurance fund paid out more than $213,000 for ineligible claims, $1.5 million for unsupported claims, and $37,000 for inappropriate lender incentive fees.

OIG recommended that HUD (1) require the Corporation to reimburse HUD for the five claims paid totaling more than $213,000 and the associated $5,000 in lender incentive fees received, (2) review for Program eligibility the 32 claims paid without proper support totaling more than $1. 5 million and require the Corporation to reimburse HUD for those without support plus the associated $32,000 in lender incentive fees received, and (3) require the Corporation to develop and implement policies and procedures to ensure proper determination of borrower eligibility before approval for the Program. (Audit Report: **2013-DE-1001**)

REVIEW OF FHA DEFAULT DATA

HUD OIG audited HUD's Office of Single Family Housing to determine whether it had effective controls in place to ensure that lenders reported default information on FHA-insured loans accurately and in a timely manner.

HUD did not have effective controls to ensure that lenders reported default information accurately and in a timely manner. HUD's controls included only minimal system error codes; basic monitoring of error code rates, nonreporting, and underreporting; and lender servicing reviews examining a sample of default information at selected lenders. HUD also did not have an adequate penalty process in place to deter future issues. As a result, the default data were not always accurate and timely.

OIG recommended that HUD (1) develop and implement a data management policy outlining detailed procedures for review of the default data; (2) resume reviews of the default data; (3) implement additional system error checks; and (4) implement a progressive penalty process for pursuing administrative action against lenders that fail to report, underreport, and submit inaccurate or unsupported data. (Audit Report: **2013-KC-0003**)

CORRECTIVE ACTION VERIFICATION OF THE UNDERWRITING REVIEW OF 15 LENDERS

HUD OIG completed a corrective action verification of a recommendation made to HUD, pertaining to OIG's underwriting review of 15 FHA lenders in Audit Memorandum 2011-CF-1801, issued March 2, 2011, to determine whether HUD had appropriately implemented corrective actions to close recommendation 1A. The audit memorandum contained the following recommendation for HUD's Deputy Assistant Secretary of Single Family Housing:

> 1A. Develop and implement procedures to review a statistical or risk-based selection of loans for which FHA paid a claim on the mortgage insurance within the first two years of endorsement, to verify that the loans met FHA requirements and were qualified for insurance. These procedures should include a requirement for HUD to seek appropriate civil and administrative remedies to recover losses incurred on loans not qualified for FHA insurance.

In response to recommendation 1A, HUD's management decision stated that it would alter its claim case selection tool to select all loans for which FHA paid a claim on the mortgage insurance within the first 24 months from the beginning amortization date. HUD stated that its Quality Assurance Division personnel would review these loans to ensure that each loan was underwritten in compliance with FHA requirements and was eligible for FHA insurance endorsement. Any material violation of FHA requirements would result in an indemnification request or referral to the Mortgagee Review Board for imposition of civil money penalties or other administrative action.

HUD had not adequately implemented corrective action to close recommendation 1A of Audit Memorandum 2011-CF-1801. Specifically, (1) HUD's claim case selection tool did not select all claims for review, (2) HUD did not have adequate systems in place for tracking the status of the claim file review and indemnification requests, and (3) HUD did not review loans in a timely manner.

OIG recommended that HUD reopen Audit Memorandum 2011-CF-1801 recommendation 1A in HUD's Audit Resolution Corrective Action Tracking System and that it remain open until fully implemented. (Audit Memorandum: **2013-LA-0804**)

INVESTIGATION

PROGRAM RESULTS	
ADMINISTRATIVE-CIVIL ACTIONS	79
CONVICTIONS-PLEAS-PRETRIAL DIVERSIONS	89
FINANCIAL RECOVERIES	$75,614,318

PRISON SENTENCE FOR REAL ESTATE BROKER IN $2 MILLION SCHEME

A former real estate broker was sentenced to 37 months in prison and ordered to pay more than $2.3 million in restitution, including $1.7 million restitution to HUD, for his involvement in a scheme to defraud financial institutions. The defendant recruited buyers to obtain mortgages; directed those buyers to provide false information on mortgage loan applications to include fraudulent pay stubs, Internal Revenue Service Forms W-2, gift letters, and verification of employment forms; and arranged for the fraudulent verification of the false information. The scheme involved more than 30 mortgage loans, and the defendant received substantial monetary payments in return for recruiting buyers. The investigation was initiated after a referral from HUD's Quality Assurance Division and was conducted jointly with the Federal Housing Finance Agency (FHFA) OIG and the U.S. Postal Inspection Service (USPIS). (**St. Louis, MO**)

COUNSELOR USED REVERSE MORTGAGES TO SCAM ELDERLY

The owner of an unapproved housing counseling service was sentenced to 5 months home confinement and 24 months probation and ordered to pay $68,889 in restitution after an earlier guilty plea for false statements. Using her counseling service, the defendant recruited seniors for the purpose of initiating home equity conversion mortgage (HECM) transactions. The defendant would then manipulate the seniors into placing second deeds on their properties, which would allow the counselor to fraudulently obtain the reverse mortgage proceeds intended for the seniors. This investigation was conducted jointly with USPIS and the Federal Bureau of Investigation (FBI). (**Memphis, TN**)

REALTER INCARCERATED FOR UNDISCLOSED KICKBACKS

The owner of a South Florida real estate brokerage company devised a scheme to bolster her own commissions by obtaining fraudulent employment documents to qualify borrowers and concealing a system of "incentive payments" between the sellers and buyers in property transactions. The defendant was sentenced in U.S. District Court to 24 months incarceration and 60 months supervised release and ordered to pay $397,162 in restitution to HUD. (**Lehigh Acres, FL**)

NY REAL ESTATE BROKER SENTENCED TO 70 MONTHS IN PRISON FOR FRAUD

A real estate broker pled guilty and was sentenced to 70 months incarceration and 36 months supervised release, ordered to pay more than $1.5 million in restitution to HUD, and ordered to forfeit more than $7.5

million for orchestrating a multimillion-dollar scheme to fraudulently "flip" distressed properties. From March 2008 through December 2011, the defendant purchased distressed properties, resold the properties through his real estate business at inflated prices, and assisted unqualified FHA borrowers by extinguishing the borrowers' debts to make them appear more creditworthy. In a parallel civil suit, the defendant was ordered to pay $2.2 million in damages and a $500,000 civil monetary penalty. (**New York, NY**)

REAL ESTATE INVESTOR SENTENCED

A real estate investor was sentenced to 1 year in prison and 2 years supervised release and ordered to pay $425,845 in restitution, including $92,187 to HUD, for her part in multiple mortgage frauds. She was also suspended from participation in procurement and nonprocurement transactions as a participant or principal with HUD and throughout the Executive Branch of the Federal Government. The defendant participated in a scheme to purchase foreclosed-upon properties, obtain inflated appraisals, and resell those properties to unqualified borrowers using 17 fraudulently obtained mortgage loans totaling more than $1 million. The defendant also used an inflated appraisal to place a false lien against one property to fraudulently obtain $50,000 in proceeds from a HECM loan. The investigation led to the arrest and conviction of multiple individuals in both related and unrelated schemes, including a prominent local attorney, who was charged with money laundering. (**Kansas City, KS**)

MORTGAGE COMPANY MANAGER SENTENCED TO 48 MONTHS IN PRISON

A former mortgage company manager was sentenced to 48 months incarceration and ordered to pay $451,805 in restitution to HUD for his part in a conspiracy to defraud mortgage lenders. The defendant falsified information on mortgage loan applications and created fraudulent documentation to obtain mortgage loans for unqualified borrowers, which generated thousands of dollars in commissions for himself and his employees. The investigation was conducted jointly with FHFA OIG and the Federal Deposit Insurance Corporation OIG. (**Allentown, PA**)

HUD COUNSELOR IMPERSONATOR DEFRAUDS DISTRESSED HOMEOWNERS

A Los Angeles resident, who falsely claimed to be a HUD counselor associated with a legitimate HUD counseling agency, was sentenced to 2 years incarceration and ordered to pay $357,177 to the victims of the scheme. The defendant operated a business and a Web site to solicit homeowners in distress who sought assistance with modifying their mortgages. The defendant then charged the distressed homeowners advance fees for services not rendered. An immigration detainer has also been placed on the defendant for deportation proceedings and possible removal from the United States. This investigation was conducted jointly with the California Department of Justice and California State Franchise Tax Board. (**Los Angeles, CA**)

TELEMARKETING FIRM DEFRAUDS CLIENTS

The owner of a mortgage loan modification telemarketing business, tasked with helping homeowners modify their mortgages and avoid foreclosure, was sentenced to 57 months incarceration and 36 months supervised release and ordered to pay more than $1.1 million in restitution to victimized homeowners. Between 2009 and 2011, an estimated 124 distressed homeowners seeking assistance from the Home Affordable Modification

Program were defrauded and forced to pay advance fees with little or no service provided. This investigation was conducted jointly with USPIS. (**San Diego, CA**)

ST. LOUIS MAN USED REVERSE MORTGAGE TO DEFRAUD ELDERLY WOMAN

A former loan officer pled guilty to one count of conspiracy to commit wire fraud for his role in a mortgage fraud scheme. As a loan officer, he conspired with other loan officers, loan processors, and underwriters to submit fraudulent employment information on at least 44 unqualified borrowers to make them appear qualified for FHA-insured mortgages. Many of those mortgages went into default after the borrowers failed to pay the mortgages, resulting in a loss of more than $5.7 million to HUD. (**Miami, FL**)

MORTGAGE FRAUD FUGITIVE BROUGHT TO JUSTICE

A St. Louis resident was sentenced to 18 months in prison and 3 years probation and ordered to pay $89,245 in restitution for fraudulently obtaining a HECM loan on an elderly woman's property and stealing the proceeds. HUD OIG received a referral from the office of Senator Claire McCaskill, indicating that in approximately July 2008, the defendant befriended the elderly woman to gain her confidence, then accessed her bank accounts and obtained a HECM loan on her residence. The investigation revealed that the defendant informed the mortgage company that he was using the HECM proceeds to pay for home rehabilitation and living expenses for the victim, but he used more than $70,000 for his own purposes, including an automobile and illegal drugs. The defendant was also convicted of theft of Supplemental Security Income benefits. This investigation was conducted jointly with the Social Security Administration OIG, FHFA OIG, and USPIS. **(St. Louis, MO**)

TWO PUBLIC AND INDIAN HOUSNG PROGRAMS

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

AUDIT

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

KEY PROGRAM RESULTS	25 audits[3]
QUESTIONED COSTS	$63,272,668
FUNDS PUT TO BETTER USE	$13,217,874

PUBLIC HOUSING

HUD's Office of Inspector General (OIG), audited the Harris County Housing Authority in **Houston, TX**, to determine whether the Authority's procurement, expenses, and financial records complied with HUD's requirements.

The Authority's management and board of commissioners failed to establish a control environment designed to provide reasonable assurance that the Authority complied with Federal requirements. They failed to enact policies and procedures to ensure the integrity of financial operations and compliance with procurement requirements. They neglected their management and oversight responsibilities; wasted Authority funds, at times for personal gain; circumvented existing internal controls; and manipulated accounting records. As a result, the Authority incurred questioned costs of more than $27 million. Further, the Authority's former executive director and board put the Authority in a precarious financial position, and

3 The total public and Indian Housing audits, questioned costs, and funds put to better use amounts include any American Recovery and Reinvestment Act of 2009 (seven audits) type audits conducted in the public and indian housing area. The writeups for these audits may be showin in chapter 5 of this semiannual report.

the Authority did not have sufficient funds to repay a $3.8 million debt to HUD. In addition, the Authority did not maintain accounting records that supported its sources and uses of funds or justified accounting entries in its books and records.

OIG recommended that HUD (1) determine whether the Authority is in significant default of its annual contributions contract, (2) take appropriate administrative actions against the Authority's former executive director and board members responsible for the mismanagement, and (3) require the Authority to repay $4.5 million in ineligible costs and support or repay more than $23 million in questioned costs. (Audit Report: **2013-FW-1006**)

HUD OIG audited the public housing program of the Stark Metropolitan Housing Authority in **Canton, OH**, to determine whether the Authority followed HUD's requirements and its own policies regarding the administration of its program.

The Authority inappropriately used public housing operating and capital funds to pay ineligible expenses for its commercial development and two nonprofit developments. Further, it did not (1) support that public housing operating and capital funds used to pay expenses such as salaries, utilities, and maintenance costs for its developments were from fees earned by its cost center for managing its projects or engaging in business activities; (2) charge and collect appropriate market rent from its developments; and (3) ensure that it obligated capital funds for eligible expenditures. As a result, HUD and the Authority lacked assurance that more than $10.5 million in public housing operating and capital funds was used to benefit low- and moderate-income residents and more than $320,000 was available for eligible public housing purposes.

Additionally, the Authority inappropriately executed an oil and gas lease that encumbered project assets without HUD's approval. It received proceeds from the agreement. HUD lacked assurance that its interests in the Authority's project assets were protected.

OIG recommended that HUD require the Authority to (1) reimburse its operating and capital fund more than $6.3 million from non-Federal funds for its inappropriate use of the funds, (2) support its use of funds to pay expenses for its developments or reimburse its operating and capital fund nearly $4.2 million from non-Federal funds, (3) charge and collect more than $263,000 in appropriate market rents, (4) deobligate more than $57,000 in capital funds used for ineligible expenditures, and (5) support that more than $356,000 in proceeds was not derived from the encumbrance of public housing property. HUD should also consider a declaration of substantial default based on the issues cited. (Audit Report: **2013-CH-1003**)

HUD OIG audited the Jefferson County Housing Authority in **Wheat Ridge, CO**, to determine whether the Authority followed HUD disposition procedures and used its sales proceeds properly.

The Authority did not follow required disposition procedures and did not use its sales proceeds properly. It did not follow HUD procedures regarding the sale requirements, the use of sales proceeds, the distribution of the remaining project reserves, the placement of Section 8 tenants, the reporting of its use of sales proceeds, and the sale of units to an affiliated nonprofit entity.

OIG recommended that HUD require the Authority to (1) recover more than $6.4 million in ineligible costs associated with its disposition process from non-Federal sources, (2) place the correct number of

Section 8 tenants into units purchased, (3) submit required reports, and (4) implement conflict-of-interest restrictions. In addition, OIG recommended that HUD refer the Authority to the Departmental Enforcement Center for appropriate administrative and civil actions if necessary. (Audit Report: **2013-DE-1005**)

HUD OIG audited the Philadelphia Housing Authority in **Philadelphia, PA**, to determine whether the Authority complied with Federal lobbying disclosure requirements and restrictions.

The Authority engaged in the prohibited practice of using Federal funds for lobbying; however, a former executive director, whose employment was terminated effective September 23, 2010, certified that it did not do so. The former executive director also falsely certified on at least five occasions that the Authority did not use non-Federal funds for lobbying activities.

OIG recommended that HUD pursue remedies under the Program Fraud Civil Remedies Act and take administrative action up to and including debarment against the Authority's former executive director for falsely certifying to HUD that the Authority did not participate in lobbying activities. OIG also recommended that HUD ensure that responsible Authority officials are formally trained in lobbying disclosure requirements and restrictions and that all future HUD monitoring of the Authority covers compliance with Federal lobbying disclosure requirements and restrictions. (Audit Memorandum: **2013-PH-1803**)

HUD OIG audited HUD's oversight of its Moving to Work Demonstration program to determine whether HUD had implemented adequate program controls to effectively monitor participant agencies' performance and ensure that they met statutory program goals and requirements.

HUD had implemented program monitoring procedures; however, its program oversight was inadequate because it had not (1) implemented programwide performance indicators, (2) evaluated agencies' programs according to its policy, (3) evaluated agencies' compliance with key statutory requirements, (4) verified agencies' self-reported performance data, and (5) performed required annual program risk assessments. As a result, HUD was unable to demonstrate program results. Also, HUD had limited ability to assess agencies' compliance with statutory program goals and lacked assurance that agencies met key statutory requirements.

OIG recommended that HUD establish and implement policies to improve its administration of the program and ensure that agencies meet statutory goals and requirements before further program expansion. (Audit Report: **2013-PH-0004**)

SECTION 8 HOUSING CHOICE VOUCHER PROGRAM

HUD OIG audited the Housing Choice Voucher program of the Charleston-Kanawha Housing Authority in **Charleston, WV,** to determine whether the Authority ensured that its program units met HUD housing quality standards and whether it applied the appropriate payment standard when calculating housing assistance.

The Authority did not conduct adequate inspections to ensure that its program units met housing quality standards as required. Of 66 program units inspected, 47 did not meet HUD's housing quality standards. Further, 20 of the 47 units were in material noncompliance with housing quality standards. The Authority disbursed more than $22,000 in housing assistance payments and received nearly $900 in administrative fees for these 20 units.

Also, the Authority did not always apply the correct payment standard when calculating housing assistance payments. From September 2012 to January 2013, it made ineligible housing assistance payments totaling nearly $15,000 for 34 tenants that it recertified using a new software program.

OIG recommended that HUD require the Authority to (1) reimburse its program from non-Federal funds for the 20 units that materially failed to meet HUD's housing quality standards; (2) implement procedures and controls to ensure that program units meet housing quality standards, thereby ensuring that an estimated $3.2 million in program funds is expended for units that are decent, safe, and sanitary; (3) reimburse its program from non-Federal funds for the ineligible overpayment of housing assistance; and (4) correct the flaw in its software program to ensure that the payment standard is properly determined to avoid making overpayments of more than $228,000 in future housing assistance. (Audit Report: **2013-PH-1005**)

HUD OIG audited HUD's Housing Choice Voucher program to determine whether HUD's guidance for optimizing and stabilizing housing choice voucher utilization had been implemented effectively by field offices and public housing agencies.

HUD officials had generally implemented the guidance for optimizing and stabilizing housing choice voucher utilization through HUD's utilization protocol. However, some utilization protocol controls had not been implemented. In addition, opportunities existed to strengthen controls to ensure stable optimal utilization.

OIG recommended that HUD (1) implement procedures outlining the responsibilities and expectations of each person involved in the improvement of utilization performance, (2) develop procedures that would require providing concise information to public housing agencies regarding their utilization performance issues, (3) establish procedures requiring that information affecting utilization performance be accessible to the HUD field officials responsible for analyzing utilization performance, (4) establish procedures to address public housing agencies that fail to improve their utilization performance, and (5) ensure that HUD officials receive and analyze utilization information in a timely manner. (Audit Report: **2013-NY-0002**)

HUD OIG audited HUD's Housing Choice Voucher program to determine whether oversubsidization continued to exist in the program.

HUD had made progress in reducing oversubsidization in the Housing Choice Voucher program, but the problem continued to exist. Of 100 households reviewed, 13 were oversubsidized. As a result, an estimated $1.1 million in excess subsidy payments was not available for other households seeking housing choice voucher assistance.

OIG recommended that HUD provide guidance to PHAs on the data analytic tools available and the specific procedures to help detect and monitor oversubsidized households, improper payment standards, and reporting errors to put these funds to better use. (Audit Report: **2013-KC-0005**)

INVESTIGATION

PROGRAM RESULTS	
ADMINISTRATIVE-CIVIL ACTIONS	56
CONVICTIONS-PLEAS-PRETRIAL DIVERSIONS	103
FINANCIAL RECOVERIES	$3,906,288

FORMER NEWARK POLICE OFFICER IMPRISONED FOR SECTION 8 FRAUD

A former Newark, NJ, police officer was sentenced to 3 months incarceration and 24 months supervised release and ordered to pay $60,000 in restitution to HUD for theft of Section 8 rental assistance from the Newark Housing Authority. From 2006 through 2011, the defendant leased property to a Section 8 tenant and concealed that he and the Section 8 tenant were married and resided together. (**Newark, NJ**)

CHELSEA HOUSING EXECUTIVE DIRECTOR SENTENCED TO PRISON

The former executive director of the Chelsea Housing Authority was sentenced to 36 months incarceration, followed by 24 months supervised release, and ordered to pay a $4,000 fine. The defendant had previously pled guilty to falsifying reports to HUD and the Massachusetts Department of Housing and Community Development to conceal his inflated salary. This investigation was conducted jointly with the Federal Bureau of Investigation (FBI), the Massachusetts State Police, and the Massachusetts Office of Inspector General. (**Boston, MA**)

AFTER FEDERAL TRIAL, DEVELOPER CONVICTED OF EMBEZZLEMENT

The owner of a property development company that received HUD Indian Housing Block Grant funds from the Navajo Housing Authority was convicted on two counts of embezzlement from an Indian tribal organization. Between June 2002 and November 2006, the defendant misapplied and converted funds for his own use from the Fort Defiance Housing Corporation, a subrecipient of Indian Housing Block Grant funds through the Authority, a Navajo Indian tribal organization. The defendant assumed control of the Corporation and submitted grant payment requests to the Authority for specific construction costs. He then used the money, approximately $2 million, for personal expenses, including gambling and thoroughbred racehorse training. (**Las Vegas, NV**)

HOUSING AUTHORITY DIRECTOR SENTENCED FOR KICKBACK SCHEME

The former operations director of the North Bergen Housing Authority was sentenced to 46 months incarceration and 36 months supervised release after entering a plea of guilty to extorting maintenance workers under contract to the Authority. Between February 2008 and June 2011, workers were compensated for approximately 80 days of unauthorized vacation, and the defendant falsified records and required the workers to return a portion of their unauthorized compensation to him. HUD suffered a loss of $12,498 from the scheme. This investigation was conducted jointly with the FBI and the U.S. Attorney’s Office. (**Essex County, NJ**)

THREE MULTIFAMILY HOUSING PROGRAMS

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

AUDIT

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

KEY PROGRAM RESULTS	8 audits[4]
QUESTIONED COSTS	$4,054,081
FUNDS PUT TO BETTER USE	$31,148,477

OVERSIGHT OF SUBSIDIZED PROPERTIES

HUD's Office of Inspector General (OIG) audited the multifamily project-based Section 8 program for new-regulation projects administered by the Michigan State Housing Development Authority in **Lansing, MI**, to determine whether the Authority administered its program in accordance with HUD's requirements.

The Authority did not comply with HUD's requirements regarding the administration of its multifamily project-based Section 8 program for new-regulation projects. Specifically, it failed to use program residual receipts to reduce or offset housing assistance payments for new-regulation projects. As a result, nearly $31.6 million in unused or excess project funds was not available for HUD to offset future subsidy expenditures.

The Authority did not remit unused or excess funds upon termination of the housing assistance payments contracts for three new-regulation projects. As a result, more than $1.2 million in unused or excess project funds was not available for HUD to achieve program savings.

4 The total multifamily audits, questioned costs, and funds put to better use amounts include any American Recovery and Reinvestment Act of 2009 (one audit) type audits conducted in the multifamily area. The writeups for these audits may be shown in chapter 5 of this semiannual report.

The Authority inappropriately disbursed replacement reserves for four projects. As a result, more than $290,000 was not available to benefit its multifamily projects. Further, its projects lost more than $175,000 in interest income.

OIG recommended that HUD require the Authority to (1) ensure that program residual receipts are used instead of seeking unnecessary housing subsidies, (2) reimburse HUD and the U.S. Treasury for the projects with terminated program contracts, (3) reimburse its project's escrow accounts for the inappropriate disbursements of replacement reserves, and (4) implement adequate controls to address the findings cited. (Audit Report: **2013-CH-1011**)

HUD OIG audited HUD's servicing of multifamily projects with HUD-held mortgages to determine whether HUD (1) obtained, documented, and reviewed monthly accounting reports and (2) collected monthly net cash payments from multifamily projects that required these submissions.

HUD did not always obtain, document, and review monthly accounting reports for projects with defaulted Federal Housing Administration (FHA)-insured mortgages that were assigned to HUD and projects with defaulted Section 202 direct loans made by HUD. For monthly accounting reports that were obtained, HUD staff lacked the knowledge and expertise needed to adequately review the reports. HUD also did not ensure that projects remitted net cash after the mortgage default and after HUD accepted a full or partial assignment of the FHA-insured mortgage. Inadequate monitoring of these projects increased the risk of loss to the FHA insurance fund.

OIG recommended that HUD (1) ensure that it has controls in place to follow the requirements regarding obtaining and documenting the receipt and review of monthly accounting reports, (2) provide its staff with training on the monthly accounting report review process and analysis, (3) ensure that projects remit monthly net cash, and (4) follow HUD requirements regarding net cash remittance. (Audit Report: **2013-LA-0001**)

INVESTIGATION

PROGRAM RESULTS	
ADMINISTRATIVE-CIVIL ACTIONS	9
CONVICTIONS-PLEAS-PRETRIAL DIVERSIONS	32
FINANCIAL RECOVERIES	$2,063,483

HOUSING PROJECT BOOKKEEPER GETS 30 MONTHS FOR EMBEZZLEMENT

The former bookkeeper of a HUD Section 202 (Supportive Housing for the Elderly) housing project was sentenced to 30 months incarceration and ordered to pay $654,193 in restitution to HUD after an earlier guilty plea for embezzlement. From 2005 through 2012, the defendant forged the executive director's signature and fraudulently issued checks totaling $654,193 to herself from the housing project's accounts. She also attempted to conceal the thefts by altering and falsifying bank statements by cutting and pasting vendor checks on top of the checks she wrote to herself and making counterfeit copies of the bank statements, which were submitted to the board of directors for review. This investigation was conducted jointly with the Mayfield Heights, OH, Police Department. (**Cleveland, OH**)

PROPERTY OWNER AND HUD OFFICIAL INCARCERATED IN BRIBERY CASE

The owner of a multifamily housing project and the former director of HUD's Office of Multifamily Housing, St. Louis field office, were sentenced to prison for their roles in a bribery scheme. The housing project owner and a partner paid bribes totaling approximately $38,000 to the HUD official in exchange for the HUD official's approving a loan and increasing loan amounts. The HUD official underwrote and processed the loan after a private lender could not recommend approval of the loan; directed HUD staff to sign certain documents necessary for the loan to proceed to him for approval; approved a waiver allowing the use of letters of credit in lieu of a cash downpayment, which the coconspirators did not have; and waived certain inspections of the property. The housing project owner was sentenced to 6 months incarceration and 6 months home confinement and ordered to pay $96,996 in restitution. The former HUD official was sentenced to 18 months incarceration. (**Saint Louis, MO**)

FOUR COMMUNITY PLANNING AND DEVELOPMENT PROGRAMS

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

AUDIT

STRATEGIC INITIATIVE 3: CONTRIBUTE TO THE STRENGTHENING OF COMMUNITIES

KEY PROGRAM RESULTS	25 audits[5]
QUESTIONED COSTS	$33,617,497
FUNDS PUT TO BETTER USE	$55,572,809

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), audited the Community Development Block Grant (CDBG) program, the HOME Investment Partnerships Program (HOME), and economic development programs. While OIG's objectives varied by auditee, the majority of the reviews were to determine whether the grant funds were administered for eligible activities and that the auditee met program objectives.

5 The total CPD audits, questioned costs, and funds put to better use amounts include any American Recovery and Reinvestment Act of 2009 (eight audits) and disaster recovery (two audits) type audits conducted in the CPD area. The writeups for these audits may be shown in chapters 5 and 6 of this semiannual report.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAMS

HUD OIG audited HUD's monitoring of grantee compliance with the CDBG timeliness spending requirement and found that HUD's guidance for ensuring compliance with the CDBG timeliness spending requirement was not always implemented effectively by local HUD offices. In addition, HUD officials did not adequately document their rationale for not sanctioning untimely grantees. As a result, more than $8.3 million in CDBG funds that could have been reduced from the following year's funding of 10 untimely grantees was not.

OIG recommended that HUD (1) strengthen controls over procedures relating to the HUD Entitlement Communities Division monthly timeliness report, (2) strengthen CDBG timeliness spending grantee notification procedures to ensure that the notification of new untimely grantees becomes a higher priority, (3) establish procedures requiring documentation of its rationale for not sanctioning grantees not complying with the CDBG timeliness spending requirement, and (4) establish procedures pertaining to grantees that minimally do not comply with the timeliness spending requirement. (Audit Report: **2013-NY-0003**)

HUD OIG audited the City of **Worcester, MA**'s administration of its CDBG program and found that the City did not properly administer its CDBG program. Specifically, it did not (1) ensure that costs paid for under the City's affordable housing, public service, and code enforcement activities were eligible and supported; (2) document or show that a national objective was met for several of the activities reviewed; (3) ensure that the public service cap of 15 percent was not exceeded; and (4) ensure that the contracted CDBG revolving loan fund was administered effectively and efficiently and in accordance with HUD regulations. As a result, the City paid more than $2.2 million in ineligible costs and more than $4 million in unsupported costs and must reallocate more than $153,000 in unexpended CDBG funds to other eligible CDBG activities.

OIG recommended that HUD instruct the City to (1) repay more than $1.9 million in CDBG program funds that was expended for ineligible activities and the more than $298,000 that was expended over the CDBG 15 percent public service cap, (2) provide documentation to support that CDBG program funds were expended for eligible activities and used for eligible loans that met a national objective, and (3) reallocate the unexpended funds to be used for other eligible CDBG activities. (Audit Report: **2013-BO-1002**)

HUD OIG audited the City of **Auburn, NY**'s CDBG program and found that City officials (1) were slow in expending the City's revolving loan funds and maintained an excessive balance of program income, (2) made unnecessary draws from the City's CDBG entitlement funding, (3) had weaknesses in accounting controls related to the City's revolving loan program income accounts, and (4) did not report program income to HUD accurately or in a timely manner. City officials also did not always (1) maintain sufficient documentation to support that all CDBG-funded activities met their stated objectives and that costs were eligible, (2) perform adequate monitoring or oversight of the funded activities, and (3) fully use the available funds for program administration.

OIG recommended that HUD instruct City officials to (1) expend more than $2.4 million in CDBG program income or reprogram the funds to other eligible program activities, (2) provide documentation to support the nearly $178,000 shortage in program income or repay any unsupported amount from non-Federal funds, (3) provide documentation to justify more than $949,000 in unsupported costs and repay any amount determined to be ineligible from non-Federal funds, and (4) establish and implement controls and procedures to ensure the proper administration of the program. (Audit Report: **2013-NY-1010**)

HUD OIG audited the City of **Hawthorne, CA**'s CDBG and CDBG-Recovery Act (CDBG-R) program and found that the City did not adequately support its cost allocations to its CDBG program activities in accordance with applicable HUD rules and requirements. It was unable to properly support more than $1.6 million in employee salaries allocated to its CDBG program activities, incurred more than $34,000 in ineligible CDBG program costs, and incurred nearly $13,000 in unsupported CDBG program expenses. No issues were identified regarding the City's use of its CDBG-R program funds.

OIG recommended that HUD require the City to (1) provide adequate support for the salary costs or repay the CDBG program from non-Federal funds, (2) repay the program for the ineligible administration expenses from HOME funds, (3) provide support for the unsupported administration costs or repay the program from HOME funds, (4) develop written policies and procedures for its salary and administrative allocation, and (5) provide training to CDBG employees on program requirements. (Audit Report: **2013-LA-1010**)

HOME INVESTMENT PARTNERSHIPS PROGRAM

HUD OIG audited **Essex County, NJ**'s HOME program and found that the County's HOME program was not always administered in compliance with program requirements. Specifically, (1) HOME funds were not always committed and expended in a timely manner as required, (2) program income was not always expended or reported properly, (3) HOME funds were expended on ineligible and unsupported costs, and (4) HOME match contribution funds were ineligible and from unsupported sources. Consequently, (1) nearly $857,000 was not committed and expended as required, (2) nearly $64,000 in program income was not recorded in Integrated Disbursement and Information System (IDIS), (3) more than $73,000 and more than $66,000 in the HOME funds were expended on ineligible and unsupported activities, respectively, (4) more than $1,500 was paid by HOME tenants in excess of HOME low-rent limits, (5) more than $1.1 million in entitlement funds drawn down was unsupported based upon ineligible match contributions, and (6) ineligible match contributions of more than $16 million were reported that could be used for future drawdowns of HOME entitlement funds.

OIG recommended that HUD recapture the funds that were not committed and expended as required and instruct County officials to (1) record the unrecorded program income, (2) reimburse the HOME program for ineligible disbursements, (3) reimburse tenants of HOME-assisted units, (4) provide documentation for unsupported costs and drawdowns, and (5) remove the ineligible reported match contributions. (Audit Report: **2013-NY-1009**)

HUD OIG audited the HOME program of the Puerto Rico Housing Finance Authority in **San Juan, PR**, and found that the Authority did not support $18.4 million in HOME commitments with a valid grant agreement, did not disburse more than $284,000 in HOME funds within HUD-established timeframes, and could not account for more than $89,000 in program funds. In addition, it did not report program income and recaptured funds to HUD in a timely manner and reported other inaccurate information concerning HOME-funded activities. As a result, HUD had no assurance that the Authority met HOME program commitment and disbursement requirements.

OIG recommended that HUD require the Authority to (1) demonstrate that HOME commitments are properly supported or deobligate, reprogram, and put to better use the unexpended commitments with expired grant agreements; (2) put to better use more than $153,000 in unexpended funds maintained in its local bank account; (3) remit to its treasury account nearly $131,000 in repayment funds; (4) support the unaccounted for program income and recaptured funds; and (5) develop and implement an internal control plan to ensure that only supported and accurate information is reported to HUD. (Audit Report: **2013-AT-1006**)

HUD OIG audited the HOME program of the County of **Santa Barbara, CA**, and found that the County demonstrated that expenditures totaling more than $3.9 million related to rental housing project costs were eligible and adequately supported. However, it incurred more than $3.5 million in unsupported and ineligible HOME costs. In addition, it did not perform the required monitoring of its community housing development organizations or conduct required onsite inspections of its HOME-funded rental housing properties.

OIG recommended that HUD require the County to (1) support more than $3.1 million in expenses or repay the program; (2) repay more than $444,000 in ineligible expenses from non-Federal sources; and (3) update and implement its written monitoring, record-keeping, and payment processing policies and procedures as well as controls to ensure compliance with required HOME program rules and requirements. (Audit Report: **2013-LA-1007**)

HUD OIG audited the **Nassau County, NY**, Office of Community Development's administration of its HOME program and found that County officials did not commit HOME funds in accordance with HUD rules and regulations, disburse HOME funds for eligible activities, and use HOME funds for eligible administrative and planning costs. Specifically, they (1) did not provide adequate supporting documents showing that all funds were appropriately committed, (2) charged ineligible and unsupported costs to the program, (3) had weaknesses in their administrative controls, (4) did not monitor subrecipients and home buyers, and (5) published inaccurate criteria on the County's HOME Web site. Consequently, HUD could not be assured that the County properly committed more than $2.3 million HOME funds for fiscal years 2009 and 2010, disbursed more than $269,000 in HOME expenditures, and administered its HOME program in accordance with requirements.

OIG recommended that HUD instruct County officials to (1) provide documentation to justify nearly $191,000 in unsupported administrative, planning, and project delivery costs; (2) reimburse from non-Federal funds nearly $79,000 for ineligible home-buyer rehabilitation and demolition costs; (3) provide contracts to support commitments of more than $2.3 million in HOME funds; (4) strengthen administrative and monitoring controls; and (5) ensure that accurate information is posted to its program Web sites. (Audit Report: **2013-NY-1006)**

HUD OIG audited the City of **West Palm Beach, FL**'s HOME program and found that the City did not always administer its HOME program in accordance with applicable HUD requirements. Specifically, it did not properly commit HOME funds or accurately report activity information in IDIS. This deficiency resulted in more than $559,000 in HOME funds not being properly committed because activities were committed after the 24-month deadline, and two activities totaling $1 million were canceled, but the funds were not made available for other eligible HOME activities.

In addition, the City did not ensure that it charged adequately supported and eligible expenditures to the program. These expenditures were related to project delivery and operating costs. As a result, the City charged the HOME program more than $1.2 million in unsupported costs and nearly $230,000 in ineligible costs.

OIG recommended that HUD require the City to (1) recapture more than $559,000 in HOME funds that it did not commit by the 24-month statutory deadline, (2) reprogram more than $988,000 in canceled activity funds and determine whether nearly $12,000 drawn down was for eligible expenditures, (3) provide support or reimburse its program for the unsupported $1.2 million in expenditures from non-Federal funds, and (4) reimburse nearly $230,000 ineligible costs from non-Federal funds. (Audit Report: **2013-AT-1008**)

HUD OIG audited the City of **Hawthorne, CA**, and found that the City used nearly $1.6 million of its 2004 and 2005 HOME funds for ineligible activities, which were not repaid to the HOME program. It informed HUD that it would use the funds for various items, including a HOME tenant-based rental program; however, it used its HOME funds to cover shortfalls in Section 8 rental assistance payments. Although no HOME funds were used for the Section 8 program in later years, the City had not developed written policies and procedures for its HOME program.

OIG recommended that HUD require the City to (1) repay the HOME program account for ineligible HOME funds that were used for Section 8 housing assistance payments and (2) develop and implement written policies and procedures for the HOME program. (Audit Report: **2013-LA-1009**)

ECONOMIC DEVELOPMENT PROGRAMS

HUD OIG audited HUD's controls over the Brownfield and Round II Empowerment Zone programs and found that HUD did not have adequate procedures to ensure the effectiveness of its Brownfield Economic Development Initiative. It did not fully implement plans to improve monitoring and did not identify and terminate in a timely manner projects that grantees did not start. As a result, the Brownfield program was not always effective. In addition, HUD unnecessarily delayed returning at least $22.4 million in unneeded Brownfield funds to the U.S. Treasury and needs to return an additional $5.16 million for projects that grantees did not start.

HUD's Round II Empowerment Zone Performance Measurement System (PERMS) contained unsupported and inaccurate program results. Grantees generally could not support economic development results and some expense eligibility, and one inaccurately reported a program achievement. As a result, for the three grantees reviewed, HUD could not rely on grantee-submitted PERMS information for determining the effectiveness of the program, and grantees could not support nearly $2.2 million in expenses.

OIG recommended that HUD (1) clarify requirements and responsibilities for reporting and monitoring Brownfield project performance and progress, (2) identify and terminate Brownfield projects that grantees did not start and return the unneeded funds to the U.S. Treasury, and (3) require Columbia-Sumpter County, SC, and Miami-Dade County, FL, to support their Round II Empowerment Zone expenses or repay the U.S. Treasury from non-Federal funds. (Audit Report: **2013-AT-0003**)

INVESTIGATION

PROGRAM RESULTS	
ADMINISTRATIVE-CIVIL ACTIONS	19
CONVICTIONS-PLEAS-PRETRIAL DIVERSIONS	20
FINANCIAL RECOVERIES	$2,739,681

FORMER NONPROFIT DIRECTOR SENTENCED FOR $1 MILLION THEFT

The former executive director of a Maine nonprofit was sentenced to 30 months incarceration for embezzling from the agency he oversaw. The agency received approximately $30 million in Federal funds, including more than $1 million in HUD funds from the Neighborhood Stabilization Program and the Housing Choice Voucher program. The defendant was also sentenced to 36 months supervised release and ordered to pay restitution in the amount of more than $1.3 million to the nonprofit and its insurers. This investigation was conducted jointly with the U.S. Department of Health and Human Services OIG, the U.S. Department of Agriculture OIG, the U.S. Department of Transportation OIG, and the Internal Revenue Service's Criminal Investigation Division (IRS-CID). (**Portland, ME**)

FORMER BAYOU LA BATRE MAYOR SENTENCED FOR CORRUPTION

The former mayor of Bayou La Batre, AL, was sentenced to 15 months incarceration and 36 months supervised release and ordered to pay $27,300 in restitution to the Federal Emergency Management Agency (FEMA) after being convicted on fraud and corruption charges. While mayor of Bayou La Batre, the defendant corruptly influenced the city's use of FEMA funds to purchase a property in which he had a financial interest. The defendant was previously indicted for obstructing and impeding HUD OIG auditors attempting to review the defendant's interference in the administration of more than $36.7 million in CDBG funds. This investigation was conducted jointly with the Federal Bureau of Investigation (FBI) and the Alabama Attorney General's Office. (**Mobile, AL**)

FORMER NASSAU COUNTY OFFICIAL SENTENCED TO PRISON FOR THEFT

The former fiscal manager for the Nassau County Office of Housing and Community Development was sentenced to 18 months incarceration and 36 months supervised release and ordered to pay $122,250 in restitution. The defendant pled guilty to theft of government funds after orchestrating a scheme in which he created a fictitious landlord with no tenant to pay himself $5,000 per month in rental subsidy payments intended for low-income families. This investigation was conducted jointly with the U.S. Attorney's Office of the Eastern District of New York. (**Central Islip, NY**)

PRISON TERM FOR NEW YORK CITY OFFICIAL IN BRIBERY CASE

The former director of construction services for the New York City Department of Housing Preservation and Development was sentenced to 18 months incarceration and 36 months supervised release and ordered to pay a $5,000 fine and $30,000 in restitution to the City of New York for his guilty plea to bribery charges. From 2007 through 2009, the defendant received $30,000 in bribes from a construction contractor in exchange for providing the contractor confidential Department inspection reports. This investigation was conducted jointly with the New York City Department of Investigation, the FBI, the U.S. Department of Labor OIG, and IRS-CID. (**Brooklyn, NY**)

FIVE

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The U.S. Department of Housing and Urban Development (HUD) has received $13.61 billion in funding under the American Recovery and Reinvestment Act of 2009 (ARRA) in several housing program areas. Table 1 shows the HUD program areas receiving funding and the amounts appropriated to each program.

AUDIT

TABLE 1: HUD PROGRAMS RECEIVING ARRA FUNDING

HUD PROGRAM OFFICE	PROGRAM AREA	FUNDING AMOUNT
Office of Public and Indian Housing	Public Housing Capital Fund	$4,000,000,000
	Native American Housing Block Grant	$510,000,000
Office of Community Planning and Development	Community Development Block Grant	$1,000,000,000
	Neighborhood Stabilization Program	$2,000,000,000
	HOME Investment Partnerships Program-Tax Credit Assistance Program	$2,250,000,000
	Homelessness Prevention Fund	$1,500,000,000
Office of Multifamily Housing	Assisted Housing Stability Grant	$2,000,000,000
	Green Retrofit Grant	$250,000,000
Office of Healthy Homes and Lead Hazard Control	Lead Hazard Reduction Demonstration Program	$100,000,000
		$13,610,000,000

OFFICE OF AUDIT ACTIVITIES

The Office of Audit's overall oversight objectives for HUD funding under ARRA are to determine whether

- Funds are awarded and distributed in a prompt, fair, and reasonable manner;
- The recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner;
- Funds are used for authorized purposes, and instances of fraud, waste, error, and abuse are mitigated;
- Projects funded under ARRA avoid unnecessary delays and cost overruns; and
- Program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

In the prior semiannual reporting periods, HUD's office of Inspector General (OIG) reviewed HUD's front-end risk assessments, audited HUD's formula allocation dictated in ARRA programs, assessed the capacity of selected grantees to effectively administer ARRA funds, and assessed grantee expenditures and HUD's oversight activities. During this semiannual reporting period, our audits continue to focus on grantee expenditures and HUD's oversight activities.

STRATEGIC INITIATIVE 3: CONTRIBUTE TO THE STRENGTHENING OF COMMUNITIES

KEY PROGRAM RESULTS	18 audits[6]
QUESTIONED COSTS	$63,257,081
FUNDS PUT TO BETTER USE	$863,436

OFFICE OF FAIR HOUSING AND EQUAL OPPORTUNITY AUDIT

HUD OIG audited HUD's oversight of Section 3 of the Housing and Urban Development Act of 1968 to determine whether HUD enforced the requirements of the Section 3 program for ARRA Public Housing Capital Fund recipients.

HUD did not enforce the reporting requirements of the Section 3 program for ARRA Public Housing Capital Fund recipients. Specifically, HUD failed to collect Section 3 summary reports from all housing authorities by the required deadline and verify their accuracy and did not sanction housing authorities that failed to submit the required reporting information. As a result, 1,650 housing authorities did not provide HUD and the general public with adequate employment and contracting information.

OIG recommended that HUD (1) implement the new Section 3 summary reports submission and tracking system, (2) establish procedures to follow up on missing and inaccurate information in Section 3 summary reports, (3) publish final regulations, (4) require housing authorities to support $26 million in payments, (5) establish policies and procedures that implement a system of escalating administrative measures to be applied against housing authorities that do not submit a Section 3 summary report, and (6) establish a methodology to incorporate Section 3 compliance into risk assessments. (Audit Report: **2013-KC-0002**)

6 The total ARRA-related audits consist of community planning and development, public and Indian housing, multifamily, and other audits. The questioned costs and funds put to better use amounts relate only to ARRA-related costs.

OFFICE OF HEALTHY HOMES AND LEAD HAZARD CONTROL AUDITS AND REVIEWS

HUD OIG audited the City of **Spokane, WA**'s Lead-Based Paint Hazard Control program funded by ARRA to determine whether the City complied with procurement, matching, and reporting requirements when executing its grant.

The City failed to ensure cost reasonableness for four lead hazard control contracts. In addition, it did not maintain adequate records of its matching contributions, nor did it accurately report the final total expenditure amount, the number of jobs created, and the amount of its vendor payments in FederalReporting.gov.

OIG recommended that HUD require the City to (1) conduct cost analyses for the four contracts totaling more than $1.1 million and reimburse any unsupported amount, (2) support more than $426,000 in eligible matching funds or return almost $1.4 million in grant funds, (3) make the necessary changes to the reported final total expenditure and final vendor payment figures, and (4) obtain training on HUD's procurement and matching requirements. (Audit Report: **2013-SE-1003**)

OFFICE OF PUBLIC AND INDIAN HOUSING AUDITS AND REVIEWS

HUD OIG audited the Housing Authority of the City of **El Paso, TX**, to determine whether the Authority properly (1) obligated and spent its formula ARRA grant funds, (2) obtained its formula ARRA contracts, and (3) reported results in an accurate and timely manner.

The Authority (1) improperly obligated ARRA funds totaling nearly $2.68 million after the statutory obligation deadline; (2) properly spent the remainder of the funds, which totaled nearly $10 million, by the statutory expenditure deadline; (3) improperly documented its bid evaluations of and may have improperly obtained 11 roofing contracts totaling nearly $5.87 million; and (4) properly reported its Recovery Act results accurately and in a timely manner.

OIG recommended that HUD require the Authority to (1) repay the improperly obligated ARRA funds to the U.S. Treasury or provide eligible costs that it obligated and expensed before the deadlines and (2) support or repay the ARRA funds used for the 11 contracts that it did not show were properly procured. (Audit Report: **2013-FW-1004**)

HUD OIG audited the Public Housing and ARRA Capital Fund programs administered by the Lowell Housing Authority in **Lowell, MA**, including its force account activities, to determine whether the Authority (1) administered its force account modernization program in accordance with HUD rules and regulations and (2) followed HUD procurement regulations and its own procurement policy.

The Authority did not always operate its force account modernization program in compliance with HUD regulations. In addition, Authority officials did not always follow proper procurement procedures. As a result, more than $6.7 million in Federal capital funds and $2.5 million in ARRA funds expended for the force account program were unsupported. Further, Authority officials could not assure HUD that their procurement process was fair and equitable and that they obtained the most favorable prices or best quality for items totaling more than $2.2 million, including nearly $263,000 in ARRA funds charged to Federal programs.

OIG recommended that HUD require Authority officials to (1) conduct an independent cost analysis for each of the 14 force account activities for which the Authority failed to perform initial cost estimates and (2) maintain construction records and modernization files to ensure that the capital and ARRA funds charged to Federal programs were reasonable and supported. In addition, OIG recommended that Authority officials conduct a review to determine whether the procurement costs charged to the Public Housing and ARRA Capital Fund programs were reasonable and supported. (Audit Report: **2013-BO-1003**)

OFFICE OF COMMUNITY PLANNING AND DEVELOPMENT AUDITS AND REVIEWS

COMMUNITY DEVELOPMENT BLOCK GRANT-RECOVERY

HUD OIG audited the City of **San Bernardino, CA**'s Community Development Block Grant (CDBG) and CDBG-Recovery Act (CDBG-R) programs to determine whether the City administered its CDBG and CDBG-R program funds in accordance with applicable HUD requirements.

The City did not operate in accordance with HUD rules and regulations. It used nearly $48,000 in CDBG funds for ineligible expenditures and lacked supporting documentation for more than $7.1 million. The City also did not report nearly $169,000 in program income and did not adequately support its procurement activities for nearly $952,000 in ARRA funds it received.

OIG recommended that HUD require the City to (1) repay the ineligible expenses from non-Federal sources, (2) support the unsupported expenses or repay the program, (3) remit the unreported program income, and (4) demonstrate the reasonableness of the ARRA funds used in the procurement of two contracts. OIG also recommended that HUD pursue civil remedies, civil money penalties, or other administrative action, as appropriate, against the City for intentionally not reporting CDBG program income. (Audit Report: **2013-LA-1004**)

NEIGHBORHOOD STABILIZATION PROGRAM

HUD OIG audited the City of **Santa Ana, CA**'s Neighborhood Stabilization Program 2 (NSP2) to determine whether the City administered its program funds in accordance with applicable HUD rules and requirements; specifically, whether the City administered its program to ensure that funds were used for eligible activities.

The City did not administer its NSP2 funds to meet the objectives of ensuring that funds were used for eligible activities and returning single-family homes to productive use according to HUD rules and requirements. The City incurred more than $1 million in costs that were either ineligible or could have been better used to maximize its program. Specifically, it reimbursed its developer more than $669,000 in NSP2 funds for ineligible costs and at least $375,000 for unnecessary bank charges.

OIG recommended that HUD require the City to (1) repay nearly $670,000 in ineligible costs; (2) establish and implement more effective policies, procedures, and controls for its program; and (3) ensure that all City personnel who review and monitor NSP2 activities are trained to identify questioned costs. (Audit Report: **2013-LA-1006**)

HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM

HUD OIG audited Supportive Housing Program and ARRA Homelessness Prevention and Rapid Re-Housing Program grants administered by Community Advocates in **Milwaukee, WI**, to determine whether Community Advocates properly administered its Supportive Housing Program and ARRA grants in accordance with HUD, ARRA, and its own requirements.

Community Advocates did not properly administer its Supportive Housing Program and ARRA grant funds. Specifically, it did not (1) ensure that Supportive Housing Program funds were used for eligible activities and (2) maintain documentation to support required match contributions. It also failed to maintain a financial management system that separately tracked the source and application of ARRA funds and lacked sufficient documentation to support the allocation of operating costs. As a result, HUD and Community Advocates lacked assurance that more than $1.7 million in funds for Community Advocates' Supportive Housing Program and ARRA grants were used in accordance with Federal requirements.

OIG recommended that HUD require Community Advocates to (1) provide supporting documentation or reimburse HUD more than $632,000 from non-Federal funds and (2) provide supporting documentation or reimburse HUD nearly $1.1 million for transmission to the U.S. Treasury. OIG further recommended that HUD ensure that Community Advocates implements adequate procedures and controls to address the issues identified. (Audit Report: **2013-CH-1008**)

INVESTIGATION

COLUMBUS URBAN LEAGUE EMPLOYEE GUILTY OF FRAUD AND THEFT

The former director of education services at the Columbus Urban League pled guilty to bank fraud and aggravated identity theft. From 2004 to 2010 the League received $1.2 million in HUD CDBG funds, including ARRA funds earmarked for the Community Outreach Program and Education Program. During that time, the defendant prepared false invoices, which purported that contractors had performed work for the League, and intercepted payment checks, which had been prepared for those contractors. The defendant diverted payments totaling $85,181 into his own accounts. This investigation was worked jointly with the U.S. Department of Labor OIG and the Columbus, OH, Police Department. (**Columbus, OH**)

SIX DISASTER RELIEF **PROGRAMS**

As a result of the high number of disasters, Congress has regularly provided supplemental appropriations through the U.S. Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) program to help communities recover from natural and man-made disasters. HUD has used the CDBG program because it is a flexible program that allows CDBG Disaster Recovery grants to address a wide range of challenges. Over the past several years, disaster funding for HUD has exceeded $35 billion. These active disaster grants nationwide have approximately $30.1 billion in obligations and $24 billion in disbursements.

AUDIT

A breakdown is provided as follows:

- Of the total $16 billion ($15.18 billion after sequester) that was provided for Superstorm Sandy, $5.9 billion has been allocated for the recovery area, and approximately $1.2 billion has been obligated, with $190.7 million disbursed for the period ending September 30, 2013.
- Of the $19.6 billion that was provided for Hurricanes Katrina, Rita, and Wilma, $17.9 billion, or 91 percent of the funds, has been disbursed for the period ending September 30, 2013.
- Of the $6.1 billion that was provided for Hurricanes Ike, Gustav, and Dolly, $2.8 billion, or 45 percent of the funds, has been disbursed for the period ending September 30, 2013.
- Of the $3.4 billion provided for the "9-11" disaster in New York, $2.97 billion, or 86 percent, has been disbursed for the period ending September 30, 2013.
- Of the $795 million remaining for all other active disasters, $261 million, or 33 percent of the funds, has been disbursed for the period ending September 30, 2013.

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

Keeping up with communities in the recovery process can be a challenging position for HUD. HUD OIG continues to take steps to ensure that the Department remains diligent in assisting communities with their recovery efforts.

Despite the substantial loss of life and significant property damage caused by Superstorm Sandy, recovery programs were slow to get up and running. Even with these delays, HUD OIG's Office of Audit has been diligent in its oversight responsibilities regarding the Sandy Disaster Recovery programs. The Office of Audit has held two strategic planning meetings, participated in a HUD-sponsored disaster training program, held an in-house disaster training course for auditors involved in disaster reviews, performed auditability surveys on six Sandy grantees, and started a congressionally requested review of the Marketing and Tourism program in New Jersey. It has two ongoing audits of other disaster grantees (one in the State of **Texas** and one in **Joplin, MO**) and is in the process of starting three additional audit reviews, two in the State of New Jersey and one in the State of New York. These jobs will start in November 2013.

STRATEGIC INITIATIVE 3: CONTRIBUTE TO THE STRENGTHENING OF COMMUNITIES

KEY PROGRAM RESULTS	2 audits[7]
QUESTIONED COSTS	$0
FUNDS PUT TO BETTER USE	$0

HUD OIG audited the State of **Iowa**'s monitoring of the City of Cedar Rapids' voluntary property acquisition program to determine whether the State monitored the City's program in accordance with its approved Disaster Recovery action plans.

The State did not monitor the City's voluntary property acquisition program in accordance with its approved Disaster Recovery action plans. Its monitoring checklists did not include all of its procurement requirements, such as cost reasonableness and all required contract provisions.

OIG recommended that HUD require the State to update its monitoring checklists to include elements of 24 CFR (Code of Federal Regulations) 85.36(f) and all of the required contract provisions found at 24 CFR 85.36(i). (Audit Report: **2013-KC-1002**)

HUD OIG audited the Lower Manhattan Development Corporation's (LMDC) administration of the $2.783 billion in CDBG Disaster Recovery Assistance funds awarded to the State of New York in the aftermath of the September 11, 2001, terrorist attacks on the World Trade Center in **New York City, NY**. The objective of this audit was to determine whether LMDC officials (1) disbursed CDBG Disaster Recovery Assistance funds in accordance with the guidelines established under HUD-approved partial action plans for the Community and Cultural Enhancements, East Side K-8 School, and Other World Trade Center Area Improvements; (2) maintained a financial management system that adequately safeguarded the funds and prevented misuse; and (3) had a plan for the allocated program funds that remained unspent.

7 The disaster grant program reviews are community planning and development audits.

LMDC (1) generally disbursed CDBG Disaster Recovery Assistance funds in accordance with the guidelines established under the HUD-approved partial action plans and applicable laws and regulations for the programs subject to OIG's review, (2) had a financial management system in place that adequately safeguarded funds and prevented misuse, and (3) had a plan for the allocated program funds that remained unspent.

OIG made no recommendations, and no further action is needed. (Audit Report: **2013-NY-1008**)

INVESTIGATION

The Office of Investigation (OI) investigates allegations of fraud involving HUD disaster program funds and conducts oversight throughout the funding process to deter fraud.

FRAUD AWARENESS AND PREVENTION

OI coordinates training for local, State, and Federal oversight entities to include law enforcement, prosecutors, State licensing entities, insurance companies, and other oversight organizations.

- Fraud awareness and prevention training is provided to grant administrators, grantees, and subgrantees.
- OI works with partners to provide public education for disaster victims.
- In conjunction with the U.S. Department of Justice (DOJ), OI uses the National Center for Disaster Fraud (NCDF) to prepare fraud awareness campaigns to educate the public about potential suspicious activity and to monitor reports to the NCDF hotline. This activity includes the use of posters, flyers, mailings, and television and bill board advertisements.
- OI provides guidance to HUD and grantees on legal warnings to be incorporated into grant documents to deter potential fraud.

INVESTIGATING ALLEGATIONS OF FRAUD

Investigating allegations of fraud starts immediately after funding has been obligated and continues for years after the final disbursement of disaster funding. OI works with its law enforcement partners to ensure vigorous oversight of the funds and pursue criminal or civil prosecutions when merited. These funds will be used by individual grant recipients as well as many public officials, subgrantees, and contractors. Experience has shown that there are vulnerabilities in all areas of disaster grant funding that may be subject to fraud. These investigations can be fairly straightforward or extremely complex.

Successful fraud prevention starts through coordination with OI's partners. OI has worked extensively with others in the OIG community to avoid conflict and ensure cooperation in all of its endeavors. A majority of fraud allegations come through the OIG fraud hotline and DOJ NCDF. OI provides onsite resources to NCDF to coordinate any HUD-related information that comes through its hotline. Specifically, it has a special agent and a forensic auditor in Baton Rouge, LA, assigned to NCDF to evaluate incoming fraud leads. OI also works with private monitors and oversight entities that grantees hire to ensure that they look at the areas that OI has identified as being most vulnerable and report any fraud concerns that they detect. OI dedicates significant resources to the investigation of these allegations. The appropriate investigative technique is determined by the nature of the allegation. If warranted, OI's investigative work is referred to Federal, State, or local prosecutors for consideration of criminal or civil action.

SEVEN OTHER SIGNIFICANT AUDITS AND INVESTIGATIONS

AUDIT

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

KEY PROGRAM RESULTS	13 audits[8]
QUESTIONED COSTS	$29,037,233
FUNDS PUT TO BETTER USE	$1,983,773

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

REVIEW OF LEAD HAZARD CONTROL

HUD OIG conducted a limited scope internal review of the Office of Healthy Homes and Lead Hazard Control to determine whether Healthy Homes allowed excessive administrative costs to be charged to the Lead-Based Paint Hazard Control grant program.

Healthy Homes did not have an adequate system in place to ensure that grantees did not spend more than 10 percent of their Lead Hazard Control grant funds on administrative costs. As a result, Healthy Homes lacked assurance that grantees did not charge excessive administrative costs to their Lead Hazard Control grants. Healthy Homes' management agreed to strengthen the controls over Lead Hazard Control administrative costs.

OIG recommended that Healthy Homes (1) require grantees to submit, during the Lead Hazard Control grant negotiations, detailed documentation specifying the types of administrative costs to be charged to the grant; (2) review administrative costs and other costs charged to the grants for eligibility and appropriateness during the onsite monitoring; and (3) sample and review HUD's Line of Credit Control System draws support for administrative cost eligibility and appropriateness. (Audit Memorandum: **2013-KC-0801**).

8 The total "other" audits, questioned costs, and funds put to better use amounts include any American Recovery and Reinvestment Act of 2009 (two audits) type audits conducted in the "other" area. The writeups for these audits may be shown in chapter 5 of this semiannual report.

REVIEW OF HUD'S OFFICE OF LABOR RELATIONS

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

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

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

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

Labor Relations found workers that were deceased or incarcerated, and it paid wage restitution to individuals other than these workers. As a result, it paid nearly $12,000 to individuals who were not the workers.

OIG recommended that HUD (1) properly dispose of the more than $1.3 million in funds for liquidated damages, unclaimed funds, unfound depositors, and unfound workers; (2) develop a policy for workers that are found to be deceased or incarcerated and complete a monthly reconciliation; (3) remit employees' share of taxes quarterly; and (4) seek recovery of nearly $12,000 that Labor Relations paid to individuals other than workers. (Audit Report: **2013-HA-0001**)

EIGHT LEGISLATION, REGULATION, AND OTHER DIRECTIVES

Reviewing and making recommendations on legislation, regulations, and policy issues is a critical part of the Office of Inspector General's (OIG) responsibilities under the Inspector General Act. During this 6-month reporting period, OIG has committed approximately 270 hours to reviewing 90 issuances. The draft directives consisted of 6 notices of funding availability, 60 mortgagee letters and notices, and 24 other directives. OIG provided comments on 44 (49 percent) and nonconcurred with 3 of these draft directives. During this 6-month period, OIG reviewed and commented on various departmental clearance items. Selected reviews are summarized below.

NOTICES AND POLICY ISSUANCES

SINGLE-FAMILY HOUSING

Reverse mortgage - Through the Reverse Mortgage Stabilization Act of 2013, the Federal Housing Administration (FHA) was given the authority to make needed structural changes to the reverse mortgage program via mortgagee letter instead of through the lengthy rule-making process. During this semiannual period, OIG reviewed mortgagee letters with program changes to stabilize the program and improve the health of the Mortgage Mutual Insurance Fund due to significant claims paid out from associated losses. Some of these changes included establishing new principal limit factors; requiring property charges to be set aside for the payment of mandatory obligations, such as property taxes and flood and hazard insurance; and establishing new limitations on the amount of mortgage proceeds that can be advanced at loan closing or during the first 12-month disbursement period after loan closing. This change was implemented through Mortgagee Letters 2013-27 and 2013-33.

In addition, OIG reviewed a mortgagee letter with an attached guide that provided instructions on the financial assessment that must be performed on borrowers before approval of an FHA-insured home equity conversion mortgage (HECM). The guide provides policy requirements on (1) performing the credit history, cash flow, and residual income analyses; (2) evaluating extenuating circumstances and compensating factors; (3) evaluating the results of the financial assessment to determine eligibility for the reverse mortgage; (4) determining whether funding sources for property charges from HECM proceeds will be required; (5) completing a financial assessment worksheet; and (6) verifying information. Mortgagee Letter 2013-28 is effective for reverse mortgage case numbers assigned on or after January 13, 2014.

Loss mitigation - OIG has conducted a number of audits of FHA's Preforeclosure Sale Program. The audits identified weaknesses with the Program, namely in the area of participant eligibility and documentation. In March 2013, the U.S. Department of Housing and Urban Development (HUD) submitted for review a mortgagee letter establishing updated preforeclosure and deed in lieu of foreclosure requirements. The mortgagee letter described (1) documentation requirements for verifying assets, income, and expenses; (2) use of the deficit income test; (3) the elimination of the financial hardship Program requirement for a service member who has received permanent change of station orders; and (4) validation requirements for appraisals. Mortgagee Letter 2013-23 was published July 9 with an implementation date no later than October 1, 2013, for approved preforeclosure transactions. However, Mortgagee Letter 2013-34 announced that the implementation of the "PFS [Program] participation requirement" in Mortgagee Letter 2013-23 has been delayed until further notice.

Risk management - As part of HUD's efforts to strengthen the risk management practices of FHA, HUD published a final rule in 2010, revising its regulations pertaining to FHA approval of mortgage lenders. That final rule increased the net worth requirement for FHA-approved lenders and mortgagees, eliminated HUD's approval of loan correspondents, and amended the general standards for lenders and mortgagees. During the last semiannual period, OIG reviewed a proposed notice changing the loan-to-value (LTV) financing available to qualified borrowers of FHA-insured loans. This notice proposes to set a 95 percent maximum LTV for FHA-insured loans over $625,000, with certain exemptions. FHA's annual fiscal year 2012 report to Congress on the financial status of the FHA Mutual Mortgage Insurance Fund reported a decline from fiscal year 2011 in the Fund's statutorily mandated capital reserve ratio and cited FHA's decision to continue taking steps to improve the Fund's short- and long-term outlook. This notice requesting comment was published on February 6, 2013; however, the final implementation notice has not been published.

Underwriting - OIG reviewed a mortgagee letter establishing minimum underwriting standards and criteria for evaluating borrowers who have experienced an economic event, as defined in the mortgagee letter, that resulted in a severe reduction in income due to job loss or other circumstances. FHA is allowing for the consideration of borrowers who have experienced an economic event and can document that (1) certain credit impairments were the result of the loss of employment or significant loss of household income beyond the borrower's control, (2) the borrower has demonstrated full recovery from the event, and (3) the borrower has completed housing counseling. The guidance in Mortgagee Letter 2013-26, published August 15, 2013, is effective for case numbers assigned on or after August 15, 2013, through September 30, 2016. During the last semiannual period, OIG reviewed two proposed mortgagee letters pertaining to updated guidance on underwriting requirements in handling collection and disputed accounts. The draft mortgagee letters provide requirements for when a borrower's collection and disputed accounts are to be included in the calculation of a borrower's debt-to-income ratios. Specifically, Mortgagee Letter 2013-24 amended the guidance on collection and disputed accounts and clarified guidance on judgments. This mortgagee letter was issued on August 15, 2013, and is effective for all case numbers assigned on or after October 15, 2013. Also, Mortgagee Letter 2013-25 provides updates to chapters 1 and 2 in FHA's TOTAL Mortgage Scorecard User Guide. This guidance is effective for all case numbers assigned on or after October 15, 2013.

COMMUNITY PLANNING AND DEVELOPMENT

HUD published a notice on August 2, 2013, announcing additional guidance for Hurricane Sandy grantees. This notice broadened the waiver permitting tourism industry activities for New York to expedite the State's economic recovery efforts. It also allowed the use of uncapped income limits in all of the most impacted counties in New Jersey to ensure that low- and moderate-income households in those areas have equal access to Disaster Recovery funds.

Congress mandated changes to the HOME Investment Partnerships Program in the Consolidated and Further Continuing Appropriations Act of 2012. The Act requires participating jurisdictions to (1) repay HOME funds invested in projects that are not completed within 4 years of the commitment date unless a waiver is given by HUD, (2) commit fiscal year 2012 HOME funds only when a project has been properly underwritten and market conditions examined to ensure that there is adequate need for the HOME project, (3) convert any fiscal year 2012 home-ownership units to HOME-assisted rental units if they are not sold within 6 months, and (4) provide fiscal year 2012 HOME funds only to community housing development organizations that have demonstrated that they have staff with demonstrated development experience.

HUD OIG generally agreed with the proposed changes but included additional changes that it believes will strengthen the program. On July 24, 2013, HUD published the final rule to amend the HOME program, which incorporated the mandated congressional changes.

On September 28, 2009, OIG issued a report (2009-AT-0001), which stated that HUD's cumulative technique for assessing deadline compliance and a first-in, first-out method for HOME commitments and expenditures conflicted with section 218(g) of the HOME Investment Partnership Act, which requires the identification of HOME commitments and expenditures by the program funding year to which they relate. Section 218(g) requires that grantees commit grant funds under the HOME program within 24 months of receipt. HUD compared the cumulative commitment amount with the cumulative allocation amount and deemed the jurisdiction compliant with section 218(g) as long as the cumulative commitment amount was equal to the cumulative commitment allocation amount. HUD would recapture funds if the cumulative commitment amount was less than the cumulative allocation amount. OIG disagreed with this method of calculating compliance and in May 2011, requested a decision from the U.S. Government Accountability Office (GAO).

On July 18, 2013, GAO concurred with HUD OIG's reported findings, and agreed that HUD failed to recapture funds not committed by grantees after 24 months and that HUD must take steps to identify and recapture funds that remained uncommitted after the statutory commitment deadline and reallocate the funds in accordance with the Act.

OFFICE OF HEALTHCARE PROGRAMS

On April 30, 2013, HUD issued an amendment to its September 7, 2012, final rule that revised the applicability date to July 12, 2013, to allow more time for impacted parties to transition to the new requirements. The final rule updated the regulations to reflect current policy and practices, improve accountability, and strengthen risk management in the program. This final rule addresses recommendations from an audit report issued in 2002 (2002-KC-0002). Affected parties recently implemented changes to documents used in the closing of Section 232 loans. These changes also resolved recommendations in the 2002 audit report.

NINE AUDIT RESOLUTION

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

AUDIT REPORTS ISSUED BEFORE START OF THE PERIOD WITH NO MANAGEMENT DECISION AS OF SEPTEMBER 30, 2013

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

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

OIG rejected three management decisions proposed by CPD to address the recommendation because they did not provide for the establishment and implementation of all of the controls that are needed to address the recommendation. CPD has not responded to OIG's follow-up about the need for a management decision for this recommendation.

OIG also recommended that CPD obtain a formal legal opinion from HUD's Office of General Counsel regarding whether

- HUD's cumulative technique for assessing compliance with commitment deadlines is consistent with and an allowable alternative to the 24-month commitment required by 42 U.S.C. (United States Code) 12748 and

- HUD's first-in, first-out (FIFO) method for assessing compliance with HOME expenditure requirements is consistent with and an allowable alternative to the 8-year recapture deadline pursuant to Public Law 101-510, codified at 31 U.S.C. 1552.

CPD obtained a legal opinion from the Assistant General Counsel for Community Development on March 5, 2010. The legal opinion supports the Department's use of the cumulative approach and FIFO accounting method. Based on this legal opinion, CPD does not plan to implement OIG's recommendation to discontinue use of the FIFO method to account for the commitment and expenditure of HOME funds or the cumulative technique for assessing deadline compliance.

OIG requested reconsideration of the opinion. On June 10, 2010, HUD's General Counsel and Chief Financial Officer provided additional information regarding HUD's recapture requirements of the HOME program statute and CPD's use of cumulative accounting and the FIFO method for financial management.

HUD explained that CPD's use of cumulative accounting in its financial management represents a reasonable interpretation of the statutory duties imposed on the HUD Secretary and addresses the complex administrative challenges inherent in managing the HOME Investment Trust. HUD also explained that obligations and expenditures under the HOME program are accounted for on a FIFO basis by fund type instead of by fiscal year and that CPD, in enforcing the obligation and expenditure requirements, looks to total cumulative obligations and expenditures instead of accounting for them by fiscal year. Based on the Chief Financial Officer's financial analysis, given the origin of these requirements and the fundamental nature of this block grant program, HUD believed that the FIFO accounting method for obligations and expenditures by fund type was consistent with Federal accounting requirements and had no objection to the total cumulative obligations and expenditures methods used for assessing compliance with the 24-month commitment and 5-year expenditure requirements.

OIG continues to disagree with CPD's use of the FIFO method for recognizing commitments and expenditures that participating jurisdictions make against their HOME appropriations and maintains that CPD's cumulative method for determining recapture amounts is not consistent with the requirement cited at 42 U.S.C. 12748 for recapturing funds not committed by statutory deadline dates. The FIFO accounting method understates amounts due to be recaptured by Treasury when appropriation accounts are canceled pursuant to 31 U.S.C. 1552. The cumulative method potentially understates recaptures that HUD makes pursuant to 42 U.S.C. 12748. OIG submitted a request to the U.S. Government Accountability Office (GAO) for an appropriation law opinion on HUD's use of the cumulative method.

Another issue is whether HUD's accounting for formula grants (for example, the FIFO accounting method) comply with Federal accounting requirements for maintaining the U.S. Standard General Ledger and general appropriations law. The accounting issues require review for compliance with Federal accounting standards and financial system requirements. Since OIG's last semiannual report date, GAO has issued an opinion, which agreed with OIG's assessment that HUD's cumulative method violated statutory requirements, and the Office of Management and Budget (OMB) assessed HUD's FIFO method and agreed with OIG that the method violated Federal accounting requirements. Based on prior management decisions between OIG and HUD, HUD has 90 days from the date of receipt of GAO and OMB opinions to provide revised management decisions outlining the corrective actions that it will take to comply with the opinions that its cumulative and FIFO methods violate statutory or Federal accounting requirements. (Audit Report: **2009-AT-0001)**

SHEA MORTGAGE, INC., ALLOWED THE RECORDING OF PROHIBITED RESTRICTIVE COVENANTS, ISSUE DATE: SEPTEMBER 26, 2012

HUD OIG audited Shea Mortgage's Federal Housing Administration (FHA) Single Family Housing program to determine the extent to which Shea Mortgage failed to prevent the recording of prohibited restrictive covenants or potential liens in connection with FHA-insured loans. Shea Mortgage did not follow HUD requirements at 24 CFR (Code of Federal Regulations) 203.41(a)(3)(iv) and 203.41(b) when it underwrote loans that had executed and recorded agreements between Shea Homes and the FHA borrower, containing prohibited restrictive covenants in connection with FHA-insured properties. As a result, 600 uninsurable loans obtained FHA mortgage insurance (29 claim loans and 571 active loans), placing the FHA insurance fund at unnecessary risk for potential losses.

The OIG report included recommendations that the HUD Office of Single Family Housing require Shea Mortgage to (1) reimburse the FHA insurance fund for nearly $1.5 million in actual losses resulting from the amount of claims and associated expenses paid on 11 loans that contained prohibited restrictive covenants; (2) support the eligibility of nearly $2.6 million in claims paid or execute an indemnification agreement requiring any unsupported amounts to be repaid for claims paid on 19 loans, for which HUD has paid claims but has not sold the properties; and (3) remove prohibited restrictive language or execute an indemnification agreement that prohibits it from submitting claims on 27 active loans with prohibited restrictive covenants in the amount of more than $7.7 million, thereby putting nearly $5.1 million to better use.

OIG rejected three management decisions proposed by Housing because they were not consistent with HUD regulations and prior HUD reviews and determinations. OIG has had discussions with Housing regarding the recommendations in question but has not reached an agreeable management decision.

Housing explained that, while it agrees that Shea Mortgage permitted antispeculative agreements in the form of restrictive covenants in violation 24 CFR 203.41(b), it considers the violations technical, not rising to the level of materiality warranting indemnification. In previous reviews, Housing determined that the presence of prohibited restrictive covenants is a material statute violation, stating that such properties are "not eligible for FHA mortgage insurance." However, Housing does not intend to hold Shea Mortgage accountable for losses stemming from FHA loans that, by definition, are uninsurable under FHA regulations. Housing believes that indemnification should be used only for underwriting deficiencies that negatively impact the loan.

OIG continues to disagree with Housing's determination that prohibited restrictive covenants do not warrant indemnification. The use of prohibited restrictive covenants is a systemic, widespread issue that requires more specific attention. The recommendations in question were based on HUD's own precedent and determinations that prohibited restrictive covenants are a serious, material deficiency. The FHA loans identified in the audit memorandum were determined to be ineligible for FHA insurance; therefore, any loss or claim tied to the loans identified represents an unnecessary loss to HUD's FHA insurance fund.

Another issue is the determination of funds to be put to better use with regard to active loans that were originated with prohibited restrictive covenants. Housing agreed during initial discussions; however, the management decision maintained that the amount of funds to be put to better use should be $0. OIG continues to disagree, explaining that if the lender agrees and provides documentation showing that all unallowable restrictions have been removed and ensures compliance, the amount of funds to be put to better use of nearly $5.1 million applies as the corrective action ensures that the loans in question are eligible for FHA insurance and follow HUD rules and regulations. However, if the lender refuses or fails to adequately remove all unallowable restrictions, indemnification would be the appropriate remedy, and the potential loss of nearly $5.1 million would be put to better use as the loans in question would not be supported by FHA mortgage insurance. Both issues were referred to the Deputy Secretary on March 16, 2013, and his decision was pending as of September 30, 2013. (Audit Memorandum: **2012-LA-1801)**

STANDARD PACIFIC MORTGAGE, INC., ALLOWED THE RECORDING OF PROHIBITED RESTRICTIVE COVENANTS, ISSUE DATE: FEBRUARY 5, 2013

HUD OIG audited Standard Pacific's FHA Single Family Housing program to determine the extent to which Standard Pacific failed to prevent the recording of prohibited restrictive covenants or potential liens in connection with FHA-insured loans. Standard Pacific did not follow HUD requirements at 24 CFR 203.41(a)(3)(iv) and 203.41(b) when it underwrote loans that had executed and recorded agreements between Standard Pacific Homes and the FHA borrower, containing prohibited restrictive covenants in connection with FHA-insured properties. As a result, 90 uninsurable loans obtained FHA mortgage insurance (28 claim loans and 62 active loans), placing the FHA insurance fund at unnecessary risk for potential losses.

The OIG report included recommendations that the HUD Office of Single Family Housing require Standard Pacific to (1) reimburse the FHA insurance fund for more than $1.5 million in actual losses resulting from the amount of claims and associated expenses paid on 15 loans that contained prohibited restrictive covenants; (2) support the eligibility of nearly $1.4 million in claims paid or execute an indemnification agreement requiring any unsupported amounts to be repaid for claims paid on 13 loans, for which HUD has paid claims but has not sold the properties; and (3) remove prohibited restrictive language or execute an indemnification agreement that prohibits it from submitting claims on 5 active loans with prohibited restrictive covenants in the amount of nearly $879,000, thereby putting nearly $545,000 to better use.

OIG rejected two of the management decisions proposed by Housing because they were not consistent with HUD regulations and prior HUD reviews and determinations. OIG has had discussions with Housing regarding the recommendations in question but has not reached an agreeable management decision.

Housing explained that, while it agrees that Standard Pacific permitted antispeculative agreements in the form of restrictive covenants in violation of 24 CFR 203.41(b), it considers the violations technical, not rising to the level of materiality warranting indemnification. In previous reviews, Housing determined that the presence of prohibited restrictive covenants is a material statute violation, stating that such properties are "not eligible for FHA mortgage insurance." However, Housing does not intend to hold Standard Pacific accountable for losses stemming from FHA loans that, by definition, are uninsurable under FHA regulations. Housing believes that indemnification should be used only for underwriting deficiencies that negatively impact the loan. In this instance, we agreed with Housing that 27 of the 28 loans contained a mitigating document, rendering the prohibited restrictive covenants not enforceable. However, one loan did not contain the mitigating document and was in violation of HUD's rules governing restrictive covenants.

OIG continues to disagree with Housing's determination that prohibited restrictive covenants do not warrant indemnification. The use of prohibited restrictive covenants is a systemic, widespread issue that requires more specific attention. The recommendations in question were based on HUD's own precedent and determinations that prohibited restrictive covenants are a serious, material deficiency. The FHA loans identified in the audit memorandum were determined to be ineligible for FHA insurance; therefore, any loss or claim tied to the loans identified represents an unnecessary loss to HUD's FHA insurance fund.

Another issue is the determination of funds to be put to better use with regard to active loans that were originated with prohibited restrictive covenants. Housing agreed during initial discussions; however, the management decision maintained that the amount of funds to be put to better use should be $0. OIG continues to disagree, explaining that if the lender agrees and provides documentation showing that all unallowable restrictions have been removed and ensures compliance, the amount of funds to be put to better use of more than $392,000 applies as the corrective action ensures that the loans in question are eligible for FHA insurance and follow HUD rules and regulations. However, if the lender refuses or fails to adequately remove all unallowable restrictions, indemnification would be the appropriate remedy, and the potential loss of more than $392,000 would be put to better use as the loans in question would not be supported by FHA mortgage insurance. The issues related to Standard Pacific were referred to the Deputy Secretary on September 30, 2013; however, the broader issue of the prohibited restrictive covenants was referred to the Deputy Secretary on March 15, 2013, in conjunction with our audit of Shea Mortgage, which had similar disagreements, and his decision was pending as of September 30, 2013. (Audit Memorandum: **2013-LA-1801**)

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

HUD OIG audited HUD's HOME program in response to the Consolidated and Further Continuing Appropriations Act of 2012, P.L. 112-155, and to improve HUD's execution of and accountability for its fiscal responsibility. Section 232 of the Act provided congressional direction specifically with respect to programs and activities administered by CPD and actions necessary to improve data quality, data management, and grantee oversight and accountability.[9]

The objective was to determine whether HUD's proposed regulation[10] changes and controls would mitigate the systemic deficiencies identified in prior OIG audit reports.[11] During the review, OIG rolled up the results of 77 OIG-issued audit reports on HUD's HOME program and identified 10 systemic HOME deficiency areas. OIG determined that if properly implemented, HUD's proposed changes to HOME regulations and controls should mitigate the systemic deficiencies identified in prior HUD OIG audit reports with the exception of (1) the program office's oversight of grantee monitoring and (2) validating the reliability of HOME data.

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

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

9 "The Secretary shall address the problems identified by the Inspector General of the Department in audits and audit reports since 2006, including ongoing audits, with respect to such programs and activities."

10 The final rule was issued July 24, 2013.

11 The audit scope generally covered the period between January 2006 and January 2012.

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

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

OIG rejected HUD CPD's proposed management decisions on September 6, 2013, because OIG believes its findings are substantiated and that a "No action will be taken" stance is not acceptable. Congress has tasked OIG and HUD to increase controls over the HOME program. Program officials could not show that monitoring efforts were effective and complete. As a result, (1) the fraud risk for grantees that were seldom or never monitored was not known and may not have been mitigated; (2) systemic deficiencies may not have been tested, identified, and mitigated; (3) findings may not have been resolved in a timely manner; and (4) continually noncompliant grantees may not have been identified and appropriate corrective action may not have been taken to preserve the integrity of the program and conserve HUD resources.

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

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

OIG and HUD CPD continue to disagree over OIG's findings and recommendations that CPD develop and implement procedures to assess the effectiveness and completeness of monitoring efforts and (2) develop and implement a quality control system to validate the accuracy and reliability of HOME data in IDIS. Both issues are being referred to the Deputy Secretary. (Audit Report: **2013-BO-0001**)

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

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

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

The OIG report included recommendations that HUD's Director of the Office of Block Grant Assistance (1) work with the States to ensure that they promptly budget all of the remaining unbudgeted funds, (2) work with Congress and the States to explore options to spend the remaining funds promptly, and (3) adopt a best practice to address the issue of homeowner's insurance for homes assisted with disaster funds to ensure that the Federal funds invested in the homes are protected.

OIG rejected the management decisions for the three recommendations. For the first two recommendations, the Deputy Assistant Secretary for Grant Programs agreed with the finding recommendation but recommended that the finding be closed effective the date of the memorandum. In an August 9, 2013, phone conversation, which included the Deputy Assistant Secretary, HUD CPD staff, and the Fort Worth OIG Regional Inspector General and Assistant Regional Inspector General for Audit, HUD indicated that since Congress did not require an expenditure deadline for Hurricanes Katrina, Rita, Wilma, Gustav, Ike, and Dolly, CPD lacks statutory authority to require that the funds be budgeted or expended by a set date. Further, CPD is proactively working with grantees to ensure that the funds are budgeted and spent in a timely manner. CPD also stated that it would not work with Congress to set an expenditure deadline for these disasters as it did not believe doing so would be proper or feasible.

HUD OIG is reluctant to close the two recommendations as "final action completed" as the States have funds that have not been budgeted or spent. Although CPD has made progress in reducing the amount of unbudgeted and unspent funds and is working with its disaster grantees, all Disaster Recovery funds have not been budgeted or spent. As of June 2013, CPD's Disaster Recovery Grants Reporting system showed that for Hurricanes Katrina, Rita, and Wilma, the Gulf Coast States have budgeted nearly $19.5 billion of the nearly $19.7 billion available. For the same period, for Hurricanes Gustav, Ike, and Dolly, States have budgeted more than $4 billion of the more than $4.3 billion provided. Thus, a total of more than $23.5 billion of the $24 billion has been budgeted. Further, as of June 2013, CPD's Disaster Recovery Grants Reporting system showed that for Hurricanes Katrina, Rita, and Wilma, the Gulf Coast States spent nearly $17.7 billion of the nearly $19.7 billion available. For the same period for Hurricanes Gustav, Ike, and Dolly, States have spent nearly $1.5 billion of the more than $4.3 billion provided. Thus, a total of more than $19.1 billion of the $24 billion has been spent.

During the August 9, 2013, phone conversation, the Regional Inspector General for Audit agreed to close the recommendations if the Deputy Assistant Secretary agreed to revise the management decisions to include language stating that CPD would provide OIG with monthly reports showing updated obligation and expenditure amounts. As of September 4, 2013, revised management decisions had not been provided.

For the third recommendation, CPD disagreed with the finding recommendation to adopt a best practice to address the issue of homeowner's insurance for homes assisted with disaster funds to ensure that the Federal funds invested in the homes are protected. CPD's position is that the purpose of the Disaster Recovery program is to ensure that funds benefit low- to moderate-income persons. CPD stated that to require insurance as part of eligibility screening may exclude people from assistance. It further stated that it does not have the regulatory or statutory authority to require insurance coverage.

OIG's recommendation was not that CPD require insurance as part of the eligibility screening as asserted in its memorandum. While its proposed training and technical assistance may be beneficial, OIG upholds its conclusion that Disaster Recovery funds used to rebuild disaster-impacted homes are at risk if the homes are not insured by the homeowners against future storm damage. It is also OIG's belief that CPD needs to adopt a best practice for homeowner's insurance. Based on OIG's observations, the State of Mississippi had the best practice. Mississippi required a property covenant on an assisted property, which required insurance and clearly informed the property owner that if insurance was not obtained on the assisted property, future Federal assistance would not be provided. Further, OIG believes that the Department has the regulatory authority to enact regulations to oversee and protect the disaster funds.

During the August 9, 2013, phone conversation, the Deputy Assistant Secretary and OIG were unable to reach agreement. However, the Deputy Assistant Secretary agreed to revise the language in the proposed management decision and resend it to OIG in an attempt to to reach agreement. OIG has not received a revised management decision. However, OIG's position remains that a best practice needs to be adopted to address implementation of homeowner's insurance requirements to protect the Federal funds invested in the homes. (Audit Report: **2013-FW-0001**)

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

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

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

OIG recommended that HUD CPD require the State to (1) enforce program remedies for noncompliance as stated in grant agreements, starting with the recovery of $437.3 million in elevation grant funds from the 15,027 homeowners who did not elevate their homes within 3 years of the grant agreement date and the State had not collected any of the funds (recommendation 1A); (2) determine whether the 8,462 homeowners who did not respond to its monitoring survey used the $245 million in elevation grant funds to elevate their homes or recover these funds from the noncompliant homeowners (recommendation 1B); (3) obtain documentation to validate whether the 553 homeowners who received $16 million in grant funds elevated their homes or recover these funds from the noncompliant homeowners (recommendation 1C); (4) enforce its grant review and recovery procedures to ensure that homeowners comply with the terms of their elevation grant agreements (recommendation 1D); and (5) reimburse the uncollectible elevation grant funds from non-Federal funds (recommendation 1E).

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

a. The State will work with HUD on proposed action plan amendments targeted to individuals who have not complied with elevation requirements but who have completed the required rehabilitation of their home.

b. Within two weeks of the action plan amendment approval/disapproval, the State will launch its final compliance notifications, requiring homeowners to demonstrate compliance within 120 days. Homeowners that fail to meet the compliance deadline will be turned over to the State's Attorney General's Office for collections.

c. The State will implement a comprehensive grant collections policy inclusive of additional remedies for homeowners unable to repay their full grant amount within the prescribed timelines. The policy offers these homeowners the option to repay the entire amount due, repay with a 10-year promissory note, submit an alternative payment request based on income and relevant circumstances, or a identify a settlement amount depending on the homeowner's income (the State is in the process of establishing details for this approach).

d. Within one year of the date of this management decision, the State must identify all noncompliant households and, excluding those homeowners with [Hazard Mitigation Grant Program] (HMGP) applications, must reimburse its line of credit from non-Federal funds for the amount associated with non-compliant households.

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

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

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

OIG disagrees with all five proposed management decisions due to concerns with CPD's approval of the State's amendment 60.

- OIG takes exception to amendment 60 because the elevation incentive agreement indicated that the funds were intended to assist the homeowners only to elevate their homes. If the funds were not used for that purpose, the funds must be repaid to the State.
- OIG believes that CPD's changing the scope of work for the expired elevation incentive agreements, entered into as early as 2006, to now allow homeowners to rehabilitate their homes is overriding the intent of the program and unfair to the homeowners who either elevated their homes or paid back the funds.
- CPD's approval of amendment 60 leaves those homeowners potentially exposed to home destruction again since those homes were not elevated. More importantly, this is more than an issue of homeowners repaying funds. These homes remain vulnerable against future storms, and scarce resources were used for an alternative purpose.
- Finally, OIG is concerned with CPD's completion of the management decision process. On July 26, 2013, OIG received CPD's proposed management decision. The management decision indicated that

> HUD would work with the State on proposed action plan amendments, giving the impression that it was still working with the State to reach an agreement on what actions should be taken. However, CPD concurred with the amendments on the same day it provided a proposed management decision to OIG. This action demonstrates a lack of good faith between the two organizations. Thus, OIG is left with no choice but to nonconcur on the proposed management decision.

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

On September 17, 2013, OIG referred the recommendations to HUD's Delegated Authority over CPD programs because we could not resolve the five recommendations with the Deputy Assistant Secretary for Grant Programs. (Audit Memorandum: **2013-IE-0803**)

SIGNIFICANTLY REVISED MANAGEMENT DECISIONS

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

THE CITY OF ATLANTA ENTERED INCORRECT COMMITMENTS INTO HUD'S INTEGRATED DISBURSEMENT AND INFORMATION SYSTEM FOR ITS HOME PROGRAM, ISSUE DATE: SEPTEMBER 28, 2009

HUD OIG audited the City of Atlanta's HOME program to determine whether the City accurately entered commitments into IDIS for HOME-funded activities. The audit identified more than $6.8 million in incorrect commitment entries that the City made to IDIS. The incorrect entries masked a shortfall of more than $3.9 million that was subject to recapture by HUD. The recaptures, which resulted from a failure of City staff to implement adequate controls, will deprive City residents of services that the HOME program was intended to provide. The incorrect entries also undermined the integrity of IDIS and of reports HUD generated from the system to monitor the City's compliance with the 24-month statutory commitment requirement.

OIG initially recommended that the Director of HUD's Atlanta Office of Community Planning and Development recapture nearly $4 million in funds not committed by the 24-month statutory deadline (recommendation 1B). On November 5, 2009, OIG and the Director reached a management decision to require the City to reimburse this amount or if the City provides documentation to support the eligibility of any portion thereof, CPD will consult with OIG before final action is taken. After reaching this decision, the Director and the CPD headquarters office concluded that more than $1.3 million of the recommended recapture should be allowed because it was associated with commitments for a locally funded substitute activity that HUD allowed the City to enter into IDIS to replace other ineligible HOME expenditures that HUD disallowed during a previous monitoring review. On March 28, 2011, OIG rejected the proposed revised management decision because the commitments were not supported by a legally binding contract executed before the commitment deadline and because while working with HUD to resolve this matter, OIG learned that the City had duplicate commitments in IDIS for this activity. The duplication consisted of the commitment entry for the substitute activity and the existing commitments for the ineligible activities the substitute activity was to replace.

After rejecting the proposed revised management decision, OIG spent considerable time obtaining, reviewing, and assessing information from CPD, including two meetings with the Deputy Assistant Secretary for Grant Programs. Late in this process, CPD agreed with our determination that the information system contained duplicate commitments for the questioned activity. However, CPD said it had not issued clear instructions to the City on how to make adjustments in IDIS for the disallowed cost. CPD maintained that by not requiring the City to cancel the projects or informing the City that its commitments were overstated in IDIS, HUD denied the City the opportunity to fully meet the deadline. Based on that explanation, OIG concluded that it is not reasonable to pursue recapturing from the City amounts that were caused by a lack of clear HUD requirements and directions. Therefore, OIG requested that CPD submit a revised management decision based on its explanation. On July 18, 2013, OIG agreed with CPD's proposed revised management decision to recapture more than $2.6 million of the more than $3.9 million shortfall and to allow the balance that totaled more than $1.3 million. (Audit Report: **2009-AT-1013**)

ACORN ASSOCIATES, INC., NEW ORLEANS, LA, MATERIALLY FAILED TO USE ITS LEAD ELIMINATION ACTION PROGRAM GRANT FUNDS APPROPRIATELY, ISSUE DATE: NOVEMBER 8, 2010

HUD OIG found that ACORN Associates inappropriately expended more than $3.2 million from its fiscal years 2004 and 2005 grants for the elimination of lead poisoning in its housing program. It paid program funds of more than $3 million to affiliate and nonaffiliate organizations without properly procuring their services and did not include the funds in a HUD-approved grant budget. For its 2004 and 2005 grants, Associates failed to (1) properly procure the services of 19 affiliate and 20 nonaffiliate organizations through free and open competition, (2) retain records and files documenting the basis for contractor selection, (3) justify the lack of competition and basis for the award cost, (4) ensure that it obtained the lowest, most reasonable cost, and (5) enter into a contract with each organization that performed an activity to accomplish grant goals. Additionally, it did not have adequate supporting documentation for nearly $218,000 in disbursements to 11 affiliate and 4 nonaffiliate organizations.

Also, program funds were not used for approved purposes. ACORN Associates used nearly $1.2 million in program funds for purposes not identified in its grant applications' detailed budgets. The unapproved uses included campaign services, grant fund-raising activities, lead-based paint remediation work, payroll taxes and workmen's compensation insurance, communication services, and financial- and audit-related expenditures for services performed by affiliate organizations and more than $16,000 disbursed to its nonaffiliate organizations. Further, more than $600 in improper expenses for bank service fees was disbursed from program funds. The nearly $1.2 million in program funds used for unapproved purposes was associated with and included in the $3.2 million expended without being properly procured. The repayment of total questioned costs will not exceed the amount of the funds drawn from Associates' 2004 and 2005 grants.

OIG recommended that the Director of HUD's Office of Healthy Homes and Lead Hazard Control require Associates to (1) provide procurement documentation or reimburse HUD from non-Federal funds more than $3.2 million in program funds, (2) provide documentation or reimburse HUD from non-Federal funds nearly $218,000 in program funds, and (3) reimburse HUD from non-Federal funds nearly $1.2 million for the unapproved and improper use of program funds. OIG also recommended that the Director withdraw Associates' ability to draw down the more than $750,000 in program funds remaining in its grants. HUD's original management decision agreed with OIG's recommendations.

In July 2012, ACORN Associates filed for bankruptcy. On April 26, 2013, HUD submitted a revised management decision, along with supporting documentation, requesting concurrence on its decision to write off more than $3.2 million and terminate collection activities due to the debt's being uncollectible. On May 1, 2013, OIG concurred with the revised management decision. (Audit Report: **2011-CH-1002**)

ADDITIONAL DETAILS TO SUPPLEMENT OUR REPORT ON HUD'S FISCAL YEARS 2010 AND 2009 FINANCIAL STATEMENTS, ISSUE DATE: NOVEMBER 15, 2010 (AUDIT REPORT: 2011-FO-0003)

As part of the fiscal year 2009 Consolidated Financial Statement Audit, OIG reported[12] that IDIS did not comply with Federal financial management requirements. The noncompliance was due to the system's arbitrarily liquidating obligations on a FIFO basis, regardless of the budget fiscal year funding source. OIG reported that the process did not comply with Federal financial accounting and Federal appropriations laws and FFMIA. CPD and HUD took exception to OIG's position based upon a legal opinion received from HUD's Office of General Counsel.

During fiscal year 2010, CPD hired a contractor to determine whether the FIFO method used by IDIS complied with the requirements of FFMIA. While the review found that IDIS provided the required data to HUD's core financial management system, the review itself had limitations. The contractor (1) improperly excluded IDIS as part of HUD's financial management system and subject to the requirements of FFMIA, (2) did not support its conclusion that FIFO complied with Federal systems requirements with criteria or procedures, and (3) did not consider the FIFO mismatch effect before data were posted to the core financial system. Consequently, OIG continued to report[13] that IDIS did not comply with the Federal financial management system requirements of FFMIA due to the use of the FIFO method for liquidating obligations. CPD and HUD continued to take exception with OIG's position.

In fiscal year 2011, OIG requested a legal decision and opinion from GAO regarding the use of FIFO that was later amended to request an opinion on the cumulative method of determining compliance with the HOME 24-month commitment statute. After the request was made, management decisions were due for the fiscal year 2010 consolidated financial statement audit recommendations regarding the use of FIFO. An impasse was reached between HUD and OIG regarding the recommendations, and after referring them to senior HUD management, OIG and HUD agreed that CPD would provide a revised management decision after OIG received the legal decision and opinion from GAO. OIG continued to report that IDIS did not comply with FFMIA in fiscal years 2011 and 2012.[14]

During the fiscal year 2013 consolidated financial statement audit, OMB advised HUD to cease the use of FIFO. Additionally, GAO published its legal decision and opinion on July 17, 2013, in favor of OIG's position. Due to these events and according to the original management decision, CPD had to revise its management decision to adequately address the OIG recommendations. CPD's revision included a plan to overhaul the grants management system, IDIS, and to remove the use of the FIFO method when liquidating obligations. This overhaul is not expected to be completed until fiscal year 2015. OIG anticipates the deficiency to exist and the recommendations to remain open until the system overhaul is completed.

12 Audit Report number 2010-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Years 2009 and 2008 Financial Statements, issued November 16, 2009

13 Audit Report number 2011-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Years 2010 and 2009 Financial Statements, issued November 15, 2010

14 Audit Report number 2012-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Years 2011 and 2010 Financial Statements, issued November 15, 2011, and Audit Report number 2013-FO-0003, Additional Details To Supplement Our Report on HUD's Fiscal Years 2012 and 2011 Financial Statements, issued November 15, 2012

PIONEER CIVIC SERVICES DID NOT PROPERLY ADMINISTER ITS SUPPORTIVE HOUSING PROGRAM AND HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS GRANTS, ISSUE DATE: SEPTEMBER 30, 2011

OIG issued an audit report entitled "Pioneer Civic Services, Inc., Peoria, IL, Did Not Properly Administer Its Supportive Housing Program and Housing Opportunities for Persons With AIDS Grants." OIG found that Pioneer did not effectively administer its Program and Housing Opportunities for Persons With AIDS (HOPWA) grants in accordance with HUD's and other Federal requirements. Specifically, Pioneer did not ensure that (1) its housing units met HUD's habitability standards and local code and (2) Riverside Apartments, a single-room occupancy rooming house for chronically homeless persons with HIV-AIDS, and its four-unit apartment building (Perry Street) met Federal and State accessibility requirements. Further, Pioneer inappropriately used funds from its Program and HOPWA grants to pay ineligible and unsupported expenses. However, it generally provided services to program participants who were homeless with two exceptions. As a result, HUD lacked assurance that more than $483,000 in funds from its Program and HOPWA grants was used for eligible activities and to maintain its housing units in decent, safe, and sanitary condition.

OIG recommended that the Director of HUD's Chicago Office of Community Planning and Development require Pioneer to (1) certify that the applicable violations have been corrected for the 30 housing units cited; (2) reimburse HUD $187,000 from non-Federal funds for the housing units that failed to meet HUD's habitability standards and local code; (3) implement adequate procedures and controls to ensure that all of its units meet local and HUD habitability standards to prevent funds from its Program and HOPWA grants from being spent over the next year on units that do not comply with applicable requirements; (4) ensure that its inspector is properly trained on HUD's habitability standards and local code; (5) discontinue funding for the operation of Riverside Apartments until Pioneer submits written confirmation that the applicable accessibility code violations cited have been corrected; and (6) implement adequate procedures and controls to ensure that the Perry Street building, including the one accessible housing unit, complies with applicable accessibility requirements. OIG also recommended that the Director of HUD's Chicago Office of Community Planning and Development require Pioneer to (1) provide documentation to support the eligibility of nearly $94,000 in Program and HOPWA grant expenditures and reimburse HUD nearly $203,000 from non-Federal funds for ineligible expenses, (2) develop and implement adequate procedures and controls to ensure that funds from its Program and HOPWA grants are used only for eligible activities, and (3) implement adequate procedures and controls to ensure that it serves participants who are eligible to receive benefits from the Program.

HUD's original management decision, dated February 17, 2012, agreed with the recommendations. OIG concurred with the management decision on February 22, 2012. On April 3, 2013, HUD submitted a revised management decision and requested closure of the recommendations because Pioneer no longer operated. HUD provided documentation of Pioneer's dissolution and its approval to write off and terminate collection activities. Therefore, on April 8, 2013, OIG concurred with the revised management decision. (Audit Report: **2011-CH-1017**)

AMERICAHOMEKEY, INC., DALLAS, TX, DID NOT FOLLOW HUD-FHA LOAN REQUIREMENTS IN UNDERWRITING 13 OF 20 MANUFACTURED HOME LOANS, ISSUE DATE: SEPTEMBER 30, 2011

HUD OIG issued an audit entitled "AmericaHomeKey, Inc., Dallas, TX, Did Not Follow HUD-FHA Loan Requirements in Underwriting 13 of 20 Manufactured Home Loans." The mortgage company underwrote 13 loans that were ineligible for FHA insurance. When the report was issued, four of the ineligible loans had defaulted and conveyed, and HUD had incurred losses of nearly $514,000 on the resale. In addition, HUD paid nearly $24,000 in claims for four of the ineligible loans. OIG recommended that HUD recover the losses, and HUD agreed to request AmericaHomeKey to indemnify it for the four loans. An indemnification agreement would make the mortgage company responsible for any losses incurred on the loans and allow HUD to pursue reimbursement for the losses. OIG concurred with the management decision on February 14, 2012.

HUD recovered $191,000 in a settlement due in part to the audit report and in part to other civil enforcement actions. However, since AmericaHomeKey went out of business and settled, there was no indemnification agreement. HUD submitted a revised management decision on May 23, 2013, to close the finding, and OIG concurred with this revised management decision on May 28, 2013. (Audit Report: **2011-FW-1016**)

JOHN CALVIN MANOR VIOLATED ITS REGULATORY AND LOAN AGREEMENTS WITH HUD AND INAPPROPRIATELY MADE SALARY PAYMENTS TO ITS BOARD PRESIDENT, ISSUE DATE: JANUARY 20, 2012

HUD OIG audited John Calvin Manor of Lee's Summit, MO, to determine whether the property violated its regulatory and loan agreements with HUD.

The property violated its regulatory and loan agreements with HUD by improperly spending restricted funds, defaulting on its mortgage payment, and failing to submit financial statements to HUD. In addition, it inappropriately made salary payments to its board president.

Among other things, OIG recommended that HUD develop a plan with the property to reestablish and fully fund its reserve for replacement account and debt service reserve account. The underfunded amounts totaled more than $278,000 and more than $41,000, respectively. In its original management decision, HUD agreed with both recommendations and sent a letter to the board and agent requesting them to develop a written plan to reestablish and fully fund the reserve for replacement and debt service reserve accounts within 36 months. HUD submitted a revised management decision because the Section 202 mortgage was prepaid on September 27, 2013. Therefore, the requirement for a reserve for replacement account and debt service reserve account that was set forth in the regulatory agreement was no longer in effect as the regulatory agreement was required only as long as the Section 202 loan was active. Therefore, there is no longer any active business document requiring either account. On September 30, 2013, OIG agreed with the revised significant management decisions. (Audit Report: **2012-KC-1001**)

THE EAST ST. LOUIS HOUSING AUTHORITY DID NOT PROPERLY MANAGE OR REPORT ON RECOVERY ACT CAPITAL FUNDS, ISSUE DATE: MARCH 2, 2012

HUD OIG audited the East St. Louis Housing Authority's American Recovery and Reinvestment Act of 2009 (ARRA) Public Housing Capital Fund program to determine whether the Authority (1) complied with applicable procurement requirements and properly managed its ARRA contracts, (2) properly drew down and expended funds for eligible activities, and (3) properly reported its ARRA activities.

The Authority (1) improperly awarded ARRA-funded contracts, (2) improperly approved change orders, (3) did not enforce the fair labor standards prevailing wage rate requirements in its contracts, (4) paid for an ARRA contract before receiving HUD approval to obligate or expend the funds, (5) improperly drew down all of its administrative fees, and (6) reported incomplete and inconsistent information on the number of jobs created and the amounts expended on ARRA contracts.

Among other things, OIG recommended that HUD require the Authority to (1) support that nearly $1.9 million in ARRA contracts and change orders was granted at a reasonable cost and repay any amount determined to be unreasonable. In its original management decision, HUD agreed to review documentation submitted by the Authority and require repayment to the U.S. Treasury from non-Federal funds for the amount that could not be supported. HUD submitted a revised management decision because after working extensively with the Authority to establish price reasonableness for the contracts at issue, HUD concluded that the Authority does not have the capacity to conduct an analysis of the sort that would satisfy the conditions of the recommendations. Accordingly, HUD will take actions to establish price reasonableness for the change orders and will require repayment of any amount in excess of the amount determined to be reasonable. On July 9, 2013, OIG agreed with the revised significant management decisions.

In addition, OIG recommended that the Authority collect nearly $47,000 in overpaid funds from its contractor and return these funds to the U.S. Treasury. In its original management decision, HUD agreed to review documentation regarding the profits and require return of any amounts not supported as allowable. HUD submitted a revised management decision because it determined that the amount required to be repaid was more than $39,000, and it entered into a repayment agreement with the Authority for that amount. On June 17, 2013, OIG agreed with the revised significant management decision.

Further, OIG recommended that HUD obtain evidence documenting compliance with the Section 3 numeric goals. In its original management decision, HUD agreed to obtain and review evidence documenting compliance or determine why compliance was not possible. HUD submitted a revised management decision because the Authority provided documentation of efforts to meet the Section 3 goal as well as why it was not feasible to meet the goal in its entirety. HUD requested that OIG remove the unsupported costs from the system and close the recommendation. On June 27, 2013, OIG agreed with the revised significant management decision. (Audit Report: **2012-KC-1002**)

THE MANAGEMENT AND BOARD OF COMMISSIONERS OF THE HOUSING AUTHORITY OF CITY OF PORT ARTHUR, TX, FAILED TO EXERCISE THEIR FIDUCIARY RESPONSIBILITIES, ISSUE DATE: JUNE 1, 2012

HUD OIG issued an audit report entitled "The Management and Board of Commissioners of the Housing Authority of City of Port Arthur, TX, Failed To Exercise Their Fiduciary Responsibilities." For recommendation 3F, HUD's Office of Housing Voucher Programs initially agreed on August 28, 2012, that the Authority must support or repay nearly $1.1 million to HUD from non-Federal funds. On February 13, 2013, HUD performed an onsite visit at the Housing Authority, determined that the Authority could support the amounts charged to the program, and submitted a revised management decision to that effect on June 26, 2013. OIG concurred with the revised management decision on June 27, 2013.

For recommendation 3G, HUD's Office of Housing Voucher Programs initially agreed on August 28, 2012, that the amounts in the audit report represented ineligible amounts and agreed to require the Authority to repay nearly $350,000 to HUD from non-Federal funds. HUD performed an onsite visit on February 13, 2013, to review these costs. HUD agreed that the Authority did not have written contracts but stated that according to HUD's Office of General Counsel, an implied contract existed that bound the Authority and HUD, making the costs eligible rather than ineligible as reported in the audit. Further, HUD indicated that while the Authority did not engage in sound practices for the execution of its contracts and invoicing, it did provide adequate documentation to support the expenditure of the nearly $350,000. HUD submitted a revised management decision on June 26, 2013. Based on HUD's onsite review, testing, and legal opinion, on June 27, 2013, OIG concurred with the revised management decision that the Authority had adequately supported the costs. (Audit Report: **2012-FW-1008**)

SIGNIFICANT MANAGEMENT DECISION WITH WHICH OIG DISAGREES

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

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

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

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

Among other things, OIG recommended that HUD's Director of the Office of Block Grant Assistance develop and issue guidance that defines the public law categories of disaster relief, housing, infrastructure, long-term recovery, and economic revitalization and describes how these categories fit within the State CDBG program categories to ensure consistency, alleviate confusion, provide better assurance that the funds are used for their intended purpose, and allow for comparisons and evaluations based on the public law categories (recommendation 2C).

CPD disagreed with the recommendation; however, OIG's understanding is that CPD did define in the Federal Register for Hurricane Sandy assistance the following terms: "housing," "infrastructure," and "economic revitalization." However, CPD had not defined the terms "disaster assistance" and "long-term recovery" and is not tracking information by the public law categories. Although OIG continues to believe that having this information would allow for better reporting and consolidation of results, it closed the recommendation. (Audit Report: **2013-FW-0001**)

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996

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

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

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

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

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

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

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

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

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

APPENDIX ONE PEER REVIEW REPORTING

BACKGROUND

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

OFFICE OF AUDIT

PEER REVIEW CONDUCTED ON HUD OIG

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

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

PEER REVIEW CONDUCTED BY HUD OIG ON DOD

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

OFFICE OF INVESTIGATION

PEER REVIEW CONDUCTED ON HUD OIG

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

PEER REVIEW CONDUCTED BY HUD OIG ON SSA OIG

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

APPENDIX 2 AUDIT REPORTS ISSUED

INTERNAL REPORTS

AUDIT REPORTS	
CHIEF FINANCIAL OFFICER	
2013-DP-0007	Information System Control Weaknesses Identified in the Hyperion Application System, 09/30/2013.
CHIEF INFORMATION OFFICER	
2013-DP-0006	Weaknesses Identified in HUD's Fiscal Year 2012 Security Program, 09/12/2013.
COMMUNITY PLANNING AND DEVELOPMENT	
2013-AT-0002	HUD's Office of Community Planning and Development Had Established and Implemented a Risk Assessment Process Adequate for Evaluating Grants Administered or Carried Out by Subrecipients, 08/26/2013.
2013-AT-0003	Economic Development Programs Lacked Adequate Controls To Ensure Program Effectiveness, 09/03/2013. Questioned: $2,251,838; unsupported: $2,251,838; better use: $5,162,630.
2013-NY-0003	HUD Officials Did Not Always Monitor Grantee Compliance With the CDBG Timeliness Spending Requirement, 07/19/2013. Better use: $8,379,012.
FAIR HOUSING AND EQUAL OPPORTUNITY	
2013-KC-0002	HUD Did Not Enforce the Reporting Requirements of Section 3 of the Housing and Urban Development Act of 1968 for Public Housing Authorities, 06/26/2013. Questioned: $26,025,191; unsupported: $26,025,191.
HOUSING	
2013-AT-0001	The Office of Housing Had Not Fully Developed Formal Risk Based Procedures for Postendorsement Underwriting Reviews of Multifamily and Healthcare Loans, 05/13/2013.
2013-KC-0001	FHA Had Adequately Reduced Mortgage Insurance Claims for Funds Held by Lenders, 05/08/2013.
2013-KC-0003	HUD Did Not Have Effective Controls To Ensure That Lenders Reported Defaults Accurately and in a Timely Manner, 09/10/2013.
2013-KC-0004	HUD Paid Claims That Lacked Contact or Collection Activities With Coborrowers, 09/18/2013. Better use: $191,000,000.
2013-LA-0001	HUD Did Not Always Follow Monthly Accounting Report Requirements and Did Not Collect Net Cash for Multifamily Projects With HUD-Held Mortgages, 05/03/2013.
2013-LA-0002	FHA Paid Claims for Approximately 4,457 Preforeclosure Sales That Did Not Meet Minimum Net Sales Proceeds Requirements, 09/05/2013. Better use: $6,898,518.

OFFICE OF DEPARTMENTAL OPERATIONS AND COORDINATION	
2013-HA-0001	HUD's Oversight of the Wage Restitution and Deposit Account Needs Improvement, 04/16/2013. Questioned: $11,897; unsupported: $11,897; better use: $1,307,337.
PUBLIC AND INDIAN HOUSING	
2013-HA-0002	HUD's Office of Public and Indian Housing Did Not Announce Additional Funding, Publish Awards, and Justify Score Changes for Its HOPE VI Revitalization Grants, 06/07/2013.
2013-KC-0005	HUD Had Made Progress in Reducing Oversubsidization in the Housing Choice Voucher Program, but the Problem Continued To Exist, 09/23/2013. Better use: $1,128,000.
2013-NY-0002	HUD Can Improve Public Housing Agencies Use of Housing Choice Vouchers by Consistently Implementing All Utilization Protocols and Improving Controls, 07/18/2013. Better use: $1,961,078.
2013-PH-0004	HUD's Oversight of Its Moving to Work Demonstration Program Needs Improvement, 09/27/2013.
AUDIT-RELATED MEMORANDUMS[15]	
CHIEF FINANCIAL OFFICER	
2013-IE-0804	Evaluation of HUD's Property Inventory System, 09/27/2013.
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION	
2013-IE-0805	Evaluation of Ginnie Mae's Managed Data Center Sole-Source Requisition, 09/30/2013.
HOUSING	
2013-LA-0803	Reviews of Six FHA Lenders Demonstrated That HUD Needs To Strengthen Its Oversight of Prohibited Restrictive Covenants, 09/23/2013.
2013-LA-0804	Corrective Action Verification, Underwriting Review of 15 Lenders, Report 2011-CF-1801, 09/24/2013.
LEAD HAZARD CONTROL	
2013-KC-0801	Healthy Homes Needs To Strengthen Its Controls Over Lead Hazard Control Grant Administrative Costs, 04/18/2013.

EXTERNAL REPORTS

AUDIT REPORTS	
COMMUNITY PLANNING AND DEVELOPMENT	
2013-AT-1004	The City of Sarasota Did Not Always Properly Administer Its NSP2, Sarasota, FL, 04/25/2013.
2013-AT-1005	The City of Rocky Mount Did Not Properly Administer Its HOME Investment Partnerships Program, Rocky Mount, NC, 05/02/2013. Questioned: $322,595; unsupported: $313,286.
2013-AT-1006	The Puerto Rico Housing Finance Authority Did Not Always Comply With HOME Requirements, San Juan, PR, 07/23/2013. Questioned: $89,331; unsupported: $89,331; better use: $18,684,292.

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

2013-AT-1008	The City of West Palm Beach Did Not Always Properly Administer Its HOME Program, West Palm Beach, FL, 09/30/2013. Questioned: $1,878,764; unsupported: $1,246,770; better use: $1,216,576.
2013-BO-1002	The City of Worcester Did Not Properly Administer Its CDBG Program, Worcester, MA, 07/29/2013. Questioned: $6,336,944; unsupported: $3,927,630; better use: $153,268.
2013-CH-1002	The City of Toledo Lacked Adequate Controls Over Its CDBG-Funded Code Violation Abatement Program, Toledo, OH, 06/07/2013. Questioned: $105,591; unsupported: $23,719.
2013-CH-1006	The State of Michigan Lacked Adequate Controls Over Its NSP Under the American Recovery and Reinvestment Act of 2009, Lansing, MI, 09/15/2013. Questioned: $238,525; unsupported: $183,532.
2013-CH-1008	Community Advocates Did Not Properly Administer Its Program and Recovery Act Grant Funds, Milwaukee, WI, 09/17/2013. Questioned: $1,710,568; unsupported: $1,710,568.
2013-CH-1010	The City of Toledo Did Not Always Administer Its CDBG-R Program in Accordance With HUD's and Its Own Requirements., Toledo, OH, 09/30/2013. Questioned: $74,018; unsupported: $58,958.
2013-DE-1002	A Hotline Complaint About CARE Housing, Inc., Was Not Substantiated, Fort Collins, CO, 08/13/2013.
2013-FW-1008	The City of New Orleans Did Not Have Adequate Financial and Programmatic Controls To Ensure That It Expended and Reported Funds in Accordance With Program Requirements, New Orleans, LA, 09/24/2013. Questioned: $294,757; unsupported: $159,987; better use: $465,506.
2013-KC-1002	The State Did Not Monitor the City of Cedar Rapids' Voluntary Property Acquisition Program in Accordance With Its Approved Disaster Recovery Action Plans, Des Moines, IA, 05/06/2013.
2013-LA-1004	The City of San Bernardino Did Not Administer Its CDBG and CDBG-Recovery Act Programs in Accordance With HUD Rules and Regulations, San Bernardino, CA, 04/23/2013. Questioned: $7,805,349; unsupported: $7,588,889.
2013-LA-1006	The City of Santa Ana Did Not Administer NSP2 Funds in Accordance With HUD Rules and Requirements, Santa Ana, CA, 06/17/2013. Questioned: $669,632; better use: $375,742.
2013-LA-1007	The County of Santa Barbara Did Not Comply With HOME Investment Partnerships Program Requirements, Santa Barbara, CA, 07/09/2013. Questioned: $3,555,101; unsupported: $3,110,602.
2013-LA-1009	The City of Hawthorne Inappropriately Used Nearly $1.6 Million in HOME Funds for Section 8 Tenants, Hawthorne, CA, 09/13/2013. Questioned: $1,595,113.
2013-LA-1010	The City of Hawthorne Did Not Administer Its CDBG Program Cost Allocations in Accordance With HUD Rules and Requirements, Hawthorne, CA, 09/20/2013. Questioned: $1,674,891; unsupported: $1,640,863.
2013-NY-1006	Nassau County Did Not Administer It's HOME Investment Partnerships Program in Accordance With HUD Requirements, Nassau County, NY, 05/13/2013. Questioned: $2,616,945; unsupported: $2,538,415; better use: $31,470.
2013-NY-1008	The Lower Manhattan Development Corporation Generally Administered CDBG Disaster Recovery Assistance Funds in Accordance With HUD Regulations, New York, NY, 07/18/2013.

2013-NY-1009	Essex County's HOME Investment Partnerships Program Was Not Always Administered in Compliance With Program Requirements and Federal Regulations, Essex County, NJ, 08/09/2013. Questioned: $1,270,548; unsupported: $1,195,578; better use: $18,652,668.
2013-NY-1010	The City of Auburn Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Auburn, NY, 09/26/2013. Questioned: $1,126,987; unsupported: $1,126,987; better use: $2,451,645.
HOUSING	
2013-AT-1007	Lighthouse Inn, an Assisted Living Facility Insured Under Section 232, Violated Its Executed Regulatory Agreement, Pompano Beach, FL, 09/13/2013. Questioned: $366,087; unsupported: $208,154.
2013-CH-1007	Independent Bank Generally Complied With HUD's Quality Control and Underwriting Requirements, Ionia, MI, 09/17/2013.
2013-CH-1011	The Michigan State Housing Development Authority Did Not Follow HUD's Requirements Regarding the Administration of Its Program, Lansing, MI, 09/30/2013. Questioned: $2,120,791; unsupported: $1,033,753; better use: $31,148,477.
2013-DE-1001	Utah Housing Corporation Did Not Always Properly Determine Borrower Eligibility for FHA's Preforeclosure Sale Program, West Valley City, UT, 05/15/2013. Questioned: $1,758,069; unsupported: $1,539,699.
2013-DE-1003	The Retreat at Church Ranch Did Not Submit the Management Agent Certification to HUD for Approval and Did Not Maintain Complete and Accurate Books of Account, Westminster, CO, 09/10/2013. Questioned: $119,218; unsupported: $119,218.
2013-KC-1003	The Temtor Housing Development Commission Disbursed Project Funds for Ineligible and unsupported Expenses, St. Louis, MO, 08/08/2013. Questioned: $718,588; unsupported: $316,883.
2013-LA-1005	All Western Mortgage Did Not Fully Comply With FHA Program Requirements Concerning Outside Employment and Timeliness of Quality Control Reviews, Las Vegas, NV, 05/22/2013.
2013-LA-1008	The Lending Company, Inc., Did Not Always Comply With FHA Underwriting and Quality Control Program Requirements, Phoenix, AZ, 08/20/2013. Questioned: $712,593; unsupported: $5,450; better use: $55,439,896.
2013-PH-1003	Madison Park North Apartments Generally Ensured That Procurement and Reserve for Replacement Requirements Were Met, Baltimore, MD, 04/19/2013.
2013-PH-1006	The State of Maryland Generally Administered Its Emergency Mortgage Assistance Program According to Applicable HUD Requirements, Crownsville, MD, 08/08/2013.
2013-SE-1002	Volunteers of America's Whispering Pines Senior Village Generally Used and Reported Its Green Retrofit Recovery Act Funds in Accordance With HUD and Recovery Act Rules and Regulations, Estacada, OR, 04/25/2013.
LEAD HAZARD CONTROL	
2013-SE-1003	The City of Spokane Did Not Always Appropriately Procure, Match, or Report Funds in Accordance With Lead Hazard Control and Recovery Act Requirements, Spokane, WA, 04/26/2013. Questioned: $2,568,959; unsupported: $2,568,959.

PUBLIC AND INDIAN HOUSING	
2013-BO-1003	The Housing Authority of the City of Lowell Did Not Always Operate Its Public Housing and Recovery Act Capital Fund Programs in Compliance With HUD Regulations and Its Own Policies, Lowell, MA, 09/04/2013. Questioned: $11,593,909; unsupported: $11,593,909.
2013-CH-1003	The Stark Metropolitan Housing Authority Did Not Follow HUD's Requirements and Its Own Policies Regarding the Administration of Its Program, Canton, OH, 07/15/2013. Questioned: $10,881,904; unsupported: $4,522,232; better use: $320,501.
2013-CH-1004	The Inkster Housing Commission Did Not Follow HUD's Requirements and Its Own Policies Regarding the Administration of Its Programs, Inkster, MI, 08/01/2013. Questioned: $648,485; unsupported: $457,092; better use: $324,523.
2013-CH-1005	The Warren Metropolitan Housing Authority Did Not Adequately Enforce HUD's Housing Quality Standards, Lebanon, OH, 08/30/2013. Questioned: $30,524; better use: $584,761.
2013-CH-1009	The Flint Housing Commission Did Not Always Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Own Requirements, Flint, MI, 09/27/2013. Questioned: $960,904; unsupported: $956,560; better use: $21,861.
2013-CH-1012	The Hamtramck Housing Commission Did Not Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Own Requirements, Hamtramck, MI, 09/30/2013. Questioned: $244,876; unsupported: $123,046; better use: $327.
2013-DE-1004	The Adams County Housing Authority Did Not Properly Use its Disposition Sales Proceeds, Commerce City, CO, 09/26/2013.
2013-DE-1005	The Jefferson County Housing Authority Did Not Properly Use Its Disposition Sales Proceeds, Wheat Ridge, CO, 09/30/2013. Questioned: $1,126,974; better use: $5,496,367.
2013-FW-1004	The Housing Authority of the City of El Paso Did Not Follow Recovery Act Obligation Requirements or Procurement Policies, El Paso, TX, 04/12/2013. Questioned: $8,553,115; unsupported: $5,874,417.
2013-FW-1005	The Executive Director and Board of Commissioners of the Grants Housing Authority Mismanaged the Authority, Grants, NM, 05/14/2013. Questioned: $64,843.
2013-FW-1006	The Management and Board of Commissioners of the Harris County Housing Authority Mismanaged the Authority, Houston, TX, 06/19/2013. Questioned: $27,892,454; unsupported: $23,361,275.
2013-FW-1007	The City of Eagle Pass Housing Authority Generally Followed Recovery Act Public Housing Capital Fund Requirements, Eagle Pass, TX, 08/14/2013.
2013-NY-1007	Authority Officials Generally Administered Recovery Act Funds in Accordance With Requirements but Budgetary and Procurement Controls Had Weaknesses, New Brunswick, NJ, 06/21/2013. Questioned: $265,020; unsupported: $265,020.
2013-PH-1004	The Blair County Housing Authority Generally Followed HUD's Housing Choice Voucher Program Regulations, Hollidaysburg, PA, 06/27/2013.
2013-PH-1005	The Charleston-Kanawha Housing Authority Needs To Improve Its Housing Quality Standards Inspections and Apply Correct Payment Standards When Calculating Housing Assistance Payments, Charleston, WV, 07/17/2013. Questioned: $37,387; better use: $3,432,149.
2013-SE-1004	Home Forward Generally Complied With Moving to Work Housing Choice Voucher Requirements, Portland, OR, 08/08/2013.

AUDIT-RELATED MEMORANDUMS[16]	
COMMUNITY PLANNING AND DEVELOPMENT	
2013-AT-1801	Complaint Review – Apalachicola, FL's Small Cities CDBG Program, 05/02/2013.
GENERAL COUNSEL	
2013-CF-1801	Final Civil Action: Fraudulent Expenses Paid from CDBG Funds, New York, NY, 06/04/2013. Questioned: $311,968; better use: $623,936.
2013-CF-1802	Final Civil Action: Judgment of Civil Money Penalty Imposed on Realtor for Preforeclosure Scheme, Upland, CA, 07/11/2013. Better use: $40,000.
2013-LA-1804	Final Civil Action: Settlement of Allegations of Failing To Fully Comply With HUD NSP Requirements and Submitting False Certifications to HUD, Mesa, AZ, 08/20/2013. Better use: $7,500.
2013-PH-1803	Review of the Philadelphia Housing Authority's Compliance with Federal Lobbying Disclosure Requirements and Restrictions, Philadelphia, PA, 04/26/2013.
2013-PH-1805	Final Civil Action: Civil Money Penalty Imposed on Borrower for Violation of Home Equity Conversion Mortgage Principal Residency Requirement, Washington, DC, 09/20/2013. Better use: $5,000.
HOUSING	
2013-DE-1801	Interim Memorandum Report on Wyoming Housing Opportunities Association's Village Creek Townhomes' 51 FHA Mortgage Defaults, Cheyenne, WY, 08/16/2013.
2013-LA-1802	Pulte Mortgage LLC, Allowed the Recording of Prohibited Restrictive Covenants, Englewood, CO, 04/18/2013. Questioned: $21,774,889; unsupported: $11,865,597; better use: $1,359,876.
2013-LA-1803	CTX Mortgage Company LLC Allowed the Recording of Prohibited Restrictive Covenants, Dallas, TX, 04/18/2013. Questioned: $13,261,173; unsupported: $7,975,892; better use: $892,032.
2013-PH-1804	Review of the Administration of HUD Funds by Brownsville Apartments, Brownsville, PA, 07/22/2013. Questioned: $848,615; unsupported: $709,753.
PUBLIC AND INDIAN HOUSING	
2013-FW-1802	The Idabel Housing Authority Did Not Comply With HUD Requirements, Idabel, OK, 06/21/2013. Questioned: $180,379; unsupported: $180,379.
2013-FW-1803	The City of Brackettville Housing Authority Failed To Properly Operate Its Low Rent Program But Generally Oversaw Its Capital Fund Grants Properly, Brackettville, TX, 09/18/2013. Questioned: $29,506; unsupported: $12,357; better use: $2,307.
2013-FW-1804	The Kenner Housing Authority Did Not Administer Its Housing Choice Voucher Program in Compliance With Portability Requirements, Kenner, LA, 09/24/2013. Questioned: $185,021; unsupported: $171,572.
2013-FW-1805	The Malakoff Housing Authority Did Not Have Sufficient Controls Over Its Public Housing Programs, Including Its Recovery Act Funds, Malakoff, TX, 09/26/2013. Questioned: $577,367; unsupported: $224,352.

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APPENDIX 3 TABLES

TABLE A

AUDIT REPORTS ISSUED BEFORE THE START OF PERIOD WITH NO MANGEMENT DECISION AT 09/30/2013

*Significant audit reports described in previous semiannual reports

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE
* 2009-AT-0001 HUD Lacked Adequate Controls to Ensure the Timely Commitment and Expenditure of HOME funds	See chapter 9, page 49.	09/28/2009
* 2012-LA-1801 Shea Mortgage, Inc., Allowed the Recording of Prohibited Restrictive Covenants, Aliso Viejo, CA	See chapter 9, page 51.	09/26/2012
* 2013-LA-1801 Standard Pacific Mortgage, Inc., Allowed the Recording of Prohibited Restrictive Covenants, Irvine, CA	See chapter 9, page 52.	02/05/2013
2013-BO-0001 HUD's Proposed HOME Regulations Generally Addressed Systemic Deficiencies, but Field Office Monitoring and Data Validation Need Improvement	See chapter 9, page 53.	02/12/2013
2013-FW-0001 Generally, HUD's Hurricane Disaster Recovery Program Assisted the Gulf Coast States' Recovery; However, Some Program Improvements Are Needed	See chapter 9, page 54.	03/28/2013
2013-IE-0803 Follow-up of the Inspections and Evaluations Division on Its Inspection of the State of Louisiana's Road Home Elevation Incentive Program Homeowner Compliance (IED-09-002, March 2010)	See chapter 9, page 56.	03/29/2013

TABLE B

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

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2002-AT-1002	Housing Authority of the City of Tupelo, Housing Programs Operations, Tupelo, MS	07/03/2002	10/31/2002	07/01/2015
2002-KC-0002	Nationwide Survey of HUD's Office of Housing Section 232 Nursing Home Program	07/31/2002	11/22/2002	Note 1
2005-AT-1013	Corporacion Para el Fomento Economico de la Ciudad Capital Did Not Administer Its Independent Capital Fund in Accordance With HUD Requirements, San Juan, PR	09/15/2005	01/11/2006	Note 1
2006-NY-0001	HUD's Controls over the Reporting, Oversight, and Monitoring of the Housing Counseling Assistance Program Were Not Adequate	06/08/2006	01/08/2007	10/01/2015
2006-KC-1013	The Columbus Housing Authority Improperly Expended and Encumbered Its Public Housing Funds, Columbus, NE	08/30/2006	10/17/2006	11/30/2014
2006-DP-0802	Assessment of HUD's Compliance With OMB Memorandum M-06-16, "Protection of Sensitive Agency Information"	09/21/2006	11/24/2006	09/30/2014
2007-KC-0002	HUD Can Improve Its Use of Residual Receipts To Reduce Housing Assistance Payments	01/29/2007	01/29/2007	Note 1
2007-KC-0003	HUD Did Not Recapture Excess Funds from Assigned Bond-Financed Projects	04/30/2007	08/27/2007	Note 1
2007-AT-1010	The Cathedral Foundation of Jacksonville Used More Than $2.65 Million in Project Funds for Questioned Costs, Jacksonville, FL	08/14/2007	12/03/2007	04/10/2017
2008-AO-1002	State of Louisiana, Road Home Program, Funded 418 Grants Coded Ineligible or Lacking an Eligibility Determination, Baton Rouge, LA	01/30/2008	05/12/2008	Note 1
2008-AT-0003	HUD Lacked Adequate Controls Over the Physical Condition of Section 8 Voucher Program Housing Stock	05/14/2008	09/10/2008	10/31/2014
2008-DP-0004	Review of Selected FHA Major Applications' Information Security Controls	06/12/2008	10/08/2008	Note 1
2008-LA-1012	The Housing Authority of the City of Calexico Did Not Comply With Public Housing Program Rules and Regulations, Calexico, CA	07/01/2008	10/14/2008	12/31/2013

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2009-BO-1002	Orchard Court Multifamily Project Was Not Properly Managed in Accordance with HUD Regulations, Bath, ME	11/06/2008	01/16/2009	01/27/2014
2009-AO-1001	State of Louisiana, Road Home Program, Did Not Ensure That Road Home Employees Were Eligible To Receive Additional Compensation Grants, Baton Rouge, LA	05/05/2009	09/16/2009	Note 1
2009-AO-1002	State of Louisiana, Road Home Program, Did Not Ensure That Multiple Disbursements to a Single Damaged Residence Address Were Eligible, Baton Rouge, LA	05/05/2009	09/16/2009	Note 1
2009-CH-1008	The City of East Cleveland Did Not Adequately Manage Its HOME Investment Partnerships and CDBG Programs, East Cleveland, OH	05/11/2009	09/08/2009	07/31/2014
2009-NY-1012	The City of Rome Did Not Administer Its Economic Development Activity in Accordance With HUD Requirements, Rome, NY	05/20/2009	09/23/2009	01/30/2032
2009-DP-0005	Review of Implementation of Security Controls Over HUD's Business Partners	06/11/2009	11/17/2009	12/31/2014
2009-CH-1011	The Housing Authority of the City of Terre Haute Failed To Follow Federal Requirements and Its Employment Contract Regarding Nonprofit Development Activities, Terre Haute, IN	07/31/2009	11/24/2009	01/01/2030
2009-KC-0001	HUD Subsidized an Estimated 2,094 to 3,046 Households That Included Lifetime Registered Sex Offenders	08/14/2009	03/31/2011	Note 1
2009-AT-0001	HUD Lacked Adequate Controls To Ensure the Timely Commitment and Expenditure of HOME funds	09/28/2009	03/18/2011	Note 3
2010-KC-1001	The State of Iowa Misspent CDBG Disaster Assistance Funds and Failed To Check for Duplicate Benefits, Des Moines, IA	03/10/2010	09/13/2010	Note 2
2010-KC-1003	The City of East St. Louis Did Not Properly Allocate Salary and Building Expenses or Properly Document Its Process To Secure a Consulting Services Contract, East St. Louis, IL	03/26/2010	07/22/2010	Note 1
2010-AT-1003	The Housing Authority of Whitesburg Mismanaged Its Operations, Whitesburg, KY	04/28/2010	08/26/2010	11/29/2035
2010-PH-1008	Sasha Bruce Youthwork, Incorporated, Did Not Support More Than $1.9 Million in Expenditures, Washington, DC	05/11/2010	11/03/2010	Note 1
2010-AT-1006	The Puerto Rico Department of Housing Failed To Properly Manage Its HOME Investment Partnerships Program, San Juan, PR	06/11/2010	10/08/2010	Note 2

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2010-CH-1008	The DuPage Housing Authority Inappropriately Administered Its Section 8 Project-Based Voucher Program, Wheaton, IL	06/15/2010	10/08/2010	07/31/2014
2010-AT-1007	The Housing Authority, City of Wilson, Lacked the Capacity To Effectively Administer Recovery Act Funds, Wilson, NC	07/27/2010	11/24/2010	11/27/2013
2010-AT-1011	The Puerto Rico Department of Housing Did Not Ensure Compliance With HOME Program Objectives, San Juan, PR	08/25/2010	12/06/2010	Note 1
2010-FW-0003	HUD Was Not Tracking Almost 13,000 Defaulted HECM Loans With Maximum Claim Amounts of Potentially More Than $2.5 Billion	08/25/2010	12/03/2010	Note 2
2010-LA-0002	HUD's Office of Single Family Housing's Management Controls Over Its Automated Underwriting Process	09/15/2010	01/13/2011	Note 2
2010-KC-1008	The City of East St. Louis Awarded Block Grant Program Funds to Recipients Without Adequately Verifying Their Eligibility, East St. Louis, IL	09/28/2010	01/26/2011	Note 1
2010-HA-0003	HUD Needs To Improve Controls Over Its Administration of Completed and Expired Contracts	09/30/2010	01/27/2011	Note 1
2011-CH-1001	The City of Flint Lacked Adequate Controls Over Its HOME Program Regarding Community Housing Development Organizations' Home-Buyer Projects, Subrecipients' Activities, and Reporting Accomplishments in HUD's System, Flint, MI	10/13/2010	02/03/2011	Note 2
2011-FO-0003	Additional Details to Supplement Our Report on HUD's Fiscal Years 2010 and 2009 Financial Statements	11/15/2010	08/08/2011	06/15/2015
2011-NY-1004	The City of Binghamton Did Not Always Administer Its Section 108 Loan Program in Accordance With HUD Requirements, Binghamton, NY	12/21/2010	04/20/2012	Note 2
2011-PH-1005	The District of Columbia Did Not Administer Its HOME Program in Accordance With Federal Requirements, Washington, DC	12/23/2010	04/22/2011	Note 1
2011-CH-1003	The City of Cleveland Lacked Adequate Controls Over Its HOME Investment Partnerships Program and American Dream Downpayment Initiative-Funded Afford-A-Home Program, Cleveland, OH	12/27/2010	04/26/2011	04/01/2014
2011-AT-1802	The Municipality of Arecibo Charged the HOME Program With Expenditures That Did Not Meet Program Objectives, Arecibo, PR	01/27/2011	05/26/2011	Note 1

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2011-CH-1004	The State of Indiana's Administrator Lacked Adequate Controls Over the State's HOME Investment Partnerships Program and American Dream Downpayment Initiative-Funded First Home/PLUS Program, Indianapolis, IN	01/31/2011	05/25/2011	10/15/2013
2011-KC-1001	The City of East St. Louis Did Not Properly Manage Housing Rehabilitation Contracts Funded by the CDBG Program, East St. Louis, IL	02/09/2011	06/09/2011	Note 1
2011-CH-1006	The DuPage Housing Authority Inappropriately Administered Its Section 8 Housing Choice Voucher Program, Wheaton, IL	03/23/2011	07/28/2011	07/31/2014
2011-KC-1003	The Missouri Housing Development Commission Did Not Always Disburse Its Tax Credit Assistance Program Funds in Accordance With Recovery Act Requirements, Kansas City, MO	04/01/2011	07/29/2011	Note 1
2011-NY-1009	The East Orange Revitalization and Development Corporation Did Not Always Comply With HOME Program Requirements and Federal Regulations, East Orange, NJ	04/07/2011	08/03/2011	07/01/2015
2011-AT-1006	The Municipality of Mayaguez Did Not Ensure Compliance With HOME Program Objectives, Mayaguez, PR	04/08/2011	08/05/2011	Note 1
2011-NY-1010	The City of Buffalo Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Buffalo, NY	04/15/2011	01/25/2012	11/15/2013
2011-AO-1005	The State of Mississippi Generally Ensured That Disbursements to Program Participants Were Eligible and Supported, Jackson, MS	04/18/2011	08/16/2011	Note 1
2011-FW-0002	The Office of Healthcare Programs Could Increase Its Controls To More Effectively Monitor the Section 232 Program	04/26/2011	08/17/2011	12/30/2013
2011-CH-1008	The State of Michigan Lacked Adequate Controls Over Its NSP Regarding Awards, Obligations, Subgrantees' Administrative Expenses and Procurement, and Reporting Accomplishments, Lansing, MI	06/03/2011	11/30/2011	Note 2
2011-AO-0001	The Lafayette Parish Housing Authority Violated HUD Procurement Requirements and Executed Unreasonable and Unnecessary Contracts	06/22/2011	10/13/2011	12/31/2013
2011-NY-1802	The City of Dunkirk Used CDBG Recovery Act Funding for an Ineligible Activity, Dunkirk, NY	07/14/2011	11/10/2011	Note 2
2011-LA-1016	The City of Compton Did Not Administer Its HOME Program in Compliance With HOME Requirements, Compton, CA	08/18/2011	12/15/2011	04/01/2014

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2011-NY-1016	The City of Buffalo Did Not Always Disburse Homelessness Prevention and Rapid Re-Housing Program Funds in Accordance With Regulations, Buffalo, NY	09/22/2011	01/25/2012	Note 2
2011-SE-1008	The Idaho Housing and Finance Association Did Not Always Comply With HOME Investment Partnerships Project and Cost Eligibility Regulations, Boise, ID	09/23/2011	01/18/2012	Note 2
2011-AT-1018	The Municipality of San Juan Did Not Properly Manage Its HOME Investment Partnerships Program, San Juan, PR	09/28/2011	01/12/2012	Note 2
2011-CH-1014	The City of Cleveland Lacked Adequate Controls Over Its HOME Investment Partnerships Program-Funded Housing Trust Fund Program Home-Buyer Activities, Cleveland, OH	09/29/2011	01/26/2012	02/28/2014
2011-CH-1015	The Springfield Metropolitan Housing Authority Did Not Administer Its Grant in Accordance With Recovery Act and HUD Requirements, Springfield, OH	09/30/2011	01/24/2012	05/01/2015
2012-NY-1002	The City of New York Charged Questionable Expenditures to Its HPRP, New York, NY	10/18/2011	02/16/2012	Note 2
2012-NY-1003	The City of Syracuse Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Syracuse, NY	10/25/2011	02/22/2012	Note 2
2012-PH-0001	HUD Needed to Improve Its Use of Its Integrated Disbursement and Information System To Oversee Its CDBG Program	10/31/2011	02/28/2012	Note 2
2012-FO-0003	Additional Details To Supplement Our Report on HUD's Fiscal Years 2011 and 2010 Financial Statements	11/15/2011	05/10/2012	04/01/2014
2012-LA-0001	HUD Did Not Adequately Support the Reasonableness of the Fee-for-Service Amounts or Monitor the Amounts Charged	11/16/2011	03/27/2012	02/27/2015
2012-LA-1003	City of Modesto Did Not Always Comply With NSP2 Requirements, Modesto, CA	12/22/2011	04/05/2012	Note 2
2012-AT-1007	The Shelby County Housing Authority Mismanaged Its HUD-Funded Programs, Memphis, TN	01/26/2012	05/25/2012	12/31/2013
2012-CH-1002	The Saginaw Housing Commission Did Not Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Requirements, Saginaw, MI	01/26/2012	06/04/2012	05/31/2014
2012-LA-1004	MetLife Bank's Scottsdale, AZ, Branch Office Did Not Follow FHA-Insured Loan Underwriting and Quality Control Requirements	01/26/2012	05/18/2012	Note 2

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2012-FO-0004	Information System Deficiencies Noted During FHA's Fiscal Year 2011 Financial Statement Audit	01/27/2012	05/21/2012	Note 2
2012-PH-0004	HUD Controls Did Not Always Ensure That Home Equity Conversion Mortgage Loan Borrowers Complied With Program Residency Requirements	02/09/2012	06/08/2012	Note 2
2012-DP-0001	Audit Report on the Fiscal Year 2011 Review of Information Systems Controls in Support of the Financial Statements Audit	02/14/2012	07/02/2012	Note 2
2012-NY-1007	The City of Syracuse Did Not Always Administer Its Economic Development Initiative Program in Accordance With HUD Requirements, Syracuse, NY	02/21/2012	06/12/2012	Note 2
2012-CH-1004	The State of Indiana's Administrator Lacked Adequate Controls Over the State's HOME Investment Partnerships Program Regarding CHDOs' Activities and Income, Indianapolis, IN	02/24/2012	06/22/2012	Note 2
2012-KC-1002	The East St. Louis Housing Authority Did Not Properly Manage or Report on Recovery Act Capital Funds, East St. Louis, IL	03/02/2012	06/29/2012	04/30/2014
2012-FW-1005	The State of Texas Did Not Follow Requirements for Its Infrastructure and Revitalization Contracts Funded With CDBG Disaster Recovery Program Funds, Austin, TX	03/07/2012	07/05/2012	12/31/2013
2012-FW-1802	Bank of America Corporation, Foreclosure and Claims Process Review, Charlotte, NC	03/12/2012	07/09/2012	Note 2
2012-LA-1005	The City of Los Angeles Did Not Expend Brownfields Economic Development Initiative and Section 108 Funds for the Goodyear Industrial Tract Project in Accordance With HUD Requirements, Los Angeles, CA	03/13/2012	09/19/2012	03/13/2014
2012-PH-1008	Mountain CAP of WV, Inc., Did Not Administer Its HPRP in Accordance With Applicable Recovery Act and HUD Requirements, Buckhannon, WV	03/15/2012	07/12/2012	Note 2
2012-CH-1006	Cuyahoga Metropolitan Housing Authority Did Not Operate Its Section 8 Housing Choice Voucher Program According to HUD's Requirements, Cleveland, OH	03/29/2012	07/18/2012	12/31/2013
2012-CH-1007	The State of Michigan Lacked Adequate Controls Over Its Use of NSP Funds Under the HERA for a Project, Lansing, MI	03/30/2012	07/26/2012	Note 2
2012-LA-1006	Amar Plaza Was Not Administered in Accordance With HUD Rules and Regulations, La Puente, CA	05/21/2012	09/17/2012	09/19/2014
2012-AT-1009	The Municipality of Bayamón Did Not Always Ensure Compliance With HOME Investment Partnerships Program Requirements, Bayamon, PR	05/23/2012	09/18/2012	Note 2

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2012-FW-1008	The Management and Board of Commissioners of the Housing Authority of the City of Port Arthur Failed To Exercise Their Fiduciary Responsibilities, Port Arthur, TX	06/01/2012	09/22/2012	03/31/2014
2012-LA-1007	Los Angeles Neighborhood Housing Services Did Not Always Properly Administer Its NSP2 Grant, Los Angeles, CA	06/05/2012	09/21/2012	09/23/2014
2012-LA-1008	The City of Phoenix Did Not Always Comply With Program Requirements When Administering Its NSP1 and NSP2 Grants, Phoenix, AZ	06/15/2012	10/15/2012	10/01/2013
2012-NY-1010	The Lower Manhattan Development Corporation Approved Invoices That Were Not Always Consistent With Subrecipient Agreements, New York, NY	07/27/2012	12/04/2012	Note 2
2012-AO-1002	The Jefferson Parish Housing Authority Violated Federal Regulations, Marrero, LA	07/30/2012	12/31/2012	03/19/2014
2012-FW-1012	Weststar Mortgage Corporation Did Not Comply With HUD FHA Single Family Requirements for 10 Loans Reviewed, Albuquerque, NM	08/02/2012	12/31/2012	Note 2
2012-CH-1009	The Hammond Housing Authority Did Not Administer Its Recovery Act Grants in Accordance With Recovery Act, HUD's, and Its Own Requirements, Hammond, IN	08/03/2012	11/30/2012	11/22/2013
2012-PH-1011	Prince George's County Generally Did Not Administer Its HOME Program in Accordance With Federal Requirements, Largo, MD	08/03/2012	11/30/2012	11/30/2013
2012-SE-1005	Washington State Generally Complied With Lead Hazard Control Grant and Recovery Act Requirements but Charged Excessive Administrative Costs, Olympia, WA	08/09/2012	10/05/2012	10/01/2013
2012-NY-1011	The City of Elizabeth Did Not Always Administer Its CDBG Program in Accordance With Regulations, Elizabeth, NJ	08/15/2012	12/07/2012	12/06/2013
2012-CH-1010	The Aurora Housing Authority Did Not Administer Its Grant in Accordance With Recovery Act, HUD, and Its Own Requirements, Aurora, IL	09/05/2012	01/03/2013	12/31/2013
2012-KC-0003	HUD Did Not Effectively Oversee and Manage the Receivership of the East St. Louis Housing Authority	09/05/2012	01/15/2013	12/31/2014
2012-AT-1015	Little Haiti Did Not Fully Comply With Federal Rules When Administering NSP2, Miami, FL	09/06/2012	01/03/2013	01/03/2014
2012-FW-1014	The State of Louisiana Generally Complied With Recovery Act HPRP, Baton Rouge, LA	09/07/2012	02/08/2013	10/25/2013
2012-LA-1010	Innotion Enterprises, Inc., Did Not Always Comply With Its REO Contract Requirements, Las Vegas, NV	09/12/2012	01/10/2013	12/10/2013
2012-LA-1011	Bankers Mortgage Group Loan Originations Did Not Comply With FHA-Insured Loan Documentation Requirements, Woodland Hills, CA	09/13/2012	01/10/2013	11/15/2013

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2012-KC-0004	FHA Paid Claims for Approximately 11,693 Preforeclosure Sales that Did Not Meet FHA Requirements	09/18/2012	01/14/2013	12/17/2013
2012-LA-0003	HUD Did Not Always Enforce REO M&M III Program Requirements	09/18/2012	01/09/2013	12/17/2013
2012-LA-0004	HUD Did Not Ensure Public Housing Agencies' Use of Property Insurance Recoveries Met Program Requirements	09/21/2012	12/19/2012	01/01/2014
2012-LA-1801	Shea Mortgage, Inc., Allowed the Recording of Prohibited Restrictive Covenants, Aliso Viejo, CA	09/26/2012	03/01/2013	Note 3
2012-CH-1011	The Stark Metropolitan Housing Authority Did Not Always Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Own Requirements, Canton, OH	09/27/2012	01/15/2013	01/15/2014
2012-CH-1012	The Saginaw Housing Commission Did Not Always Administer Its Section 8 Housing Choice Voucher Program in Accordance With HUD's and Its Own Requirements, Saginaw, MI	09/27/2012	01/07/2013	01/01/2023
2012-CH-1013	The Flint Housing Commission Did Not Always Administer Its Grants in Accordance With Recovery Act, HUD's, and Its Own Requirements, Flint, MI	09/27/2012	01/24/2013	06/27/2014
2012-FO-0006	HUD's Oversight of Recovery Act-Funded Housing Programs	09/27/2012	03/05/2013	11/29/2013
2012-KC-1006	The City of St. Louis Did Not Effectively Manage Its Recovery Act Funding, St. Louis, MO	09/27/2012	01/25/2013	10/31/2013
2012-CH-0801	HUD's Office of Community Planning and Development Needs To Improve Its Tracking of HOME Investment Partnerships Program Technical Assistance Activities	09/28/2012	02/13/2013	11/30/2013
2012-CH-1014	Mortgage Now Inc. Did Not Always Comply With HUD's Underwriting and Quality Control Requirements, Shrewsbury, NJ	09/28/2012	01/25/2013	01/24/2014
2012-CH-1803	A Summary of the Foreclosure and Claims Process Reviews for Five Mortgage Servicers That Engaged in Improper Foreclosure Practices, Washington, DC	09/28/2012	01/30/2013	04/30/2014
2012-DP-0005	Review of Controls Over HUD's Mobile Devices	09/28/2012	12/18/2012	11/08/2014
2012-NY-1802	Village of Spring Valley Hotline Complaint Federal Housing Finance Agency, Complaint number Z-12-0445-1, Village of Spring Valley, NY	09/28/2012	01/28/2003	01/27/2014
2012-CH-1015	Allen Mortgage, LLC, Did Not Comply With HUD Requirements for Underwriting FHA Loans and Fully Implement Its Quality Control Program in Accordance With HUD's Requirement, Centennial Park, AZ	09/30/2012	02/04/2013	01/25/2014

Significant audit reports issued within the past 12 months that were described in previous semiannual reports for which final action had not been completed as of September 30, 2013

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2013-PH-1001	Luzerne County Did Not Properly Evaluate, Underwrite, and Monitor a High-Risk Loan, Wilkes-Barre, PA	10/31/2012	01/31/2013	01/30/2014
2013-PH-1002	The City of Baltimore Did Not Administer Its Homelessness Prevention and Rapid Re-Housing Program Grant According to Recovery Act Requirements, Baltimore, MD	11/09/2012	02/08/2013	02/08/2014
2013-FO-0003	Additional Details To Supplement Our Report on HUD's Fiscal Years 2012 and 2011 Financial Statements	11/15/2012	05/15/2013	12/31/2014
2013-AT-1001	The Municipality of Ponce Did Not Always Ensure Compliance With HOME Investment Partnerships Program Requirements, Ponce, PR	11/30/2012	03/29/2013	03/14/2014
2013-NY-1001	The City of Albany CDBG Recovery Act Program, Albany, NY	12/06/2012	04/03/2013	04/02/2014
2013-PH-0002	HUD Policies Did Not Always Ensure That Borrowers Complied With Program Residency Requirements	12/20/2012	04/19/2013	12/19/2013
2013-SE-1001	The Idaho Housing and Finance Association Did Not Always Comply With HOME Investment Partnerships Program Match and Compliance Monitoring Requirements, Boise, ID	12/21/2012	12/21/2012	Note 2
2013-CH-0001	HUD Did Not Always Provide Adequate Oversight of Its Assisted Living Conversion Program	01/04/2013	05/03/2013	12/01/2013
2013-FO-0004	Information System Deficiencies Noted During Federal Housing Administration's Fiscal Year 2012 Financial Statement Audit	01/15/2013	08/22/2013	03/31/2014
2013-LA-1801	Standard Pacific Mortgage, Inc., Allowed the Recording of Prohibited Restrictive Covenants, Irvine, CA	02/05/2013	06/04/2013	Note 3
2013-NY-1004	The City of Paterson Had Weaknesses in the Administration of Its Housing Opportunities for Persons with AIDS Program, Paterson, NJ	02/25/2013	04/15/2013	04/08/2014

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2013-DP-0004	Technical Security Control Weaknesses in Selected Ginnie Mae Applications	02/28/2013	06/26/2013	03/31/2014
2013-FW-1001	The Cherokee Nation Generally Administered Its Recovery Act Funds According to Requirements, Tahlequah, OK	03/12/2013	06/28/2013	05/31/2014
2013-LA-1003	Bay Vista Methodist Heights Violated Its Agreement With HUD When Administering Its Trust Funds, San Diego, CA	03/14/2013	05/15/2013	05/14/2014
2013-AT-1003	The Municipality of Arecibo Did Not Always Ensure Compliance With CDBG Program Requirements, Arecibo, PR	03/22/2013	06/14/2013	05/31/2014

AUDITS EXCLUDED:

84 audits under repayment plans

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

NOTES:

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

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

3 No Management decision

TABLE C

Inspector General-issued reports with questioned and unsupported costs at 09/30/2013 (thousands)

AUDIT REPORTS		NUMBER OF AUDIT REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A1	For which no management decision had been made by the commencement of the reporting period	17	733,073	284,825
A2	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	5	8,960	5,299
A3	For which additional costs were added to reports in beginning inventory	-	7,956	7,815
A4	For which costs were added to noncost reports	0	0	0
B1	Which were issued during the reporting period	47	167,488	127,290
B2	Which were reopened during the reporting period	0	0	0
SUBTOTALS (A + B)		**69**	**917,477**	**425,229**
C	For which a management decision was made during the reporting period	21[17]	46,957	35,167
	(1) Dollar value of disallowed costs:	9[18]	12,498	7,131
	Due HUD	14	33,051	26,628
	(2) Dollar value of costs not disallowed	2[19]	1,408	1,408
D	For which a management decision had been made not to determine costs until completion of litigation, legisla-	5	8,960	5,299
E	For which no management decision had made by the end of the reporting period	43 < 134 >[20]	861,560 < 800,109 >[20]	384,763 < 324,848 >[20]

17 Fifteen audit reports also contain recommendations with funds to be put to better use.

18 Six audit reports also contain recommendations with funds due program participants.

19 Seven audit reports also contain recommendations with funds agreed to by management.

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

TABLE D

Inspector General-issued reports with recommendations that funds be put to better use at 09/30/2013 (thousands)

AUDIT REPORTS		NUMBER OF AUDIT REPORTS	DOLLAR VALUE
A1	For which no management decision had been made by the commencement of the reporting period	11	803,503
A2	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	4	17,375
A3	For which additional costs were added to reports in beginning inventory	-	92,416
A4	For which costs were added to noncost reports	0	0
B1	Which were issued during the reporting period	31	357,567
B2	Which were reopened during the reporting period	0	0
SUBTOTALS (A + B)		46	1,270,861
C	For which a management decision was made during the reporting period	12[21]	828,500
	(1) Dollar value of recommendations that were agreed to by management: Due HUD Due program participants	 5 6	 826,569 1,623
	(2) Dollar value of recommendations that were not agreed to by management	3[22]	308
D	For which a management decision had been made not to determine costs until completion of litigation, legislation, or investigation	4	17,375
E	For which no management decision had made by the end of the reporting period	30 < 44 >[23]	424,986 < 359,516 >[23]

21 Fifteen audit reports also contain recommendations with questioned costs.

22 Three audit reports also contain recommendations with funds agreed to by management.

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

EXPLANATIONS OF TABLES C AND D

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

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

OIG TELEPHONE DIRECTORY

Office of Audit

HEADQUARTERS OFFICE OF AUDIT	Washington, DC	202-708-0364
REGION 1/2	New York, NY	212-264-4174
	Albany, NY	518-462-2892
	Boston, MA	617-994-8380
	Buffalo, NY	716-551-5755
	Hartford, CT	860-240-4837
	Newark, NJ	973-776-7339
REGION 3	Philadelphia, PA	215-656-0500
	Baltimore, MD	410-962-2520
	Pittsburgh, PA	412-644-6372
	Richmond, VA	804-771-2100
REGION 4	Atlanta, GA	404-331-3369
	Greensboro, NC	336-547-4001
	Jacksonville, FL	904-232-1226
	Knoxville, TN	865-545-4400
	Miami, FL	305-536-5387
	San Juan, PR	787-766-5540
REGION 5	Chicago, IL	312-353-7832
	Columbus, OH	614-469-5745
	Detroit, MI	313-226-6280
REGION 6	Fort Worth, TX	817-978-9309
	Baton Rouge, LA	225-448-3976
	Houston, TX	713-718-3199
	New Orleans, LA	504-671-3715
	Albuquerque, NM	505-346-7270
	Oklahoma City, OK	405-609-8606
	San Antonio, TX	210-475-6800

REGION 7/8/10	Kansas City, KS	913-551-5870
	St. Louis, MO	314-539-6339
	Denver, CO	303-672-5452
	Seattle, WA	206-220-5360
REGION 9	Los Angeles, CA	213-894-8016
	Las Vegas, NV	702-336-2100
	Phoenix, AZ	602-379-7250
	San Francisco, CA	415-489-6400

Office of Investigation

HEADQUARTERS OFFICE OF INVESTIGATION	Washington, DC	202-708-0390
REGION 1/2	New York, NY	212-264-8062
	Boston, MA	617-994-8450
	Hartford, CT	860-240-4800
	Manchester, NH	603-666-7988
	Newark, NJ	973-776-7355
REGION 3	Philadelphia, PA	215-430-6758
	Baltimore, MD	410-209-6533
	Pittsburgh, PA	412-644-6598
	Richmond, VA	804-822-4890
	Washington, DC	202-287-4100
REGION 4	Atlanta, GA	404-331-5001
	Birmingham, AL	205-745-4314
	Columbia, SC	803-451-4318
	Greensboro, NC	336-547-4000
	Jackson, MS	601-965-4700
	Memphis, TN	901-554-3148
	Miami, FL	305-536-3087
	Nashville, TN	615-736-2332
	San Juan, PR	787-766-5868
	Tampa, FL	813-228-2026
REGION 5	Chicago, IL	312-353-4196
	Cleveland, OH	216-357-7800

	Columbus, OH	614-469-6677
	Detroit, MI	313-226-6280
	Grand Rapids, MI	313-226-6280
	Indianapolis, IN	317-226-5427
	Minneapolis-St. Paul, MN	612-370-3130
REGION 6	Fort Worth, TX	817-978-5440
	Baton Rouge, LA	225-448-3941
	Houston, TX	713-718-3221
	Little Rock, AR	501-324-5931
	New Orleans, LA	504-671-3700
	Oklahoma City, OK	405-609-8603
	San Antonio, TX	210-475-6822
REGION 7/8/10	Denver, CO	303-672-5350
	Billings, MT	406-247-4080
	Kansas City, KS	913-551-5866
	Salt Lake City, UT	801-524-6090
	St. Louis, MO	314-539-6559
	Denver, CO	206-220-5380
REGION 9	Los Angeles, CA	213-894-0219
	Las Vegas, NV	702-366-2144
	Phoenix, AZ	602-379-7252
	Sacramento, CA	916-930-5691
	San Francisco, CA	415-489-6683

Joint Civil Fraud Division

AUDIT	Kansas City, KS	913-551-5429
INVESTIGATION	Kansas City, KS	913-551-5866

ACRONYMS LIST

ARRA	American Recovery and Reinvestment Act of 2009
BPD	Bureau of Public Debt
CDBG	Community Development Block Grant
CDBG-R	Community Development Block Grant-Recovery Act
CFR	Code of Federal Regulations
CID	Criminal Investigation Division (Internal Revenue Service)
CPD	Office of Community Planning and Development
DOJ	U.S. Department of Justice
FBI	Federal Bureau of Investigation
FEMP	Federal Emergency Management Program
FFMIA	Federal Financial Management Improvement Act of 1996
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FIFO	first-in, first-out
FIRMS	Facilities Integrated Resources Management System
FISMA	Federal Information Security Management Act
GAO	U.S. Government Accountability Office
HECM	home equity conversion mortgage
HIAMS	HUD Integrated Acquisition Management System
HIFMIP	HUD's Integrated Financial Management Improvement Project
HOME	HOME Investment Partnerships Program
HOPWA	Housing Opportunities for Persons With AIDS
HPS	HUD Procurement System
HUD	U.S. Department of Housing and Urban Development
HUDCAPS	HUD's Centralized Accounting Program System
IDIS	Integrated Disbursement and Information System
IRS	Internal Revenue Service
LMDC	Lower Manhattan Development Corporation
LTV	loan to value
NCDF	National Center for Disaster Fraud
NSP2	Neighborhood Stabilization Program 2
OI	Office of Investigation
OIG	Office of Inspector General
OMB	Office of Management and Budget
PERMS	Performance Measurement System
PHA	public housing agency
PIH	Office of Public and Indian Housing
SPS	Small Purchase System
U.S.C.	United States Code
USPIS	U.S. Postal Inspection Service

REPORTING REQUIREMENTS

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

SOURCE-REQUIREMENT	PAGES
Section 4(a)(2)-review of existing and proposed legislation and regulations.	46
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	8-44
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	49
Section 5(a)(3)-identification of each significant recommendation described in previous Semiannual Report on which corrective action has not been completed.	Appendix 3, table B, 76
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	8-44
Section 5(a)(5)-summary of reports made on instances where information or assistance was unreasonably refused or not provided, as required by Section 6(b)(2) of the Act.	No instances
Section 5(a)(6)-listing of each audit report completed during the reporting period, and for each report, where applicable, the total dollar value of questioned and unsupported costs and the dollar value of recommendations that funds be put to better use.	Appendix 2, 69
Section 5(a)(7)-summary of each particularly significant report.	8-44
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Appendix 3, table C, 86
Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.	Appendix 3, table D, 87
Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.	Appendix 3, table A, 75
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	58
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	64
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	65

FRAUD ALERT

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

COMMON LOAN MODIFICATION SCAMS

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

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

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

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

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

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

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

If you suspect fraud, call the U.S. Department of Housing and Urban Development, Office of Inspector General.

REPORT

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

Faxing the OIG hotline: 202-708-4829
Emailing the OIG hotline: hotline@hudoig.gov

Sending written information to
Department of Housing and Urban Development
Inspector General Hotline (GFI)
451 7th Street, SW
Washington, DC 20410

Internet:
http://www.hudoig.gov/hotline/index.php

All information is confidential, and you may remain anonymous.

U.S. DEPARTMENT
OF HOUSING
AND URBAN
DEVELOPMENT

Report Number 70
www.hudoig.gov