

OFFICE OF INSPECTOR GENERAL

# SEMIANNUAL REPORT TO CONGRESS

FOR THE PERIOD ENDING MARCH 31, 2016



U.S. DEPARTMENT  
OF HOUSING  
AND URBAN  
DEVELOPMENT



# OUR MISSION

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

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





# OUR VALUES

Integrity

Accountability

Courage

Trust

Stewardship



# OUR VISION

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



# DIVERSITY AND EQUAL OPPORTUNITY

**The promotion of high standards and 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

For the period October 1, 2015, to March 31, 2016

AUDIT RESULTS <sup>1</sup>	THIS REPORTING PERIOD
Recommendations that funds be put to better use	\$1,625,171,302
Recommended questioned costs	\$317,873,413
Collections from audits	\$7,192,078
Administrative sanctions	0
Civil actions	0
Subpoenas	9
Personnel action	0

INVESTIGATION RESULTS <sup>1</sup>	THIS REPORTING PERIOD
Total restitutions and judgments	\$138,335,653
Total recoveries and receivables to HUD programs	\$34,917,195
Arrests	128
Indictments and informations	142
Convictions, pleas, and pretrial diversions	145
Civil actions	52
Total administration sanctions	138
Suspensions	46
Debarments	59
Limited denial of participation	0
Removal from program participation	5
Evictions	7
Other <sup>2</sup>	21
Systemic implication reports	1
Search warrants	24
Subpoenas	504

JOINT CIVIL FRAUD RESULTS <sup>1</sup>	THIS REPORTING PERIOD
Recoveries and receivables to HUD programs or HUD program participants	\$1,892,000
Recoveries and receivables for other entities	\$51,000 <sup>3</sup>
Civil actions	2
Administrative sanctions	1
Subpoenas	50

<sup>1</sup> The Offices of Audit and Investigation and the Joint Civil Fraud Division periodically combine efforts and conduct joint civil fraud initiatives. Outcomes from these initiatives are shown in the joint civil fraud results profile and are not duplicated in the audit or investigation results. They include \$1.9 million from J. Virgil, Inc./Mac-Clair Mortgage.

<sup>2</sup> Includes reprimands, suspensions, demotions, or terminations of the employees of Federal, State, or local governments or of Federal contractors and grantees as the result of OIG activities.

<sup>3</sup> This amount represents funds that related to HUD programs but were paid to other entities rather than to HUD for its benefit, such as funds paid to the U.S. Treasury for general government purposes.

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DURING THIS REPORTING PERIOD, WE HAD **MORE THAN \$1.6 BILLION** IN FUNDS PUT TO BETTER USE, QUESTIONED COSTS OF **NEARLY \$318 MILLION**, AND MORE THAN **\$7 MILLION** IN COLLECTIONS, RESULTING FROM **36 AUDITS**, AND OBTAINED MORE THAN **\$138 MILLION** IN RECOVERIES DUE TO OUR INVESTIGATIVE EFFORTS. OF THIS AMOUNT, NEARLY **\$35 MILLION** WAS RETURNED TO HUD PROGRAMS, WITH THE REMAINDER GOING TO VICTIMS OF FRAUD AND ABUSE.

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It is my pleasure to submit the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) Semiannual Report to Congress for the first half of fiscal year 2016. This report describes the extraordinary accomplishments of the talented public servants of HUD OIG. By promoting better stewardship and accountability, HUD OIG staff continues to have a lasting impact on the Department and our communities for the benefit of the American people.

Our mission at HUD OIG is simple. We reinforce HUD's mission to create strong, sustainable, inclusive communities and quality, affordable homes for all by conducting and supervising audits, evaluations, and investigations of instances of waste, fraud, and abuse in HUD programs and operations. This is done primarily through the Office of Audit, Office of Evaluation, and Office of Investigation within HUD OIG. These offices are supported by the Office of Legal Counsel and Office of Management and Technology. Working as a collaborative team, these offices combine their skills and abilities to accomplish the goals and mission of HUD OIG.

As we looked outward this past 6 months, we also looked inward to ensure that our own house was in order. This was why we launched the HUD OIG Integrity and Compliance Program (ICP) on October 6, 2015. The ICP demonstrates HUD OIG's commitment to the public to maintain its high level of integrity and dedication to make values-based ethics the standard for its conduct. A vital first step of the ICP was to survey our own 620-member staff, which was done in December 2015. We reviewed the survey results with our staff in an all-hands meeting in March 2016. In conjunction with the Ethics Research Center, we are analyzing the implications of the survey results to guide us going forward. This program is discussed in detail on the next page of this report.

During the first reporting period of fiscal year 2016, the **Office of Audit** issued 36 reports. These reports resulted in the following:

- The identification of more than \$1.6 billion in funds that could be put to better use in HUD programs to more appropriately serve its mission,
- Questioned costs of nearly \$318 million in situations in which it was not clear that these expenditures were for legitimate purposes, and
- More than \$7 million in collections for reimbursement to HUD programs or the U.S. Treasury for situations in which fraud and abuse were proven.

Of these, two audits performed by the Office of Audit during this reporting period were especially noteworthy:

- An audit of the Government National Mortgage Association's (Ginnie Mae) financial statements for fiscal years 2015 and 2014 (restated) and
- An audit of HUD's Intergovernmental Personnel Act (IPA) mobility program.

Since fiscal year 2014, we have not been able to obtain sufficient, appropriate evidence to express an opinion on Ginnie

Mae's current \$5.4 billion in nonpooled loan assets. In addition, Ginnie Mae continues to improperly account for Federal Housing Administration reimbursable costs as an expense instead of capitalizing the costs as an asset. This error resulted in the misstatement of assets and net income. In short, Ginnie Mae's inadequate record keeping made it impossible for HUD OIG to render an opinion on more than \$5 billion in assets using generally accepted accounting principles.

In the IPA audit, HUD OIG discovered that HUD misused the IPA mobility program, which is intended to broaden the experience of temporarily assigned employees from other agencies, who then return to their organizations. Rather than returning to their agencies or leaving the government, these IPA participants were offered permanent jobs at HUD and in many cases, received improper reimbursement for relocation expenses. These actions violated the spirit and requirements of the program and were instead used to circumvent Federal hiring rules.

During the first half of fiscal year 2016, the **Office of Investigation** completed 308 investigations to improve departmental operations and address program abuses, recovering more than \$138 million. Of this amount, nearly \$ 35 million was returned to HUD programs, and the remainder went to victims of fraud and abuse. We continue to focus on HUD's performance and accountability in its single-family and public and Indian housing programs, both of which are significant concerns for the Department and taxpayers.

In one investigation, the owner of two fraudulent Indiana foreclosure relief companies was sentenced to serve 121 months incarceration and pay \$1.4 million in restitution to affected homeowners. These companies preyed on thousands of distressed borrowers through false advertising stating that they had an experienced legal team and a 97 percent success rate to help homeowners obtain loan modifications to avoid foreclosure. None of these assertions was true, and many of the homeowners lost their homes after paying these companies thousands of dollars.

In another case regarding HUD's public and Indian housing program, the former assistant commissioner of the New York City Department of Housing Preservation and Development was convicted of racketeering conspiracy and bribery for accepting \$2.5 million in kickbacks from developers in exchange for awarding contracts for affordable housing over a 10-year period. He was sentenced by the U.S. District Court to 3 years incarceration, ordered to pay \$2.5 million in restitution, and ordered to serve 500 hours of community service.

In closing, I would like to express my continued gratitude to Congress and the Department for their sustained commitment to improving HUD's programs. I also want to reiterate my sincere appreciation of the people of HUD OIG for their dedication to the critically important work that they do. Through their collective effort, HUD OIG has achieved its goals and fulfilled its mission and responsibilities to our Nation.

A handwritten signature in black ink that reads "David A. Montoya". The signature is fluid and cursive, with a prominent "D" and "M".

David A. Montoya | Inspector General



## THE INTEGRITY AND COMPLIANCE PROGRAM: A PROGRESS REPORT

### OVERVIEW OF OUR PROGRAM

On October 6, 2015, the Office of Inspector General (OIG) for the U.S. Department of Housing and Urban Development (HUD) publicly announced the launch of an effort to establish an Integrity and Compliance Program (ICP). The program is the first of its kind in a Federal OIG. Its purpose is to demonstrate HUD OIG's commitment to the public to maintain a high standard of integrity by making values-based ethics the standard for its conduct. HUD OIG also expects the new ICP to provide a model for the entire Department.

The establishment of the ICP involves several initial steps. These steps include

- Information gathering: Interviews with senior leaders and employee focus groups to help HUD OIG identify priorities for the ICP;
- Culture assessment: A confidential survey to all OIG employees to assess their views about the culture of the organization, emerging integrity and compliance risks, and the need for resources;
- Analysis of existing program elements: A review of the existing ombudsman, whistleblower, ethics, and other related programs to determine their best alignment with the ICP;
- Establishment of new resources: Where needed, creating new program activities to support the ICP effort;
- Revising the code of conduct based on core values: Updating and distributing the existing standards of conduct;
- Training of all employees: Case-based training, led by managers, on the core values, standards of conduct, and process for raising concerns; and
- Ongoing communications: Regularly communicating, both internally and externally, OIG's progress with the ICP and its commitment to integrity.

## INFORMATION GATHERING AND CULTURE ASSESSMENT

We are eager to share our first developmental steps for the ICP. To help gather information from HUD OIG employees across the country and to ensure that the ICP adopts best practices in its design, we selected a third party – the Ethics Research Center (ERC), the research arm of the Ethics and Compliance Initiative – to provide independent and objective guidance and support to the process.

Establishment of the ICP began with a thorough examination of our current culture. We asked ERC to conduct focus groups, review our current materials, and conduct an assessment of all HUD OIG employees in regard to integrity and compliance in the workplace. Collecting employee opinions about our current environment and culture-building efforts will help us measure where we are effective and how we can build a best-in-class ICP. To this end, ERC embarked on gathering information from employees via a survey.

The HUD OIG Integrity and Compliance survey was available for more than 20 days in December of 2015. Participation was voluntary, and the survey took no more than 25 minutes to complete. Through ERC, we were able to ensure that answers to the assessment were kept strictly confidential; only summarized data were provided to HUD OIG. HUD OIG sent email invitations to every employee. ERC, in turn, collected the survey responses.

Although the data are still in the analysis phase, a few results were evaluated. First and foremost, HUD OIG employees determined core values as integrity, accountability, courage, trust, and stewardship. Additionally, three quarters of our population (74 percent) elected to participate.

## NEXT STEPS

We understand that we are pursuing a unique and ambitious path, and we will need innovative thinking and new approaches to be successful. This is an exciting program, and we hope our success will encourage other Federal agencies to follow our lead, but more importantly, we hope to become a model for our own Department to emulate. Combined with our existing ethics, whistleblower, ombudsman, and hotline programs, we are confident that ICP will lead us to become an even stronger organization with impeccable integrity and unimpeachable ethics. That is what we believe is expected of us by our fellow citizens.



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# CHAPTER 1 – SINGLE-FAMILY PROGRAMS

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

## AUDIT

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

Key program results		Questioned costs	Funds put to better use
Audit	2 audits	\$359,514	\$696,185

### REVIEW OF HUD'S LOSS MITIGATION PROGRAM

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), audited Provident Bank of **Iselin, NJ**, regarding its servicing of FHA-insured mortgages and its implementation of HUD's Loss Mitigation program to determine whether it (1) properly serviced FHA-insured mortgages, (2) properly implemented HUD's Loss Mitigation program, (3) accurately reported borrower and loan status data for the FHA-insured mortgages it serviced, and (4) implemented an effective quality control plan.

Provident Bank did not adequately implement HUD's Loss Mitigation program for loans that went into default. Specifically, it did not (1) adequately document its loss mitigation efforts for nine loans with original mortgage amounts of more than \$1.9 million, (2) accurately report default status data in HUD's Single Family Default Monitoring System, and (3) implement an effective quality control plan.

OIG recommended that Provident Bank support that its servicing practices were acceptable for seven active loans identified with mortgages insured by HUD, which could result in more than \$696,000 in funds being put to better use. Further, HUD should take appropriate administrative actions to indemnify any of these loans for which it determines that Provident Bank's servicing practices or forbearance procedures were inadequate. In addition, Provident Bank should (1) reimburse the HUD FHA insurance fund nearly \$360,000 for two loans for which the required loss mitigation options were not made available to the borrower, (2) implement verification procedures to ensure that information in HUD data systems is accurately reported, (3) modify its quality control plan to ensure that its loss mitigation policies and procedures are complete, and (4) objectively evaluate how its policies are written and applied to FHA borrowers to ensure that they follow HUD FHA regulations and guidelines. (Audit Report: **2016-NY-1001**)

## INVESTIGATION

### PROGRAM RESULTS

Administrative-civil actions	92
Convictions-pleas-pretrial diversions	53
Financial recoveries	\$23,648,601

### BRANCH MANGAGER TO SERVE 41 MONTHS IN PRISON FOR CONSPIRACY

The former branch manager for Phoenix Housing Group, a manufactured housing retailer, was sentenced in U.S. District Court to 41 months incarceration and 3 years of supervised release and ordered to pay \$4.17 million in restitution to FHA, jointly and severally among the defendants. The former branch manager was also required to pay a separate money judgment of \$500,000 to the United States. The sentencing was related to her earlier guilty plea to conspiracy related to her involvement in a scheme to provide false documents for the purpose of assisting potential borrowers in obtaining FHA-insured mortgages. HUD OIG, the U.S. Department of Agriculture OIG, the North Carolina State Bureau of Investigation, the North Carolina Office of the Commissioner of Banks, and the North Carolina Attorney General's Office conducted this investigation. **(Statesville, NC)**

### MORTGAGE COMPANY OWNER SENTENCED TO PRISON FOR LOAN MODIFICATION SCAM

The owner of two mortgage companies was sentenced in U.S. District Court to 12 months incarceration and ordered to pay \$1.4 million in restitution to the affected homeowners following his May 2015 conviction of wire fraud and money laundering. The investigation determined that the company made inaccurate and false claims to victims, leading them to believe that U.S. Mortgage Bailout would be able to achieve a loan modification for them in exchange for an upfront fee. The investigation identified more than 1,100 victims from various locations across the country and confirmed at least 64 victims with FHA-insured mortgages, including 28 with claims paid by HUD totaling \$4.99 million. HUD OIG and the Internal Revenue Service, Criminal Investigations (IRS-CI) conducted this investigation. **(South Bend, IN)**

### TWO IN PRISON FOR IDENTITIY THEFT IN MORTGAGE INSURANCE PREMIUM REFUND SCHEME

A facilitator of a scheme to defraud FHA through the theft of upfront mortgage insurance premiums (UFMIP) was sentenced in U.S. District Court to 30 months incarceration and ordered to pay \$562,602 in restitution, while another facilitator was sentenced to 66 months incarceration and ordered to pay \$871,781 in restitution, related to their convictions of mail fraud, wire fraud, conspiracy, and tax fraud. Of the restitution ordered, \$456,213 is payable to FHA. From August 2010 through January 2012, the conspirators used a HUD Web site to obtain the names of individuals who were owed an UFMIP, which is normally refunded as part of an FHA mortgage that is terminated before the duration of the mortgage note. The subjects used stolen personally identifiable information, sent the information to a HUD FHA contractor, and requested reimbursement. The subjects received more than 200 refund checks, written to the victims, which they cashed thorough the use of bank accounts that they registered as money-servicing businesses. HUD OIG, the U.S. Postal Inspection Service, and IRS-CI conducted this investigation. **(Detroit, MI)**

### LOAN OFFICER SENTENCED FOR WIRE FRAUD

A former loan officer was sentenced in U.S. District Court to 6 months of supervised release and credit for 1 day of time served and ordered to pay \$2.3 million in restitution, with \$824,000 due to FHA, related to her conviction of committing wire fraud. The investigation determined that the loan officer participated in the fraudulent origination of 13 loans, 11 of which were FHA insured, by recruiting straw buyers, falsifying employment information, and receiving side payment compensation for running credit reports in her capacity as a loan officer. In addition, the loan officer used her sister's identity to purchase an FHA-insured property and paid her \$11,000 for the use of her identity and credit. HUD OIG and the Federal Bureau of Investigation (FBI) conducted this investigation. **(Chicago, IL)**

## REAL ESTATE SPECULATOR SENTENCED TO 5 YEARS IN PRISON

A real estate speculator was sentenced in U.S. District Court to 61 months incarceration, followed by 5 years of supervised release, and ordered to pay \$3.36 million in restitution to the U.S. Treasury following his conviction of conspiracy to commit wire fraud, wire fraud, and aggravated identity theft. From September 2009 through November 2010, the speculator enticed straw borrowers to purchase properties in Baltimore, MD, and told them they would not need to provide money toward the closing costs or make the mortgage payments. The speculator paid the straw borrowers \$5,000 to \$8,000 for their role in the transaction. Further, the speculator told the straw borrowers that in 3 years, he would sell the houses and they would receive between 20 and 80 percent of the sales proceeds. The investigation identified 35 FHA-insured mortgages affected by the scheme, which caused Cardinal Financial Company to lend approximately \$3.8 million in mortgage loans. To date, HUD has paid a claim on 15 of the 35 properties, totaling more than \$1.6 million. HUD OIG, the Federal Housing Finance Agency OIG, the Federal Deposit Insurance Corporation, and the FBI conducted this investigation. **(Baltimore, MD)**



## CHAPTER 2 – PUBLIC AND INDIAN HOUSING PROGRAMS

The U.S. Department of Housing and Urban Development (HUD) provides grants and subsidies to more than 3,100 public housing agencies (PHA) nationwide. Many PHAs administer both public housing and Section 8 programs. HUD also provides assistance directly to PHAs' resident organizations to encourage increased resident management entities and resident skills programs. Programs administered by PHAs are designed to enable low-income families, the elderly, and persons with disabilities to obtain and reside in housing that is safe, decent, sanitary, and in good repair. Some of the highlights from this semiannual period are noted below.

### AUDIT

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

Key program results		Questioned costs	Funds put to better use
Audit	9 audits	\$553,444	\$534,983,999

#### SECTION 8 HOUSING CHOICE VOUCHER PROGRAM

HUD's Office of Inspector General (OIG) audited the Section 8 Housing Choice Voucher program of the Puerto Rico Department of Housing in **San Juan, PR**, to determine whether the Department's inspection process adequately ensured that its units complied with HUD's housing quality standards.

The Department's inspections did not ensure compliance with HUD's housing quality standards. Of 94 program units inspected, 64 failed to comply with HUD's minimum housing quality standards, and 35 of those were in material noncompliance with the standards. For the 35 units in material noncompliance, the Department's inspectors failed to observe or report 166 violations that existed when they conducted their last inspections. In addition, 44 inspections were not performed in a timely manner. As a result, some tenants lived in inadequately maintained units, and the Department disbursed more than \$101,000 in housing assistance payments and received more than \$11,000 in administrative fees for the 35 units in material noncompliance with HUD standards.

OIG recommended that HUD require the Department to (1) reimburse its program more than \$112,000 from non-Federal funds for the 35 units that materially failed to meet HUD's requirements, (2) ensure that all violations cited for the units failing to meet housing quality standards have been corrected and certify that the units meet the standards, and (3) improve its quality control inspection program to ensure that all units meet HUD's housing quality standards and prevent more than \$19.3 million in program funds from being spent over the next year on units that do not comply with HUD's requirements. (Audit Report: **2016-AT-1004**)

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HUD OIG audited the Section 8 Housing Choice Voucher program of the Virgin Islands Housing Authority in **St. Thomas, VI**, to determine whether the Authority's inspection process adequately ensured that its units complied with HUD's housing quality standards.

The Authority's inspections were not adequate for enforcing HUD's housing quality standards. Of 65 program units inspected, 62 failed to comply with HUD's minimum housing quality standards, and 44 of those were in material noncompliance with the standards. For the 44 units in material noncompliance, the Authority's inspectors failed to observe or report 467 violations that existed when they conducted their last inspections. As a result, some tenants lived in inadequately maintained units, and the Authority disbursed nearly \$140,000 in housing assistance payments and received nearly \$13,000 in administrative fees for the 44 units in material noncompliance with HUD standards.

OIG recommended that HUD require the Authority to (1) reimburse its program more than \$152,000 from non-Federal funds for the 44 units that materially failed to meet HUD's requirements; (2) ensure that all violations cited for the units failing to meet housing quality standards have been corrected and certify that the units meet the standards; and (3) implement adequate policies and procedures, including staff training, to ensure that all units meet HUD's housing quality standards to prevent more than \$6.2 million in program funds from being spent over the next year on units that do not comply with HUD's requirements. (Audit Report: **2016-AT-1001**)

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## OVERSIGHT OF PUBLIC HOUSING AGENCIES' DECLARATIONS OF TRUST

HUD OIG audited HUD's oversight of PHAs' declarations of trust to determine whether HUD had adequate oversight of PHAs' compliance with its declaration of trust requirements.

HUD did not always ensure that PHAs maintained valid and sufficient declarations of trust for HUD-assisted properties. Specifically of the 115 projects reviewed, 2 did not have declarations of trust, and 20 had declarations of trust with deficiencies that impaired their validity. Further, OIG was unable to determine whether the declarations of trust for 47 projects were sufficient. As a result, HUD's interests and investments were not always protected to prevent potential conveyances or encumbrances of public housing property without HUD approval. In addition, HUD could provide more than \$509 million in operating subsidies over the next year for projects in which its interests are not protected.

OIG recommended that HUD require the PHAs to (1) record new declarations of trust for 22 projects to ensure that HUD's interests are protected and (2) support that 47 projects have sufficient declarations of trust that cover all HUD-assisted properties. OIG also recommended that HUD (1) amend the declaration of trust form and (2) implement adequate procedures and controls to ensure that PHAs maintain valid and sufficient declarations of trust that are recorded in public records to prevent HUD-assisted properties from being conveyed or encumbered. (Audit Report: **2016-CH-0001**)

## INVESTIGATION

Administrative-civil actions	61
Convictions-pleas-pretrial diversions	74
Financial recoveries	\$8,526,536

### ASSISTANT COMMISSIONER SENTENCED FOR RECEIVING \$2.5 MILLION IN BRIBES

The former assistant commissioner of the New York City Department of Housing Preservation and Development was sentenced in U.S. District Court to 3 years incarceration, ordered to pay \$2.5 million in restitution to the Department, and ordered to serve 500 hours of community service in connection with his earlier guilty plea to racketeering, conspiracy, and bribery. Between January 2000 and October 2011, the assistant commissioner accepted \$2.5 million in bribes from developers in exchange for awarding contracts while he was responsible for overseeing affordable housing developments across New York City. HUD OIG, the Federal Bureau of Investigation (FBI), the Internal Revenue Service, Criminal Investigations (IRS-CI), the U.S. Department of Labor OIG, and the New York City Department of Investigation conducted this investigation. **(Brooklyn, NY)**

### CONSULTANT SENTENCED FOR BRIBERY

A consultant was sentenced to 1 year and 1 day imprisonment, followed by 3 years probation, for his conviction of conspiracy to commit bribery in connection with a program receiving Federal funds. From January 2007 through February 2012, the subject, who owned and operated several consultant and finance contracting businesses in the State of Connecticut, made more than \$349,000 in corrupt payments to the executive director of the West Haven Housing Authority and Four Star Development Company, LLC, which was owned and controlled by the executive director. In return, the executive director directed business for or with the West Haven Housing Authority and its two affiliated instrumentalities to the consultant and his businesses. HUD OIG, the FBI, and IRS-CI conducted this investigation. **(Hartford, CT)**

### HOUSING AUTHORITY MANAGER SENTENCED FOR EMBEZZLEMENT

A former site manager at the Wilmington Housing Authority's Crestview Apartments was sentenced in U.S. District Court to 1 year and 1 day imprisonment, followed by 3 years of supervised release, and ordered to pay \$190,800 in restitution to the Authority's insurance carrier in connection with his earlier conviction of embezzlement. The manager was also ordered to forfeit a Mercedes-Benz sedan. From early 2012 through October 2014, the manager stole more than 700 money orders and checks totaling more than \$200,000, which were remitted by public housing tenants for rent. The manager then converted the checks and money orders to his personal use. HUD OIG conducted this investigation. **(Wilmington, DE)**

## CHAPTER 3 – MULTIFAMILY HOUSING PROGRAMS

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

### AUDIT

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

Key program results		Questioned costs	Funds put to better use
Audit	3 audits	\$9,015	\$105,324

#### REVIEW OF MULTIFAMILY SECTION 8 HOUSING ASSISTANCE PAYMENTS

HUD's Office of Inspector General (OIG) audited Homewood Terrace Mutual Homes in **Auburn, WA**, regarding its Section 8 housing assistance payments to determine whether Homewood Terrace conducted timely reexaminations, correctly calculated and requested assistance payments, and verified income information.

Homewood Terrace did not always conduct timely reexaminations, properly request assistance payments, or verify income information. As a result, HUD paid for ineligible and unsupported housing assistance. In addition, Homewood Terrace received nearly \$72,000 less in assistance payments than it was entitled to receive.

OIG recommended that HUD require Homewood Terrace to (1) hire, train, and maintain sufficient staff to adequately perform its housing assistance payment functions; (2) repay HUD from non-Federal funds nearly \$6,000 in ineligible housing assistance; (3) perform all past-due reexaminations, determine the correct amount of housing assistance due to Homewood Terrace, and adjust the next request for assistance to account for these corrections; and (4) verify the unsupported income amount for the member whose reexamination relied on unverified income information, reimburse HUD up to more than \$3,000 for any amount that remains unsupported, and adjust the next request for assistance to account for the appropriate amount. (Audit Report: **2016-SE-1001**)

#### OWNER OF MULTIFAMILY PROPERTY SETTLES PROPOSES DEBARMENT

HUD OIG reviewed the bank records of The Retreat at Church Ranch in **Westminster, CO**, and found that the owner allegedly made payments for personal expenses from the project's bank account. OIG also requested that HUD pursue appropriate actions against the owner. Although the owner denied HUD's allegations, the parties negotiated a settlement in which the owner agreed to pay HUD \$500,000 over a 5-year period. We reported this settlement in final action memorandum 2015-DE-1802 in the prior SAR period. OIG also requested that HUD pursue appropriate actions against the owner.

On July 22, 2015, HUD notified the owner of his proposed debarment from future participation in procurement and nonprocurement transactions, as a participant or principal, with HUD and throughout the Executive Branch of the Federal Government for an indefinite period. The owner denied HUD's allegations. However, to avoid the uncertainty of litigation, the parties reached a settlement in which the owner will

be debarred from participating in any procurement and nonprocurement transactions with the Executive Branch of the Federal Government for 5 years. (Audit Memorandum: **2016-DE-1801**)

## INVESTIGATION

Administrative-civil actions	6
Convictions-pleas-pretrial diversions	7
Financial recoveries	\$104,818

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### PROPERTY MANAGER CHARGED WITH THEFT

The property manager of the Harriet Tubman Terrace Apartments, a project-based multifamily development, was charged in U.S. District Court with theft of public money and theft or bribery concerning programs receiving Federal funds. The investigation determined that the property manager allegedly diverted HUD funds belonging to Harriet Tubman Terrace for personal use. The estimated loss is \$300,000. HUD OIG conducted this investigation. (**White Plains, NY**)

## CHAPTER 4 – COMMUNITY PLANNING AND DEVELOPMENT PROGRAMS

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

### AUDIT

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

Key program results		Questioned costs	Funds put to better use
Audit	13 audits <sup>4</sup>	\$25,402,691	\$18,122,757

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), audited the Community Development Block Grant (CDBG) and Section 108 Loan Guarantee programs.

#### COMMUNITY DEVELOPMENT BLOCK GRANT

HUD OIG audited the City of **Jersey City, NJ**'s CDBG program to determine whether allegations included in a complaint had merit and whether City officials had established and implemented adequate controls to ensure that the City's CDBG program was administered in compliance with program requirements.

Some complaint allegations had merit, and others could not be substantiated. The City's CDBG program was not always administered in compliance with program requirements. Specifically, (1) program income was not always collected, recorded, or supported; (2) funds were used for unsupported costs; (3) CDBG activities and the City's home-ownership program were not administered in compliance with program requirements; (4) unnecessary drawdowns were made; and (5) the City's Integrated Disbursement and Information System (IDIS) information was not accurate or traceable to that in its accounting records. As a result, (1) more than \$12.6 million was not made available for eligible activities; (2) more than \$1.6 million and nearly \$10,000 were used for unsupported and ineligible costs, respectively; (3) more than \$1.9 million was spent on properties that did not have recorded mortgages to ensure compliance with program requirements; (4) \$148,000 was unsupported program income; (5) nearly \$606,000 was misclassified in IDIS; and (6) there was no assurance that more than \$1.1 million in future Section 108 income would be recorded in IDIS.

OIG recommended that HUD instruct City officials to (1) reimburse more than \$11.5 million in program income to the City's CDBG bank account, (2) record Section 108 income of more than \$930,000 and program income of nearly \$52,000 in IDIS, (3) provide support for more than \$1.8 million in unsupported program income and costs, (4) record mortgages so that HUD's interest of more than \$1.9 million is protected, (5) reimburse nearly \$111,000 to the CDBG line of credit for ineligible and unreasonable costs, (6) reclassify nearly \$606,000 in IDIS, and (7) strengthen controls to ensure that more than \$1.1 million in future Section 108 income will be recorded in IDIS. (Audit Report: **2016-NY-1007**)

<sup>4</sup> The total CPD audits, questioned costs, and funds put to better use amounts include any disaster recovery type audits conducted in the community planning and development area (five audits). The writeups for these audits may be shown separately in chapter 5 of this semiannual report.

HUD OIG audited the City of **Rochester, NY**'s CDBG program to determine whether City officials had established and implemented adequate controls to ensure that the program was administered in accordance with applicable requirements.

City officials had not established and implemented adequate controls to ensure that CDBG funds were always administered in accordance with applicable requirements. Specifically, they did not always spend CDBG funds for eligible and supported costs, draw down and disburse Section 108 loan funds in a timely manner, make adequate efforts to collect a delinquent float loan, execute a procurement in compliance with Federal procurement regulations, and adequately monitor subrecipients. As a result, the City spent CDBG funds for ineligible and unsupported costs and did not ensure that other funds were spent as intended.

OIG recommended that HUD instruct City officials to (1) reimburse from non-Federal funds more than \$153,000 spent for ineligible costs, (2) provide documentation for the eligibility of more than \$291,000 in unsupported costs, (3) justify the untimely drawdown and disbursement of more than \$6.7 million in Section 108 loan funds, (4) reimburse \$1.5 million disbursed for a delinquent float loan through one of the options identified in HUD regulations, (5) support that a \$1.2 million contract was fair and reasonable and that the sole-source method was appropriate, (6) develop and implement controls and comprehensive procedures to ensure the proper administration of the CDBG program, and (7) request CDBG program training from HUD. (Audit Report: **2016-NY-1003**)

HUD OIG audited the CDBG program of the City of **Baton Rouge, LA**, and Parish of East Baton Rouge (City) to determine whether the City properly administered and adequately documented its CDBG program activities in accordance with HUD regulations.

The City did not always properly administer and adequately document its CDBG program activities in accordance with HUD regulations. Specifically, it did not maintain documentation supporting that its projects met a national objective and did not ensure that subrecipients met agreement terms. In addition, it did not follow procurement requirements as it did not always have documentation showing that it performed independent cost estimates and ensured full and open competition for some contracts, and the contracts did not include all required provisions. Further, the City inappropriately used CDBG administrative funds to pay for other HUD program costs and could not always support how it determined amounts it repaid to the CDBG program or reconciled costs charged and funds repaid. As a result, it could not support that it used more than \$1.5 million in accordance with requirements or the cost reasonableness of more than \$670,000 spent or provide HUD with reasonable assurance that it properly used its program funds.

OIG recommended that HUD require the City to (1) support or repay more than \$2.2 million, (2) amend its active contracts to include all required contract provisions, (3) immediately stop using CDBG funds for other program costs, (4) provide a full reconciliation of its administrative expenditure and transfer transactions and repay any unsupported or ineligible costs identified, (5) develop CDBG program-specific policies, (6) train its staff, (7) maintain complete files, and (8) update its payroll computer system. (Audit Report: **2016-FW-1001**)

## SECTION 108 LOAN GUARANTEE

HUD OIG audited the Municipality of **Toa Alta, PR**'s Section 108 Loan Guarantee program to determine whether program funds were effectively used to meet a CDBG program national objective and provide the intended benefits and whether the Municipality complied with loan application, contract, and HUD requirements.

The Municipality did not ensure that it completed two Section 108 Loan Guarantee activities that showed signs of slow progress. As a result, HUD had no assurance that more than \$9.5 million disbursed for two Section 108-funded activities met a national objective of the CDBG program and fully provided the intended benefits.

The Municipality used more than \$139,000 for ineligible expenditures and did not support the eligibility of \$12,000 in program disbursements. In addition, it did not (1) comply with environmental requirements, (2) disburse loan proceeds within the loan agreement timeframe, (3) provide HUD the required loan collateral, (4) establish a financial management system in accordance with HUD requirements, and (5) ensure that deposits were fully collateralized. As a result, HUD lacked assurance that funds were adequately accounted for, safeguarded, and used for authorized purposes and in accordance with HUD requirements.

OIG recommended that HUD (1) determine the eligibility of the unsupported Section 108 program costs and activities that showed signs of slow progress, (2) require the repayment of the ineligible expenditures, and (3) obtain documentation supporting compliance with environmental requirements. (Audit Report: **2016-AT-1002**)

## INVESTIGATION

Administrative-civil actions	7
Convictions-pleas-pretrial diversions	9
Financial recoveries	\$2,551,019

### EXECUTIVE DIRECTOR OF NONPROFIT SENTENCED FOR THEFT

The executive director of Angel Docs, Inc., a nonprofit organization that received a HUD-funded Economic Development Initiative grant, was sentenced in U.S. District Court to 36 months incarceration. Between 2010 and 2011, the executive director embezzled grant funds, earmarked for her health-care facility, and used the funds for her personal use. The investigation determined that some of the embezzled funds were used to purchase vehicles that were then shipped to Nigeria or to make mortgage payments on her nonprofit's building. The loss to HUD is \$237,500. HUD OIG, the U.S. Department of Health and Human Services OIG, the New York State Attorney General's Office, and the New York State Comptroller's Office conducted this investigation. (**Queens, NY**)



## CHAPTER 5 – DISASTER RECOVERY PROGRAMS

*In response to disasters, Congress may appropriate additional funding as Disaster Recovery grants to rebuild the affected areas and provide crucial seed money to start the recovery process. Since fiscal year 1993, Congress has appropriated \$47 billion to the U.S. Department of Housing and Urban Development (HUD), from which HUD provides flexible grants to help cities, counties, and States recover from presidentially declared disasters. To date, approximately \$3 billion of the \$47 billion in Disaster Recovery grants has been closed out, and \$44.1 billion remains active. Of the \$44.1 billion in active Disaster Recovery grants, the funds have been allocated nationwide, with nearly \$36.3 billion obligated and \$32.3 billion disbursed as of March 31, 2016.*

Disaster	Funds allocated (in billions)	Funds obligated (in billions)	Funds disbursed (in billions)	Percentage of funds used
Hurricane Sandy	\$14.2	\$6.6	\$5.2	37
Hurricanes Katrina, Rita & Wilma	\$19.5	\$19.6	\$18.8	96
Hurricanes Ike, Gustav & Dolly	\$6.1	\$6.0	\$4.7	77
9-11	\$3.5	\$3.5	\$3.1	89
Other	\$0.8	\$0.6	\$0.51	64

*Keeping up with communities in the recovery process can be a challenging position for HUD. HUD's Office of Inspector General (OIG) continues to take steps to ensure that the Department remains diligent in assisting communities with their recovery efforts. Some of the highlights from this semiannual period are shown below.*

### AUDIT

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

Key program results		Questioned costs	Funds put to better use
Audit	5 audits <sup>5</sup>	\$2,104,568	\$300,000

HUD OIG audited the **State of Missouri's** Community Development Block Grant Disaster Recovery (CDBG-DR) program to determine whether the State adequately supported salary distributions for its CDBG-DR grants.

The State did not correctly allocate salaries to its CDBG-DR grants. It distributed salaries to its grants by using distribution percentages based on project listings and employee feedback instead of requiring employees to report their individual activities on their timesheets, which would have enabled it to determine the amount of time spent on each activity.

<sup>5</sup> Disaster-related audits consist of community planning and development audits. The questioned costs and funds put to better use amounts relate only to disaster-related costs.

OIG recommended that HUD (1) require the State to support more than \$1.2 million in unsupported salary costs for its B-08-DI-29-0001 grant or reimburse HUD from non-Federal funds any portion of that amount that it cannot support, (2) require the State to support more than \$279,000 in unsupported salary costs for its B-08-DF-29-0001 grant or reimburse HUD from non-Federal funds any portion of that amount that it cannot support, (3) require the State to implement a detailed payroll tracking system to ensure that only salaries incurred in administering the CDBG-DR program are charged to its CDBG-DR grants, (4) ensure that the State receives training on salary distribution methods and documentation requirements for Federal grants, and (5) monitor the State to ensure that it establishes and implements a new time-keeping system. (Audit Report: **2016-KC-1001**)

HUD OIG audited the **State of New York** Governor's Office of Storm Recovery's administration of the Small Business Grants and Loans program funded with CDBG-DR funds provided by HUD. The objectives of the audit were to determine whether State officials (1) approved and disbursed CDBG-DR funds for the Small Business Grants and Loans program to assist eligible businesses in accordance with the guidelines established under the HUD-approved action plan and amendments and applicable Federal requirements and (2) established and maintained a financial management system that adequately safeguarded the funds and prevented misuse.

State officials (1) did not always adequately verify the eligibility of award recipients and their awarded funds and (2) did not recapture preliminary award funds disbursed to ineligible businesses in a timely manner. As a result, they could not assure HUD that CDBG-DR funds were adequately safeguarded and disbursed for eligible, reasonable, and necessary expenses and assisted qualified businesses in compliance with program requirements.

OIG recommended that HUD instruct State officials to (1) reimburse the State's line of credit from non-Federal funds for the more than \$272,000 in CDBG-DR funds disbursed to 4 businesses for ineligible costs, (2) provide documentation to support the nearly \$153,000 in unsupported CDBG-DR funds disbursed to 4 businesses, (3) strengthen controls over program operations to ensure that costs charged to the CDBG-DR program are for eligible activities and supported by all required documentation at the time of the disbursement, (4) strengthen administrative controls to ensure that ineligibility determinations are reviewed and approved and recapture procedures are carried out in a timely manner, (5) incorporate and implement a recapture policy and procedures, and (6) recapture more than \$300,000 in CDBG-DR funds disbursed to 35 businesses. (Audit Report: **2016-NY-1006**)

## INVESTIGATION

Administrative-civil actions	0
Convictions-pleas-pretrial diversions	5
Financial recoveries	\$235,088

### COUNTY SUPERVISOR SENTENCED FOR ACCEPTING BRIBES

A county supervisor on the Harrison County Board of Supervisors, who was also a board member for the Harrison County Utility Authority, was sentenced in U.S. District Court to 60 months incarceration, followed by 2 years of supervised release, and ordered to pay a \$20,000 fine for his conviction of conspiracy to commit bribery concerning programs receiving Federal funds. The Authority was a recipient of a multi-million-dollar CDBG-DR grant awarded after the devastation of Hurricane Katrina. As a board member for the Authority, the county supervisor received kickbacks and bribes from S.H. Anthony Construction, LLC, in return for his favorable recommendations to persuade other board members to select and award S.H. Anthony Construction, LLC, contracts associated with the improvements of the Harrison County water, waste, and sewer infrastructure. HUD OIG, the Federal Bureau of Investigation (FBI), the Internal Revenue Service, Criminal Investigations, and the Mississippi State Auditor's Office conducted this investigation. **(Gulfport, MS)**

### CONTRACTOR PLEADS GUILTY TO CONSPIRACY TO COMMIT FRAUD

The owner of a lumber company pled guilty in U.S. District Court to conspiracy to commit wire and mail fraud. From 2007 through November 2015, the contractor conspired with his employees and several public officials to fraudulently obtain \$708,386 from the New York City Housing Authority, the New York City Department of Corrections, the Philadelphia Housing Authority, Rutgers University, the City of Newark, the Plainfield Board of Education, the City of Elizabeth, Con Edison, and AMTRAK, through schemes that included bribery, product substitution, and false billing. The investigation determined that approximately \$300,000 was fraudulently billed to HUD CDBG and public and Indian housing entities when the company provided substandard lumber labeled as construction grade. HUD OIG, the U.S. Attorney's Office, the FBI, and AMTRAK OIG conducted this investigation. **(Newark, NJ)**

## CHAPTER 6 – 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		Questioned costs	Funds put to better use
Audit	9 Audits	\$291,745,577	\$1,071,263,037

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

#### AUDIT OF HUD'S FISCAL YEARS 2015 AND 2014 FINANCIAL STATEMENTS

In accordance with the Chief Financial Officers Act of 1990, as amended, HUD OIG is required to annually audit HUD's consolidated financial statements and the stand-alone financial statements of the Federal Housing Administration (FHA) and Government National Mortgage Association (Ginnie Mae). The objective of the audit was to express an opinion on the fairness of the financial statements in accordance with generally accepted accounting principles (GAAP). This report presented the results of OIG's audit on fiscal years 2015 and 2014 (restated) HUD consolidated financial statements, including its report on HUD's internal controls and a test of compliance with applicable laws and regulations.

OIG expressed a disclaimer of opinion on HUD's fiscal years 2015 and 2014 (restated) consolidated financial statements because of the significant effects of certain unresolved audit matters, which restricted OIG's ability to obtain sufficient, appropriate evidence to express an opinion. These unresolved audit matters relate to (1) HUD's improper use of cumulative and first-in, first-out budgetary accounting methods of disbursing community planning and development program funds, (2) \$5.4 billion in nonpooled loan assets from Ginnie Mae's stand-alone financial statements that OIG could not audit because Ginnie Mae could not provide adequate support for testing these asset balances, (3) \$19.8 billion in Ginnie Mae's budgetary resources that OIG could not audit because of inaccurate reporting from its budgetary system, and (4) improper accounting for HUD's assets resulting from advances made to public housing agencies and Indian Housing Block Grant grantees and loans receivable from the Emergency Homeowners' Loan Program.

This audit report contained nine material weaknesses, eight significant deficiencies in internal controls, and six instances of noncompliance with applicable laws and regulations. These weaknesses were due to an inability to establish a compliant control environment, implement adequate financial accounting systems, retain key financial management staff, and identify appropriate accounting principles and policies.

OIG's recommendations regarding each of the components' findings were made in audit reports 2016-FO-0001, 2016-FO-0002, and 2016-FO-0003. Most significantly in audit report 2016-FO-0003, OIG recommended that HUD (1) properly account for all financial transactions occurring from the Office of Public and Indian Housing's cash management process in accordance with GAAP and transition as much as \$507.5 million in excess funding, (2) validate grant accrual estimates to ensure reliable and accurate financial reporting, and

(3) implement adequate resources and controls to ensure the reliable and accurate reporting of Ginnie Mae's budgetary resources. (Audit Reports: **2016-FO-0003** and **2016-FO-0004**)

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## AUDIT OF THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION FISCAL YEARS 2015 AND 2014 FINANCIAL STATEMENTS

This report presented the results of HUD OIG's audit of Ginnie Mae's fiscal years 2015 and 2014 (restated) financial statements, including its report on Ginnie Mae's internal controls and a test of compliance with selected provisions of laws and regulations that apply to Ginnie Mae.

For the second consecutive year, in fiscal year 2015, OIG was unable to obtain sufficient, appropriate evidence to express an opinion on the fairness of the \$5.4 billion (net of allowance) in nonpooled loan assets from Ginnie Mae's defaulted issuers' portfolio as of September 30, 2015. Ginnie Mae also continued to improperly account for FHA's reimbursable costs as an expense instead of capitalizing them. Further, in October 2015, Ginnie Mae made \$720 million in net restatement adjustments to correct its fiscal year 2014 financial statements, which OIG was unable to review for accuracy and appropriateness due to Ginnie Mae's late notification of the adjustments. The combination of the unresolved issues in fiscal year 2014 and restatement adjustments made in fiscal year 2015 were both material and pervasive because they impacted multiple financial statement line items across all of Ginnie Mae's basic financial statements. As a result of the scope limitation in its audit work and the effects of material weaknesses in internal controls, OIG could not obtain sufficient, appropriate evidence to provide a basis for an audit opinion on Ginnie Mae's fiscal years 2015 and 2014 (restated) statements. Accordingly, OIG did not express an opinion on Ginnie Mae's fiscal years 2015 and 2014 (restated) financial statements. A combination of financial management governance issues contributed to these deficiencies.

OIG identified four material weaknesses and one significant deficiency as well as one reportable noncompliance with selected provisions of laws and regulations that apply to Ginnie Mae.

OIG's audit recommendations were directed toward improving and strengthening Ginnie Mae's governance of its financial operations. (Audit Report: **2016-FO-0001**)

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## AUDIT OF THE FEDERAL HOUSING ADMINISTRATION'S FINANCIAL STATEMENTS FOR FISCAL YEARS 2015 AND 2014

In accordance with the Chief Financial Officers Act of 1990 (Public Law 101-576), as amended, HUD OIG is required to audit the financial statements of FHA annually. The scope of the audit included FHA's fiscal years 2015 and 2014 financial statements, which are composed of the balance sheets and the related statements of net cost and changes in net position and the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements. This report presented the results of OIG's audit of FHA's fiscal years 2015 and 2014 financial statements, including its report on FHA's internal controls and a test of compliance with selected provisions of laws and regulations that apply to FHA.

In OIG's opinion, FHA's fiscal years 2015 and 2014 financial statements were presented fairly, in all material respects, in accordance with GAAP. OIG identified three significant deficiencies and no reportable noncompliance with selected provisions of laws and regulations that apply to FHA.

OIG recommended that FHA develop, document, implement, or strengthen its internal control policies and procedures to support reliable financial reporting of its receivable, liability for loan guarantee, and budgetary balances. Additionally, OIG recommended that FHA bill the appropriate parties for the \$291 million in loans receivable that were unsupported as of fiscal yearend. (Audit Report: **2016-FO-0002**)

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## REVIEW OF THE INTERGOVERNMENTAL PERSONNEL ACT MOBILITY PROGRAM

HUD OIG audited HUD's implementation and oversight of the Intergovernmental Personnel Act (IPA or Act) mobility program to determine whether (1) HUD's use of IPA agreements met the purpose and intent of the IPA mobility program, (2) HUD's policies and procedures related to IPA agreements were adequate to ensure that its agreements met requirements and established proper oversight and monitoring of the personnel and activities involved, and (3) HUD used IPA agreements to circumvent other requirements.

HUD failed to ensure that its IPA agreements met the purpose of the Act because it did not have sufficient policies and procedures for negotiating, reviewing, and executing agreements and its staff ignored requirements, altered standard documents, and did not disclose information to decision makers. HUD abused the IPA mobility program to circumvent other hiring authorities and had no assurance that the agreements were in its best interest, negotiated at a reasonable cost, or free from conflicts of interest. Also, HUD did not properly manage assignees.

OIG recommended that HUD establish an independent, central point of review for IPA agreements to ensure that they are reasonable, meet requirements, and avoid potential conflicts of interest. Further, the Office of General Counsel should review all IPA agreements before their effective dates. In addition, HUD should ensure that all IPA assignees receive required training and that it promptly outprocesses them when they leave. HUD should also follow procedures to address the payment of nearly \$225,000 in ineligible costs for two invalid IPA agreements and have organizations support or repay nearly \$50,000 in unsupported payments to employers. (Audit Report: **2016-FW-0001**)

## CHAPTER 7 – EVALUATION INITIATIVES

*Program evaluation affords the Office of Inspector General (OIG) a flexible and effective mechanism for oversight and review of U.S. Department of Housing and Urban Development (HUD) programs by using a multidisciplinary, collaborative approach and multiple methods for gathering and analyzing data. The program evaluation team performs information technology (IT) and program evaluations, provides data analytics services to OIG components, and performs management assistance reviews to ensure that OIG operates in accordance with OIG policy. At the end of this 6-month period, OIG had completed seven projects and numerous evaluations had been initiated. In addition, it had provided a wide range of statistical and analytical support to OIG headquarters and field components and completed two management assistance reviews within OIG.*

### EVALUATIONS

#### COMPLETED PROJECTS:

##### Risk-Based Enforcement Could Improve Program Effectiveness

HUD established the Departmental Enforcement Center (DEC) in 1997 as part of the HUD 2020 reform initiative, giving DEC independent enforcement authority because programs did not enforce program requirements. In 2004, DEC lost independent enforcement authority, along with control over funding and staffing, when it moved from the Deputy Secretary's office to the Office of General Counsel. DEC, working with the Office of Multifamily Housing Programs and the Real Estate Assessment Center, had improved both financial management and housing physical conditions of troubled multifamily properties, making housing safer for occupants. However, program managers in other programs had been reluctant to enforce program requirements, limiting DEC's effectiveness in their programs. OIG recommended that leadership provide DEC with the authority, independence, and resources to address HUD-wide enforcement risks. (2014-OE-0002)

##### Buildings at Three Public Housing Authorities Did Not Have Flood Insurance Before Hurricane Sandy

HUD OIG evaluated HUD's public housing agencies (PHA) that did not have flood insurance before Hurricane Sandy to determine why some buildings were not insured as required. Flood insurance is necessary to ensure that PHAs remain financially viable, continue to provide safe and habitable housing to low-income residents, and minimize costs to taxpayers for keeping public housing units operational. OIG's evaluation identified three PHAs with some buildings in a flood zone that did not have flood insurance before the October 2012 hurricane. Two PHAs relied upon insurance companies to keep abreast of updates to flood plain maps to ensure that all buildings were insured, and the other was aware of the need to obtain flood insurance but did not do so. All sustained some level of flood-related damage as a result of the storm. OIG made three recommendations designed to help PHAs ensure that all of their buildings in a flood zone are covered by flood insurance. (2015-OE-0007S)

##### Comprehensive Strategy Needed To Address HUD Acquisition Challenges

HUD has been working to address acquisition issues since 2001, when the U.S. Government Accountability Office (GAO) identified acquisition management as a significant management challenge at HUD. An OIG contractor reported on HUD's efforts to implement acquisition initiatives. While HUD had made progress in several areas, including revising and updating HUD's Procurement Handbook and redesigning its Web

site, many improvement initiatives did not follow successful program management practices or meet GAO's criteria for achieving an efficient, effective, and accountable acquisition function. The Office of the Chief Procurement Officer (OCPO) and the program offices did not collaborate or communicate effectively and did not agree on the best way to address acquisition problems. HUD had not maintained cost and performance metrics to determine where inefficiencies existed. Program offices experienced challenges working with OCPO, and some sought alternatives in shared services arrangements with Federal agencies to accomplish their acquisition objectives. OIG identified successful practices of other Federal agencies that would improve HUD's acquisition function by using measurable objectives and goals, building partnerships, engaging stakeholders, managing change, streamlining functions, and training staff. HUD concurred with all of OIG's recommendations. **(2015-OE-0004)**

### Energy Star Building Standard Alternatives

In response to a HUD Office of Community Planning and Development (CPD) request, OIG reviewed State qualified allocation plans (QAP) to see whether States used other standards, equivalent to Energy Star, which CPD could count toward achieving a HUD priority goal. States did not include the level of detail on building standards that CPD anticipated in its QAPs, so OIG was unable to determine with certainty that alternative standards in any QAP were equivalent to Energy Star certification requirements. OIG referred CPD to the U.S. Department of Energy, Office of Energy Efficiency and Renewable Energy, Web site and the International Code Council Web site for information on State and jurisdiction adoption of energy and construction codes. **(2015-OE-0005)**

### Federal Information Security Modernization Act Report

OIG completed its annual evaluation of the HUD cybersecurity program in accordance with the Federal Information Security Modernization Act (FISMA). The fiscal year 2015 evaluation report provided to Congress, the Office of Management and Budget (OMB), and the HUD Secretary included 20 recommendations for improvements to the agency cybersecurity program. Key IT recommendations for improvement addressed the following FISMA assessment areas: continuous monitoring, incident response, risk management, contractor systems, and plan of action and milestone programs. HUD has satisfied and closed more than 30 OIG IT recommendations from the fiscal years 2013 and 2014 FISMA evaluations, enhancing its IT security posture. OIG and HUD have established an IT recommendation tracking process and quarterly meetings to ensure continued progress in correcting weaknesses in the HUD cybersecurity program. **(2015-OE-0001)**

### Departmentwide Approach Needed To Address HUD Contractor Employee Security Risks

In 2013, the Office of Investigation issued a report describing weaknesses in HUD's background investigation process, which included the suitability of contractor employees to work at HUD. Contractors comprise around half of HUD's workforce. An OIG contractor reviewed HUD's progress in addressing background investigation issues. The contractor observed that the Personnel Security Division had reduced the backlog of suitability adjudication cases but on average, it took about four times longer than the Office of Personnel Management standard of 90 days to complete a case, resulting in several hundred contractor employees working at HUD without a final suitability determination. The Personnel Security Division had not issued comprehensive policies and procedures or implemented an automated case management system. Administrative and program offices within HUD that were responsible for personnel, physical, and information security did not collaborate effectively at the policy-making level. During the evaluation, the Office of Administration established a security council to identify and address cross-HUD security issues. OIG identified successful practices of other Federal agencies that would address HUD's contractor employee security risks and made recommendations to improve the timeliness and reliability of security processes. **(2015-OE-0008)**



## Federal Audit Executive Council IT Subcommittee Continuous Monitoring Maturity Model for FISMA

As a lead participant, OIG collaborated in a Federal Audit Executive Council (FAEC) IT Subcommittee project that developed a maturity model for Federal agency information security continuous monitoring (ISCM) programs. This is the first maturity model to be developed and included in the OIG FISMA assessment metrics. This model will enable more consistent assessments of agency ISCM programs across all agencies by the inspector general community. HUD OIG was one of five volunteer OIG offices to develop this model, which was included in fiscal year 2015 and will be included in all future IG FISMA assessment metrics.

### NEW PROJECTS:

#### Cybersecurity Act of 2015 Review of Agency Security Measures

HUD OIG is initiating a review of agency security measures associated with systems that provide access to personally identifiable information. The Cybersecurity Act requires inspectors general to assess and report on specific controls and practices currently in use by the agency in association with these systems by August 2016. These controls and practices focus on system access control, monitoring and detection of exfiltration and other threats, and oversight of the information security practices of third-party providers associated with systems containing personally identifiable information. **(2016-OE-0008)**

#### Risk Analysis Process for Monitoring of Hurricane Sandy Grants

OIG is assessing the validity of HUD's risk analysis process for determining what level of monitoring is required for Hurricane Sandy grantees. HUD policies require performing a risk analysis to target resources to grantees or activities that pose the greatest risk to the integrity of its programs. Additionally, the risk analysis helps to determine the type of monitoring—indepth, limited, onsite, remote—that HUD should perform. The evaluation will determine whether HUD's risk analysis process identifies those grantees and activities that represent the greatest vulnerability to fraud, waste, abuse, and mismanagement of Hurricane Sandy disaster relief and recovery funds. **(2016-OE-0004S)**

#### Performance Metrics for Affordable Housing

Since 2012, the Office of Multifamily Housing Programs (Multifamily) has funded interagency agreements with the Corporation for National and Community Service to fund Volunteers in Service to America to engage tenants and community members in revitalization efforts to preserve and sustain affordable housing. Multifamily requested that OIG evaluate the effectiveness of past program performance metrics and whether they contributed to affordable housing preservation. An OIG contractor is assessing interagency agreement results to identify lessons learned and to create a framework Multifamily can use to improve metrics to clearly demonstrate program accomplishments. **(2016-OE-0003)**

### ONGOING PROJECTS:

#### HUD Web Application Security Evaluation

OIG is completing a targeted, publicly accessible Web application security evaluation of HUD in support of the Counsel of the Inspectors General on Integrity and Efficiency's (CIGIE) Web application Federal cross-cutting project. The evaluation will assess HUD's capability to identify and mitigate critical IT vulnerabilities in the Department's publicly accessible Web applications. OIG will evaluate technical and programmatic criteria established from Federal regulations and policies and industry best business practices. This evaluation is being jointly conducted between the Office of Evaluation and the Office of Audit. **(2016-OE-0002)**

### Federal Information Security Modernization Act Evaluation

OIG is conducting the fiscal year 2016 evaluation of the HUD cybersecurity program. Inspectors general are required to conduct an annual, independent review of agency IT security programs based on U.S. Department of Homeland Security metrics. These metrics currently consist of 10 topic areas that measure the agency's IT security posture. The review is due to OMB by mid-November each year. OIG will provide a written submission for the U.S. Department of Homeland Security metrics, along with a narrative report deliverable to OMB, Congress, and the HUD Secretary. **(2016-OE-0006)**

### Hospital Mortgage Insurance Program

Section 242 of the National Housing Act makes mortgage insurance available to facilitate affordable financing of acute care hospital construction projects. HUD's Office of Hospital Facilities (OHF) administers the program, and hospitals in its portfolio range from small rural facilities to some of the Nation's top urban teaching hospitals. A recent OIG audit of one of the hospitals in the Section 242 portfolio found that OHF relied on inaccurate and incomplete financial information to make its decision to approve mortgage insurance for a supplemental loan for the hospital.<sup>6</sup> Because some of the problems uncovered during the audit involved the process for underwriting hospital mortgage insurance, OIG is assessing whether OHF issued commitments for mortgage insurance in accordance with the appropriate process and how paper and electronic application materials are stored and controlled. **(2016-OE-0001)**

### FAEC IT Subcommittee FISMA Metrics Workgroup

HUD OIG has volunteered to participate in the FAEC IT Subcommittee FISMA metrics workgroup. The scope of the workgroup is to continue developing and identifying key gaps between the U.S. Department of Homeland Security's annual FISMA metrics for all Federal Inspectors General and those of the Chief Information Officer. This group will continue successful work conducted by the FAEC IT Subcommittee continuous monitoring maturity model group and will develop additional maturity models for each FISMA topic area to improve the Inspector General FISMA metrics.

### CIGIE Web Application Federal Cross-Cutting Project

HUD OIG is leading a CIGIE Federal cross-cutting Web application security project consisting of 18 OIG offices. The project will examine controls to manage and secure the Federal Government's publicly accessible Web applications and assess efforts to control or reduce the number of publicly accessible Web applications. It is critical to develop methods to efficiently and effectively assess Federal Government agencies' Web application security programs, given that Federal agencies face increasing numbers of cyber attacks while striving to be more accessible to the public. A CIGIE publicly available report will be developed at the conclusion of this project with an expected completion date of the end of fiscal year 2016.

<sup>6</sup> St. Francis Hospital, Inc., Did Not Comply With the Executed Regulatory Agreement and Federal Regulations for HUD Section 242 Program, 2015-AT-1009, September 5, 2015

## DATA ANALYTICS

The Office of Evaluation (OE), as a support function for HUD OIG, analyzed HUD internal and housing-related external data to identify program mismanagement patterns. These factors have led to identifying internal control weaknesses and detecting potential fraudulent activity, lending to improvements in long-term OIG planning and strategic decision making. The statistics documented below, as tallied in other places in the Profile of Performance, represent the significant contributions by the OE to the Offices of Audit and Investigation.

- Completed **170** data and statistical analyses assistance requests.
- Quantified nearly \$12 billion in statistically estimated monetary impact associated with work performed for the annual OIG audit of HUD's financial statements.
- Contributed to the \$70 million civil settlement negotiated as part of an OIG-U.S. Department of Justice-Federal Housing Administration (FHA) national home mortgage underwriting initiative.
- Developed HUD program assessment and risk-based targeting systems designed to identify high-risk multifamily non-health-care project operations and FHA lenders with significant delayed conveyances directly associated with ineligible insurance claim payments.
- Prototyped and fielded a comprehensive FHA mortgage insurance claim predictive model.
- Established a geospatial data analyses capability.
- Enhanced its predictive analyses infrastructure by improving data visualization and linkage capabilities, and incorporating key HUD single-family, multifamily, and other Federal beneficiary and employment income-related data sources.

## MANAGEMENT ASSISTANCE

OIG management assistance reviews provide the quality assurance mechanism, which ensures that OIG's audit, investigative, and administrative operations follow established standards, policies, and procedures. Management assistance review reports are issued to top OIG management to recommend improvements in management and operations. During this 6-month period, OIG

- Performed a special assessment of the headquarters and Joint Civil Fraud Divisions focused on administrative procedures;
- Issued summaries of management assistance reviews, including an annual summary of reports issued in fiscal year 2015 and a 3-year recurring issues summary for the Offices of Investigation and Audit; and
- Reviewed the Region 6, Fort Worth, TX, audit and investigation activities.

## CHAPTER 8 – 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 more than 900 hours to reviewing 108 issuances. The draft directives consisted of 61 notices, 12 mortgagee letters, and 35 other directives. OIG provided comments on 40 (or 37 percent) of the issuances, nonconcurring on 4, and resolved a nonconcurrency on 1. A summary of selected reviews for this 6-month period is below. Of the 35 other directives, we reviewed 15 final, proposed, and interim rules. Of these 15, OIG provided comments on 2 and had no position on 13. A summary of selected reviews for this 6-month period is below.*

### NOTICES, POLICY ISSUANCES, AND FINAL RULES

#### SINGLE-FAMILY HOUSING

Single-family lender handbook – OIG reviewed various sections of the Federal Housing Administration's (FHA) updated and consolidated Single Family Housing Policy Handbook 4000.1. The update is part of an FHA initiative to provide borrowers with greater access to credit and make working with FHA more efficient and effective for lenders. The Handbook reconciled more than 900 mortgagee letters and other policy guidance into a single, authoritative document to serve as the definitive guide on all aspects of FHA's single-family programs. Major sections of the Handbook became effective September 14, 2015. On March 14, 2016, FHA added new sections and updated existing sections.

During this reporting period, OIG reviewed new sections that were added to the Handbook as well as content updates to existing sections. Specifically, OIG reviewed section IV, Claims and Disposition. The majority of OIG's comments for this section focused on clarifying terms and requirements as well as determining OIG's enforcement authority. For example, regarding current inspection reports for the reacquisition package prepared to convey a property to HUD, OIG stated that HUD should clarify who is qualified to complete the inspection review and reports to support that the property is in conveyance condition. Regarding postclaim reviews, there was a reference to a 3-year period for postclaim reviews by HUD. OIG stated that language is needed to clarify that this does not limit enforcement reviews by OIG. Lastly, OIG made a number of comments regarding the requirements specified in this section to conform with the Code of Federal Regulations (CFR). OIG also reviewed updates made to existing sections in the Handbook, including the Doing Business with FHA section and the Quality Control, Oversight, and Monitoring section.

Changes to HUD/VA [U.S. Department of Veterans Affairs] Addendum Uniform Residential Loan Application (form HUD-92900-A) and lender-level certifications – On May 1, 2015, HUD published a notice requesting public comment on its proposed revisions to the addendum. The purpose of the revisions was to (1) differentiate between the initial and final Uniform Residential Loan Application, (2) revise lender certification on debarment and suspension to be loan-level specific, (3) remove references to handbooks no longer in use by the Office of Single Family Housing, (4) update language regarding acceptable sources of funds, (5) provide current nondiscrimination language, and (6) update terminology to reflect the new Single Family Housing Policy Handbook 4000.1. After the comment period, HUD removed from loan-level form HUD-92900-A the lender certification related to convictions, civil judgments, indictments, and terminations of public transactions for cause or default. These requirements were moved to FHA's lender certifications for initial approval and annual renewal to assess at the lender level.

Additionally, in February 2016, OIG reviewed a mortgagee letter (2016-06) announcing the updated form HUD-92900-A for case assignments on or after August 1, 2016. OIG stated that HUD will need to ensure that the updated form and the lender certification form are both effective as of August 1, 2016. This is because of the addition of

language on the lender certification form requiring lenders to certify that they have not been involved in fraud or other serious criminal or civil violations that would call into question their ability to carry out the responsibilities of the program. This language was previously in form HUD-92900-A.

Loan-level and annual lender-level certifications – On March 15, 2016, FHA released the latest loan-level and annual lender-level certifications. The final loan-level certification states that lenders will be held accountable for decisions that affect the approval decision for FHA insurance. FHA's Principal Deputy Assistant Secretary (PDAS) issued a statement regarding the release of the loan- and lender-level certifications. OIG has concerns on a number of items in this release and wrote a memorandum to the PDAS addressing those concerns. As a preliminary matter, OIG disagreed with the statement's assertion that the certifications were final. This is because the lender-level certification was supposed to be open for a 30-day comment period. OIG would then have an opportunity to comment officially through the departmental clearance process before the certifications became final. OIG also was concerned regarding the PDAS' oversimplification of FHA's overall enforcement policy on lender compliance with FHA program requirements.

Expanded permissive loss mitigation for home equity conversion mortgages (HECM) and lenders' optional extension to submitting a due and payable request – OIG reviewed Mortgagee Letter 2016-07, issued March 30, 2016. The purpose of this letter is to provide lenders an extension to submit a due and payable request in situations in which borrowers are behind on the payment of their property taxes or hazard insurance premium. The mortgagee letter also provides an opportunity for lenders to review, for permissive loss mitigation, HECM borrowers that were in foreclosure before the issuance of Mortgagee Letter 2015-11. OIG is concerned that the proposed mortgagee letter does not address unpaid homeowner association (HOA) fees and assessments that could result in HOA liens being given "super lien" priority status over the first mortgage holder. Approximately 20 States have laws that give HOA assessment liens and in some cases, give condo association liens super lien status under certain circumstances. When the HOA lien is given super lien status, FHA is at risk that the HOA super lien can extinguish a first deed of trust in a foreclosure. The proposed mortgagee letter did not address past-due HOA fees and assessments. It is OIG's position that the proposed mortgagee letter should address these issues. The servicing and loss mitigation section of Handbook 4000.1 addresses unpaid condo or HOA fees. Specifically, it states that if a borrower fails to pay condo or HOA fees, the servicer must take any action necessary to protect the first lien position of the FHA-insured mortgage against foreclosure actions brought on by the condo or HOA or any other junior lien holder. However, the HECM chapter of the updated Handbook has been neither finalized nor published. OIG believes a reference to the current Handbook language on past-due HOA fees and assessments in the draft mortgagee letter is needed to help FHA mitigate risk to the insurance fund.

Methodology for assessing loan quality – On June 18, 2015, FHA published its single-family loan quality assessment methodology in its online, public forum known as Drafting Table. This methodology, also known as the defect taxonomy, explains how FHA intends to categorize loan defects identified in FHA-insured loans. The methodology centers on three main concepts. These are (1) identifying a defect, (2) capturing the sources and causes of a defect, and (3) assessing the severity of a defect. OIG told HUD that this document meets the criteria of a change in guidance and should go through the formal clearance review process required for all directives. OIG is concerned that the general references to "qualitative issues of eligibility" do not clearly identify significant issues affecting the eligibility of the loan. OIG is also concerned that HUD does not identify the remedy related to each specific defect based on the assessment. Further, OIG recommended creating a matrix of remedies to outcomes. However, as of the end of this semiannual period, defect taxonomy had not been implemented.

## PUBLIC AND INDIAN HOUSING

Strengthening oversight of overincome tenancy in public housing advance notice of proposed rulemaking – On February 3, 2016, HUD announced that it is considering rulemaking to ensure that individuals and families residing in public housing need HUD's housing assistance. As a result, HUD sought comments from public housing agencies, other interested parties, and the public. HUD's consideration of rulemaking was prompted by OIG audit report 2015-PH-0002, issued on July 21, 2015. OIG proposed changes to the summary section of the

notice to accurately describe the audit results, which HUD included in the published document. Additionally, while OIG recognizes that this notice is a request for input into the development of a regulatory change and a part of the process, it recommends that HUD direct public housing agencies (PHA) to establish written policies to reduce the number of overincome families in public housing. This issue was not addressed in the notice.

Process for PHA voluntary transfers and consolidations of housing choice vouchers, 5-year mainstream vouchers, project-based vouchers, and project-based certificates – On December 16, 2015, HUD’s Office of Public and Indian Housing (PIH) issued Notice PIH-2015-22, which applies to PHAs that administer the Housing Choice Voucher, project-based voucher or certificate, and 5-year mainstream programs. OIG recommended that HUD consider processing this notice as a regulation with public comment under 24 CFR Part 10 rather than as a notice. OIG believes this is a significant rule and that communication should also include making presentations to industry groups and incorporating processing details into a handbook. This measure would ensure that those affected by the rule have a chance to comment and provide input before the rule goes into effect. HUD declined to implement OIG’s comment and issued the notice rather than going through the rulemaking process.

Streamlining administrative regulations – On March 8, 2016, HUD published the final rule (FR [Federal Register] 5743-F-03) that streamlines the administrative regulations for public and Indian housing programs and other HUD programs. This final rule contains several changes to the United States Housing Act of 1937. For example, it provides a streamlined income determination for any fixed source of income, even if a person or a family with a fixed source of income also has a nonfixed source of income. Specifically, it requires that, upon admission to a program, third-party verification of all income be obtained for all family members. In addition, a full reexamination and redetermination of income must be performed every 3 years. This provision applies to project-based rental assistance and Sections 202 and 811 programs. HUD also revised the definition of an extremely low-income family to include the phrase, “a very low-income family,” which is included in the statutory definition. This provision applies to project-based rental assistance.

## OFFICE OF MULTIFAMILY HOUSING PROGRAMS

Changes in mortgage insurance premiums – On January 28, 2016, HUD published its notice, FR-5876-N-02, which addressed changes in certain multifamily mortgage insurance premiums (MIP). The MIP changes focused on strategic mission areas, namely affordable housing and green and energy-efficient housing. Under this proposed rate structure, portfolio and actuarial analysis determined that premium revenues will exceed losses for the foreseeable future. For multifamily mortgage insurance, the annual rates will be structured in four categories as follows:

- Market rate housing – Upfront and annual MIP rates will remain unchanged for all FHA-insured multifamily loan types on market rate properties except properties that meet the criteria for green and energy-efficient housing.
- Broadly affordable housing – Annual MIP will change from the current rates, which are generally between 45 and 50 basis points, to 25 basis points for all multifamily FHA-insured loan types that meet certain criteria. All loans originated by housing finance agencies under FHA’s section 542(c) risk-sharing program and by qualified participating entities, including Fannie Mae and Freddie Mac under FHA’s section 542(b) risk-sharing program, will be eligible for this proposed 25 basis points rate, multiplied by the percentage of risk assumed by FHA. For all others to qualify, the property must have Section 8 assistance or another recorded affordability restriction or low-income housing tax credits.
- Affordable housing – Annual MIP will change from current rates, which are generally between 45 and 70 basis points, to 35 basis points for all multifamily FHA-insured loan types.
- Green and energy-efficient housing – Annual MIP will change from current rates, which are generally between 45 and 70 basis points, to 25 basis points for all multifamily FHA-insured loan types. For programs under FHA’s Office of Healthcare Programs, including health care facilities and hospital insurance programs, the MIP rates will not change.

Changes in certain multifamily mortgage insurance premiums and regulatory waiver for the section 542(c) risk-sharing program – On March 31, 2016, through its notice FR-5876-N-03, HUD announced that the fiscal year 2016 MIP changes for certain FHA multifamily housing insurance programs, including the 542(b) and 542(c) risk-sharing programs, are being implemented for commitments issued or reissued beginning April 1, 2016. These new MIP changes reflect the health of the FHA multifamily portfolio, simplify the rate structure, and show HUD’s commitment to promote its mission initiatives. This document also provides a regulatory waiver for the 542(c) risk-sharing program to participate in the fiscal year 2016 MIP changes for the remainder of fiscal year 2016 and for fiscal year 2017.

## COMMUNITY PLANNING AND DEVELOPMENT

Section 108 program change – On November 3, 2015, HUD announced that it will collect a fee of 2.58 percent of the principal amount of new loans guaranteed under the Section 108 Loan Guarantee program. The fee will offset the credit subsidy costs of the guaranteed loans.

Community Development Block Grant accounting change – On November 12, 2015, HUD published an interim final rule that made several changes to the existing Community Development Block Grant program regulations to better track the use of grant funds and improve accounting procedures. For fiscal year 2015 and succeeding fiscal year grants, grantees are required to track obligations and expenditures of funds for each specific fiscal year grant, rather than tracking the information cumulatively. The rule also specified that on September 30 of the fifth fiscal year after the period of availability for obligation or a fixed appropriation account ends, the U.S. Treasury account will be canceled and any remaining balance will be canceled and unavailable for obligation or expenditure.

Change regarding properties in disaster risk reduction area – In response to a request from the State of Colorado, on November 18, 2015, HUD published a notice authorizing grantees in receipt of Community Development Block Grant Disaster Recovery funds under Public Law 113-2 to acquire property for an amount equal to either the property’s predisaster or postdisaster value for the buyout of properties in “Disaster Risk Reduction Areas,” as defined by criteria established by the grantee, subject to the limitations of the notice.

The notice also allowed the State of Colorado’s waiver to increase its spending on its tourism industry from \$500,000 to more than \$1.2 million. In addition, the revised waiver permits the State to support its tourism industry and promote travel to the most impacted and distressed counties that had a declared major disaster in 2011, 2012, or 2013. This waiver includes those States impacted by disasters other than flooding.

## FAIR HOUSING AND EQUAL OPPORTUNITY

On July 22, 2015, HUD published a notice of funding availability announcing \$39.2 million to be used for the Fair Housing Initiatives Program (FHIP). On December 29, 2015, HUD published the names and addresses of the recipients selected for FHIP funding. FHIP assists projects and activities designed to enhance compliance with the Fair Housing Act and substantially equivalent State and local fair housing laws.

## HUD ISSUES A NOTICE OF FUNDING WITHOUT OIG CONCURRENCE

Contrary to HUD’s written policies and despite OIG’s strong objection, HUD issued the notice of funding for the Juvenile Reentry Assistance Program (JRAP) without OIG’s concurrence on November 15, 2015. The HUD Deputy Secretary did not provide a written justification for overriding OIG’s May 15, 2015, nonconcurrence with JRAP.

Through JRAP, HUD made nearly \$1.8 million available to public housing agencies (PHA) to provide legal services, including expunging or sealing juvenile and criminal records, for youth up to age 24 who reside in PHAs or are members of surrounding communities. JRAP was funded through Section 211 of the Second Chance Act (Public Law 110-199) by the U.S. Department of Justice. The notice of funding availability was sent to OIG through departmental clearance on May 6, 2015. OIG provided nonconcurrence comments on May 15, 2015.

OIG believes that JRAP goes beyond the scope intended by Section 211, but its primary concern is the program's emphasis on expunging or sealing criminal records. OIG also believes that providing funds to PHAs to expunge or seal criminal records is more appropriately left to legal assistance organizations or law enforcement agencies and is contrary to HUD's priority of providing safe housing. Further, OIG is concerned that the grant funds are being used to expunge the records of those under 24 years of age when there has not been sufficient time to determine the rehabilitative potential of the offenders.

## CONSUMER ADVISORIES AND ALERTS

As a way to assist in fraud prevention, HUD OIG issues consumer advisories and alerts, as well as industry advisories and bulletins, on its Web site, [www.hudoig.gov](http://www.hudoig.gov). The intent of these publications is to provide information about the risks and illegal activities associated with certain products and services in the housing industry. These advisories are intended to ensure that industry professionals (mortgage brokers, real estate agents, counselors, appraisers, etc.) as well as consumers are well informed of the perils associated with emergent frauds and other illegal activities that jeopardize the integrity of otherwise legitimate housing programs. During this semiannual period, HUD OIG issued two industry-related bulletins, which are summarized below.

**Reverse Mortgage Refinancing Industry Alert - HUD OIG issued an industry alert to warn lenders, originators, and sponsors that HUD OIG had identified instances of fraudulent appraisals being used to increase home equity conversion mortgage (HECM) loan amounts to qualify senior borrowers for HECM refinancing.** HUD OIG has analyzed more than 5,000 HECM refinances over the last several years. An initial analysis shows that a small group of HECM originators is responsible for a large percentage of potentially fraudulent HECM refinances, generally within relatively small geographic areas. Analyses of these refinances revealed one of the hallmarks of mortgage fraud: unexplained, large increases in appraised values in a relatively short period. HUD OIG's preliminary investigations have revealed HECM appraisals in which appraisers claim that the property values have increased by 60 to 100 percent, while other properties in the area are appreciating by only 3 to 4 percent.

It was noted in the alert that underwriters should carefully scrutinize appraisals and appraisal comparables on all HECM originations, particularly on HECM refinances. They should look for fraud indicators, such as a large increase in value over a relatively short period from the original HECM; changes in property descriptions, including square footage and neighborhoods; appraisal comparables located relatively far from the subject property (particularly in urban areas); and the same appraisers or a small group of appraisers being used by originators on refinances. Underwriters were also reminded that they are responsible for being familiar with geographic areas in which properties are located and should question appraised values if they are out of line with the market. HUD OIG will investigate appraisers, loan officers, originators, and sponsors who engage in fraudulent HECM transactions and will refer them for criminal or civil prosecution or administrative sanctions as appropriate. Further, FHA plans to adopt a system to evaluate the quality of appraisals at the time of endorsement to catch these issues earlier.

**Best Practices for PHAs' Purchase and Travel Card Integrity - HUD expects PHAs to implement strong internal controls over purchase and travel cards.** PHAs must follow Federal regulations as well as applicable State and local laws. Purchase and travel card abuse is among the issues commonly identified during HUD OIG's audits and investigations of PHAs. PHA management and staff entrusted with public funds have spent tens of thousands of dollars on personal items, such as fine dining, casino gambling, alcohol, cameras, pet supplies, cruises, sporting events, golf supplies, concert tickets, and manicures. While even small dollar purchases of ineligible items are not permitted, ignoring them can lead to large losses if continued over a long period. For example, an executive director in Ohio made \$583,000 in fraudulent credit card purchases over a 5-year period. In many cases, violators create false documents or destroy or alter original receipts to cover up the fraud. OIG's industry advisory includes best practices PHAs can implement to help prevent abuses.



## CHAPTER 9 – AUDIT RESOLUTION

*In the audit resolution process, Office of Inspector General (OIG) and U.S. Department of Housing and Urban Development (HUD) management agree upon needed actions and timeframes for resolving audit recommendations. Through this process, OIG strives to achieve measurable improvements in HUD programs and operations. The overall responsibility for ensuring that the agreed-upon changes are implemented rests with HUD managers. This chapter describes audit reports issued before the start of the period that have no management decision, significantly revised management decisions, and significant management decisions with which OIG disagrees. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996 (FFMIA). In addition to this chapter on audit resolution, see appendix 3, table B, "Significant Audit Reports for Which Final Action Had Not Been Completed Within 12 Months After the Date of the Inspector General's Report."*

### **AUDIT REPORTS ISSUED BEFORE START OF PERIOD WITH NO MANAGEMENT DECISION AS OF MARCH 31, 2016**

Section 5(a)(10) of the Inspector General Act, as amended, requires that OIG report information concerning audit reports issued before the semiannual period in which a management decision has not been reached. During the current reporting period, OIG has 24 reports issued in a prior period in which a management decision has not been reached.

### **ADDITIONAL DETAILS TO SUPPLEMENT OUR REPORT ON HUD'S FISCAL YEARS 2013 AND 2012 (RESTATED) FINANCIAL STATEMENTS, ISSUE DATE: DECEMBER 16, 2013**

HUD OIG audited the Office of Public and Indian Housing's (PIH) implementation of U.S. Treasury cash management regulations as part of the annual audit of HUD's consolidated financial statements for fiscal years 2013 and 2012. The OIG report found that HUD's implementation of the new cash management process for the Housing Choice Voucher program departed from Treasury cash management requirements and Federal generally accepted accounting principles (GAAP). HUD OIG also reported that there were not sufficient internal controls over the process in place to ensure accurate and reliable financial reporting. The weaknesses in the process failed to ensure that material financial transactions were included in HUD's consolidated financial statements and allowed public housing agencies (PHA) to continue to hold funds in excess of their immediate disbursing needs, which is in violation of Treasury cash management regulations.

The OIG report included a recommendation (2C) that HUD PIH implement a cost-effective method for automating the cash management process to include an electronic interface of transactions to the United States Standard General Ledger (USSGL).

HUD issued three proposals to address recommendation 2C. However, OIG rejected all three proposals because they were too vague and did not include a high-level plan showing the actions PIH will take until the final action date to implement corrective action. Further, the proposals included several contingencies; therefore, OIG has no reasonable way to determine PIH's progress in addressing the recommendation.

This issue was referred to the Assistant Secretary on June 19, 2014, and September 30, 2014; however, a new proposal had not been made as of March 31, 2015. Therefore, this issue was referred to the Deputy Secretary on March 31, 2015. A meeting was held to brief the Deputy Secretary's staff on the subject on April 20, 2015, and a few months later, OIG followed up with PIH, requesting a meeting to discuss the recommendation; however, PIH did not respond, and a new proposal had not been made as of March 31, 2016. (Audit Report: **2014-FO-0003**)

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## U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, WASHINGTON, DC, IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010, ISSUE DATE: APRIL 15, 2014

HUD OIG audited HUD's fiscal year 2013 compliance with the Improper Payments Information Act of 2002 as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The OIG report found that HUD did not comply with IPERA reporting requirements because it did not sufficiently and accurately report its (1) billing and program component improper payment rates; (2) actions to recover improper payments; (3) accountability; or (4) corrective actions, internal controls, human capital, and information systems as required by IPERA. In addition, HUD's supplemental measures and associated corrective actions did not sufficiently target the root causes of its improper payments because they did not track and monitor processing entities to ensure prevention, detection, and recovery of improper payments due to rent component and billing errors, which are root causes identified by HUD's contractor studies.

The OIG report included several recommendations that required the Office of Chief Financial Officer (OCFO) to work with PIH and the Office of Multifamily Housing Programs to ensure sufficient and accurate IPERA reporting in its agency financial report (AFR). The report also recommended that OCFO conduct a current billing study and, if not performed annually in future years, report the reason in the AFR and update the previous study to reflect program and inflationary changes. Similarly, the report recommended a study to assess improper payments arising from the Housing Choice Voucher program. Finally, the report recommended that OCFO report on multifamily, public housing, and Section 8 program improper payment rates separately in the AFRs.

Initially, OCFO disagreed with several of OIG's recommendations, citing (1) funding issues in conducting current billing studies, which it believes do not produce tangible results; (2) disagreement on the need to determine whether improper payments exist due to changes in the funding of the Housing Choice Voucher program; and (3) management's position that formal policies and procedures for the IPERA reporting process are not necessary. OIG generally disagreed with OCFO's management decisions because they disregarded IPERA reporting requirements and Office of Management and Budget (OMB) guidance and the management decisions did not reflect OCFO's responsibility as the lead official for directing and overseeing HUD's actions to address improper payments.

OIG sent a referral memorandum to the Acting Chief Financial Officer on September 23, 2014, regarding its disagreement, along with an untimely referral memorandum for two recommendations that had not had management decisions entered. Following OIG's memorandum, OCFO entered management decisions for seven of its nine recommendations, of which OIG agreed with only one. The remaining six recommendations, along with two recommendations for which management had not yet entered a management decision, were referred to the Deputy Secretary on March 31, 2015. A meeting was held to brief the Deputy Secretary's staff on the subject report on April 20, 2015, and in August 2015, meetings were held with OCFO to discuss what was needed to come to agreement. As of March 31, 2016, management decisions had been agreed upon for all recommendations except two.

OCFO submitted a new management decision for one of these recommendations on March 23, 2016. OIG disagreed with the management decision because OCFO believes its contractor is measuring deceased tenant improper payments, when OIG's audit work shows that the contractor is not. OIG met with OCFO on March 29, 2016, to discuss this matter, and OCFO agreed to contact the contractor for clarification. OCFO submitted a management decision for the other recommendation on March 31, 2016; however, OIG disagrees with this management decision also. This management decision gives HUD the option to continue reporting its improper payments in a way that masks the true error rate in certain programs, which is not in compliance with OMB's guidance. (Audit Report: **2014-FO-0004**)

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## THE DATA IN CAIVRS DID NOT AGREE WITH THE DATA IN FHA'S DEFAULT AND CLAIMS SYSTEMS, ISSUE DATE: JULY 2, 2014

HUD OIG audited the Credit Alert Verification Reporting System (CAIVRS) to determine whether the default and claims data in CAIVRS agreed with the data in the Federal Housing Administration's (FHA) default and claim systems. OIG determined that CAIVRS did not contain information on all borrowers' default, foreclosure, and claim activity. It would incorrectly return accept codes for more than 260,000 borrowers who had been in default, foreclosure, or claim within the past 3 years. In addition, CAIVRS did not contain information for FHA borrowers with claims older than 3 years. Therefore, HUD did not provide other Federal agencies with sufficient information on FHA borrowers with delinquent Federal debt to meet the requirements of the Debt Collection Improvement Act of 1996 (DCIA).

Among other things, OIG recommended that HUD notify the users of CAIVRS that the system may have incomplete information for FHA delinquent debtors. In its October 17, 2014, management decision, HUD disagreed in part with this recommendation; however, it agreed to consult with the users of CAIVRS to determine their need for information on individuals with defaults or claims on FHA loans that do not result in delinquent Federal debt. On February 2, 2015, HUD submitted another management decision, stating that CAIVRS was being updated to ensure that it reports all delinquent Federal debt resulting from FHA insurance claims until such debt is resolved as provided for in DCIA. In connection with this revision to the system, the Office of Single Family Program Development agreed that it should consult with the users of CAIVRS, including Treasury, to ensure that they were aware that CAIVRS was being updated and would no longer report credit worthiness information; for example, the existence of defaults and claims on FHA-insured loans and any actual delinquent Federal debt that has resulted from such defaults and claims. HUD will revise FHA's computer matching agreements with relevant agency users of CAIVRS to ensure that these agreements accurately reflect the delinquent Federal debt being reported by FHA and the revised period for such reports.

OIG also recommended that HUD obtain a determination from the Secretary of the Treasury of whether defaulted FHA-insured loans meet the definition of delinquent Federal debt that should be reported in CAIVRS. In its October 17, 2014, management decision, HUD disagreed with this recommendation. After discussions with OIG, HUD submitted another management decision on February 2, 2015, stating that HUD believes DCIA and pertinent regulations provide for the Secretary of HUD to determine the existence of any debt owed to the agency. HUD believes it is clear that it is not left to the Secretary of the Treasury to make this determination. HUD believes it has significant discretion in determining whether money owed to HUD is a debt, whether the debt is delinquent, and whether the debt must be repaid.

OIG rejected these management decisions because they do not resolve the recommendations. Since HUD has not indicated that it will identify all past claims that constitute unresolved delinquent Federal debt and update the system accordingly, certain Federal delinquent debts may be omitted based on HUD's prior policy. Therefore, OIG continues to recommend that HUD notify the users of CAIVRS that the system may have incomplete information for FHA delinquent Federal debtors so that these users do not unknowingly violate DCIA. For the second recommendation, OIG disagrees with HUD's position and continues to recommend that HUD seek a determination from the Secretary of the Treasury of whether FHA-insured loans meet the definition of delinquent Federal debt for the purposes of including or excluding them from CAIVRS. On March 23, 2015, OIG referred the recommendations to the Deputy Secretary because OIG could not resolve them with the Office of Housing. On December 8, 2015, the Deputy Secretary and her staff met with OIG to discuss the referral. She agreed to review the information and decide how to proceed. OIG is awaiting receipt of the final management decision. (Audit Report: **2014-KC-0002**)

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## THE NIAGARA FALLS HOUSING AUTHORITY DID NOT ALWAYS ADMINISTER ITS HOPE VI GRANT PROGRAM AND ACTIVITIES IN ACCORDANCE WITH HUD REQUIREMENTS, ISSUE DATE: JULY 10, 2014

HUD OIG audited the Niagara Falls Housing Authority's HOPE VI grant program based on an OIG risk analysis and the amount of funding the Authority received. The objectives of the audit were to determine whether the Authority administered its HOPE VI grant program and activities in accordance with HUD and HOPE VI grant program requirements.

The Authority did not always administer its HOPE VI grant program and activities in accordance with requirements. Specifically, contrary to Federal regulations and the HOPE VI grant agreement, Authority officials drew more HOPE VI funds from HUD's Line of Credit Control System than were needed to cover project expenditures. OIG recommended that HUD instruct Authority officials to (1) reimburse the U.S. Treasury for more than \$1.5 million in HOPE VI funds drawn in excess of need to cover project expenditures and (2) establish procedures to ensure that program funds are drawn in accordance with the grant agreement and regulations.

The Office of Public Housing Investments (OPHI) disagreed with recommendations 1A, 1B, and 1C and believes the funds questioned by OIG are non-Federal cost savings, which could be better used for HOPE VI-eligible activities in the Center Court neighborhood. OPHI believes there is no authority to require non-Federal cost savings to be returned to the U.S. Treasury. OIG disagrees with the proposed management decisions for recommendations 1A, 1B, and 1C and believes that all of the questioned funds should be returned to the U.S. Treasury absent a suitable legal opinion. As a result of November 25, 2014, discussions with OIG, OPHI agreed to obtain a legal determination from the Office of General Counsel (OGC) regarding the proposed management decisions. On March 26, 2015, OIG referred the disagreement to the Acting Assistant Secretary for Public and Indian Housing since a legal determination had not been provided.

On April 28, 2015, the Associate General Counsel, Office of Assisted Housing and Community Development, provided an opinion on the proposed management decisions and the related OIG concerns. This opinion concluded that more than \$1.5 million in questioned costs was program income under the definition of excess income and did not have to be repaid to the U.S. Treasury.

The Counsel to the Inspector General reviewed the OGC opinion and agreed that the OIG recommendations should be retained, the questioned costs were not program income, and the interest earned on these funds was also not program income. Also, exhibit H of the annual contributions contract amendment would have required program income to have been spent before HOPE VI funds were drawn down. Because unspent HOPE VI grant funds are no longer available for expenditure, funds returned to HUD must be returned to the U.S. Treasury.

On August 13, 2015, the Inspector General referred the disagreement on the management decisions to the Deputy Secretary for a decision as the departmental audit resolution official. As of March 31, 2016, the Deputy Secretary had not provided a decision. (Audit Report: **2014-NY-1007**)

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## HUD DID NOT ALWAYS RECOVER FHA SINGLE-FAMILY INDEMNIFICATION LOSSES AND ENSURE THAT INDEMNIFICATION AGREEMENTS WERE EXTENDED, ISSUE DATE: AUGUST 8, 2014

HUD OIG audited HUD's controls over its FHA loan indemnification recovery process to determine whether HUD had adequate controls in place to monitor indemnification agreements and recover losses on FHA single-family loans.

HUD did not always bill lenders for FHA single-family loans that had an indemnification agreement and a loss to HUD. Specifically, it did not bill lenders for any loans that were part of the Accelerated Claims

Disposition (ACD) program or the Claims Without Conveyance of Title (CWCOT) program or loans that went into default before the indemnification agreement expired but were not in default on the expiration date. There were a total of 486 loans from January 2004 to February 2014 that had enforceable indemnification agreements and losses to HUD but were not billed. This condition occurred because HUD's Financial Operations Center was not able to determine loss amounts for loans that were part of the ACD program, was not aware of the CWCOT program, and considered the final default date for billing only. As a result, HUD did not attempt to recover a loss of \$37.1 million for 486 loans that had enforceable indemnification agreements.

In addition, HUD did not ensure that indemnification agreements were extended to 64 of 2,078 loans that were streamline refinanced. As a result, HUD incurred losses of more than \$373,000 for 5 loans, and 16 loans had a potential loss to HUD of nearly \$1 million. The remaining 43 loans were either terminated or did not go into delinquency before the indemnification agreement expired, or the agreement did not state that it would extend to loans that were streamline refinanced.

OIG rejected three management decisions proposed by the Offices of Single Family Housing and Finance and Budget because they did not follow the plain language explicitly stated in signed indemnification agreements. The Offices of Single Family Housing and Finance and Budget disagree with OIG's determination that HUD should have billed lenders for FHA loans that either were in default or went into default during the indemnification agreement period.

OIG referred the matter to the Assistant Secretary for Housing – Federal Housing Commissioner on January 8, 2015. OIG met with OGC and the HUD Offices of Housing, Single Family Housing, and Finance and Budget on January 30, 2015. The meeting ended in disagreement; however, OGC and OIG's Office of Legal Counsel continued discussions.

Single Family Housing received two legal opinions from OGC, dated January 26, 2015, and February 24, 2015, respectively. Combined, the legal opinions support Single Family Housing's and Finance and Budget's position that they have collected in a manner consistent with longstanding policy that emphasized the definition of the "date of default." Single Family Housing maintains that its collection practice is consistent with FHA's regulatory definition of "date of default" found in 24 CFR (Code of Federal Regulations) 203.331, which refers to the first "uncorrected" failure and the first failure to pay that is not satisfied by later payments.

OIG disagrees and believes that Single Family Housing and Finance and Budget have adopted a collection practice not supported by the plain language of the indemnification agreements or required by HUD regulations. Based on the plain language in signed indemnification agreements, OIG believes that the indemnification agreement should be enforced for any loan that goes into default during the indemnification agreement term, regardless of whether the loan emerged from a default status after the agreement expired. In response to HUD's legal opinions, OIG received its own legal opinion from the OIG Office of Legal Counsel, which supports OIG's position.

OIG has had discussions with OGC, Single Family Housing, and Finance and Budget regarding the recommendations in question but has not reached agreeable management decisions. On March 31, 2015, OIG referred the recommendations to the Deputy Secretary for a decision and is awaiting that decision. (Audit Report: **2014-LA-0005**)

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## INTERIM REPORT ON HUD'S INTERNAL CONTROLS OVER FINANCIAL REPORTING, ISSUE DATE: DECEMBER 8, 2014

HUD OIG audited the Office of Community Planning and Development's (CPD) elimination of the first-in, first-out (FIFO) method for disbursing obligations. OIG reported in prior years that the FIFO method used by the Integrated Disbursement Information System (IDIS) was not designed to comply with Federal financial management system requirements and was not compliant with GAAP. The continued use of the FIFO method allowed HUD's financial statements to be materially misstated.

The OIG report included a recommendation to continue working with the information technology services contractor and OCFO to ensure that all phases of the FIFO elimination plan were completed to bring IDIS into compliance with GAAP and applicable Federal system requirements as scheduled. However, during fiscal year 2015, funding for the elimination plan was withheld, causing delays in the timeframe. HUD issued a proposal to address the recommendation; however, OIG rejected it because it indicated that CPD did not have approved funding for fiscal years 2015 and 2016, thereby causing the elimination project to be halted sometime in the spring of 2015. The second proposal was submitted by CPD after management approved a substantial amount of the remaining funding required, allowing the project to resume in February 2016. However, a gap of approximately \$150,000 in funding has remained. OIG rejected the second proposal because it did not include an explanation of whether the expenditure plan covered all of the necessary funds to complete the elimination plan and the new approved expenditure plan was not included as part of the management decision. Since the rejection, OIG has had discussions with OCFO and CPD to develop agreed-upon language for management decisions that are related to the material weakness in this area. However, as of March 31, 2016, HUD and OIG had not reached an agreement. (Audit Report: **2015-FO-0002**)

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#### GOVERNMENT NATIONAL MORTGAGE ASSOCIATION FISCAL YEARS 2014 AND 2013 FINANCIAL STATEMENTS AUDIT, ISSUE DATE: FEBRUARY 27, 2015

HUD OIG audited the Government National Mortgage Association's (Ginnie Mae) fiscal year 2014 stand-alone financial statements. OIG conducted this audit in accordance with the Chief Financial Officers Act of 1990 as amended. OIG found a number of material weaknesses in Ginnie Mae's financial reporting specifically related to the auditability of several material assets and reserve for loss liability account balances. The audit report contained 20 recommendations to (1) correct the financial statement misstatements identified during the audit and (2) take steps to strengthen Ginnie Mae's financial management operations. OIG did not reach consensus with Ginnie Mae on the necessary corrective actions for 9 of the 20 recommendations. OIG disagreed with Ginnie Mae on the application of accounting and the model estimation methodology for the fiscal year 2014 reserve for loss account for six of nine audit recommendations. For the other three, OIG rejected management's proposed corrective actions because OIG believes they are insufficient and inadequately responsive to the recommendations. OIG's audit recommendations call for HUD OCFO to provide oversight of Ginnie Mae's financial management operations. HUD's plan of action for providing oversight of Ginnie Mae lacked specificity. OIG referred this matter to the Deputy Secretary for a decision on September 21, 2015. (Audit Report: **2015-FO-0003**)

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#### THE STATE OF NEW JERSEY DID NOT COMPLY WITH FEDERAL PROCUREMENT AND COST PRINCIPLE REQUIREMENTS IN IMPLEMENTING ITS DISASTER MANAGEMENT SYSTEM, ISSUE DATE: JUNE 4, 2015

HUD OIG audited the State of New Jersey's Community Development Block Grant Disaster Recovery (CDBG-DR)-funded Sandy Integrated Recovery Operations and Management System (system). OIG conducted the audit based on the significant amount of funds associated with the system and the importance of the system to the successful implementation of the State's entire CDBG-DR grant. OIG's objective was to determine whether the State procured services and products for its system in accordance with Federal procurement and cost principle requirements.

The OIG report found that the State did not procure services and products for its system in accordance with Federal procurement and cost principle requirements. Specifically, it did not prepare an independent

cost estimate and analysis before awarding the system contract to the only responsive bidder. Further, it did not ensure that option years were awarded competitively and included provisions in its request for quotation that restricted competition. Also, the State did not ensure that software was purchased competitively and that the winning contractor had adequate documentation to support labor costs charged by its employees. The issues identified showed that the State's process was not equivalent to Federal procurement standards; therefore, its certification to HUD was inaccurate. The State began taking corrective actions during the audit and began providing documentation to resolve these deficiencies. HUD needed to assess the documentation to determine the appropriateness of all contract costs.

The OIG report included recommendations for HUD's Deputy Assistant Secretary for Grant Programs to determine whether the documentation the State provided was adequate to (1) show that the \$38.5 million contract price for the initial 2-year period was fair and reasonable, (2) show that the \$1.1 million disbursed for software was a fair and reasonable price, and (3) support the nearly \$468,000 disbursed for wages and salaries charged to the program by contractors' employees and if not, direct the State to repay HUD from non-Federal funds any amount that it cannot support. OIG also recommended that HUD determine whether the documentation the State provided was adequate to show that the price for the 3 additional option years was fair and reasonable and if not, direct the State to rebid for the additional option years, thereby putting \$9.1 million to better use. OIG further recommended that HUD direct the State to update its procurement processes and standards to ensure that they are fully aligned with applicable Federal procurement and cost principle requirements.

The Deputy Assistant Secretary for Grant Programs provided proposed management decisions for all of the recommendations. OIG concurred with the proposed management decision for recommendation 1D. However, for recommendations 1A, 1B, 1C, and 1E, HUD maintains that it has an ongoing disagreement with OIG regarding the applicability of the procurement regulations at 24 CFR 85.36(b) through (i) to State CDBG-DR grantees. HUD also disagreed with OIG concerning the interpretation of the March 5, 2013, Federal Register notice for CDBG-DR grants under Public Law 113-2, which provides that States must have fiscal and administrative requirements for spending and accounting for all funds. HUD contends that the requirements at 24 CFR 85.36(b) through (i), including the cost estimate requirements, do not apply to States unless a State elects to adopt the provisions at 24 CFR 85.36(b) through (i) as its procurement standards. Otherwise, the State must comply with regulations at 24 CFR 570.489(g) and follow its procurement policies and procedures.

OIG rejected the proposed management decisions for recommendations 1A, 1B, 1C, and 1E because they did not meet the intention of the recommendations. The regulations at 24 CFR 570.489(g) require a State grantee to follow its procurement policies and procedures. However, for this disaster recovery effort, unlike previous efforts, a HUD notice<sup>7</sup> required the State to either adopt the specific procurement standards at 24 CFR 85.36 or have a procurement process and standards that were equivalent to the procurement standards at 24 CFR 85.36. The State acknowledged in its procurement policy for CDBG-DR grants that it was required as a grantee to follow the requirements at 24 CFR 85.36 and that its procurement process and standards were equivalent to the procurement standards at 24 CFR 85.36. Accordingly, the State certified to HUD that its policies and procedures were equivalent to the procurement standards at 24 CFR 85.36. However, the audit showed that the State's procurement process was not equivalent to Federal procurement standards.

OIG has had discussions with HUD's Disaster Recovery and Special Issues Division, Office of Block Grant Assistance, regarding the issues in question but has not reached agreeable management decisions. On March 29, 2016, OIG referred the recommendations to the Deputy Secretary for a decision and is awaiting that decision. (Audit Report: **2015-PH-1003**)

<sup>7</sup> Federal Register Notice 5696-N-01, dated March 5, 2013

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## PROGRAM CONTROL WEAKNESSES LESSENER ASSURANCE THAT NEW YORK RISING HOUSING RECOVERY PROGRAM FUNDS WERE ALWAYS DISBURSED FOR ELIGIBLE COSTS, ISSUE DATE: SEPTEMBER 17, 2015

Based on a requirement of the Disaster Relief Appropriations Act to monitor the expenditure of CDBG-DR funds, HUD OIG audited the New York State CDBG-DR assistance-funded New York Rising Housing Recovery Program. State officials allocated more than \$1 billion in CDBG-DR funds to the Housing Recovery Program, of which \$621 million had been obligated and more than \$600 million had been disbursed as of March 31, 2015. The objective of the audit was to determine whether State officials established and maintained adequate controls to ensure that CDBG-DR funds were disbursed for eligible activities and allowable costs and properly reported in compliance with regulations.

Weaknesses in program controls did not always ensure that CDBG-DR funds were disbursed for eligible costs, ineligible awards could be recovered, procurement activity was executed or reported as required, and disbursements were properly reported. Of the 17 OIG recommendations, disagreement remains on 1.

CPD disagreed with recommendation 3A (provide documentation showing that the \$127.2 million contract for construction management and environmental review services was fair and reasonable), noting that OIG and HUD continue to disagree on the applicability of procurement regulations at 24 CFR 85.36(b) through (i) to State CDBG-DR grantees. Specifically, HUD continues to disagree with OIG's interpretation of HUD's March 5, 2013, Federal Register notice, which provides that States must certify that they have sufficient financial and procurement controls in place. HUD maintains that the requirements of 24 CFR 85.36(b) through (i) do not apply to States unless a State elects to adopt those provisions as its procurement standards. HUD notes that the notice indicates that a State may meet these requirements, in part, by electing to follow either its own procurement policies or those outlined in 24 CFR 85.36 and that the procurement policies the State submitted in support of its certification have clearly and consistently indicated that it will follow its procurement policies and procedures.

OIG disagrees with the proposed management decision for recommendation 3A and, despite the continued disagreement over the applicability 24 CFR 85.36(b) through (i), notes that the procurement of construction management and environmental review services did not comply with the State's procurement policies. OIG maintains that these procurements did not comply with the subrecipient agreement between the State agency administering the CDBG-DR funds and another State agency because that agreement required the other State agency to use the procurement policies of the CDBG-DR administering agency, which were stricter. However, contracts were procured in accordance with the other State agency's procurement policy, which allowed the use of the qualification-only methodology to acquire architectural and engineering, construction management, and surveying services, while the CDBG-DR administering agency's policy provided that only architectural and engineering or legal services could be selected on the basis of qualification and performance data. OIG also maintains that these procurements did not comply with Federal regulations because regulations at 24 CFR 85.36 (d)(3)(v) provide that the method in which price is not used as a selection factor and final award is subject to later negotiation of fair and reasonable compensation may be used only in the procurement of architecture and engineering services, and these services did not qualify as architecture and engineering services.

On March 18, 2016, OIG rejected the management decision, and on March 30, 2016, HUD stated that it was reviewing its initial management decision. (Audit Report: **2015-NY-1011**)

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## REVIEW OF DOWNPAYMENT ASSISTANCE FUNDS

Over the past fiscal year, HUD OIG completed three audits of HUD's downpayment assistance program. Specifically,



NOVA FINANCIAL & INVESTMENT CORPORATION'S FHA-INSURED LOANS WITH DOWNPAYMENT ASSISTANCE GIFTS DID NOT ALWAYS MEET HUD REQUIREMENTS, ISSUE DATE: JULY 8, 2015

LOANDEPOT'S FHA-INSURED LOANS WITH DOWNPAYMENT ASSISTANCE FUNDS DID NOT ALWAYS MEET HUD REQUIREMENTS, ISSUE DATE: SEPTEMBER 30, 2015

LOANDEPOT'S FHA-INSURED LOANS WITH GOLDEN STATE FINANCE AUTHORITY DOWNPAYMENT ASSISTANCE GIFTS DID NOT ALWAYS MEET HUD REQUIREMENTS, ISSUE DATE: SEPTEMBER 30, 2015

These audits were based on a referral from HUD's Quality Assurance Division detailing a separate lender, which originated FHA-insured loans that contained ineligible downpayment assistance gifts. The HUD OIG analysis identified NOVA and loanDepot as lenders with high FHA origination volume in the geographic region that participated in similar downpayment assistance gift and secondary financing programs.

OIG's report found that NOVA's FHA-insured loans with downpayment assistance gift funds did not always comply with HUD FHA rules and regulations, putting the FHA mortgage insurance fund at unnecessary risk, including potential losses of \$48.5 million for 709 loans. NOVA also inappropriately charged borrowers more than \$376,000 in misrepresented discount fees and more than \$7,000 in fees that were not customary or reasonable. This condition occurred because NOVA did not do its due diligence, relied on development authorities' program guidelines, and assumed downpayment assistance eligibility based on the reputation of the participating master loan servicer. The premium rate attached to the ineligible loans put borrowers at a distinct disadvantage due to higher monthly mortgage payments imposed on them.

OIG's report found that loanDepot's FHA-insured loans with downpayment assistance gift funds and secondary financing did not always comply with HUD requirements, putting the FHA insurance fund at unnecessary risk, including potential losses of \$4.7 million for 53 loans with ineligible assistance and \$29.9 million for a projected 339 loans that likely contained ineligible assistance. Looking forward 1 year, this is equivalent to at least \$25.4 million in potential losses for loans that could contain ineligible assistance and have a higher risk of loss in the first year. Also, loanDepot inappropriately charged borrowers nearly \$26,000 in fees that were not customary or reasonable and nearly \$47,000 in discount fees that did not represent the purpose of the fee. The ineligible loans put borrowers at a disadvantage due to higher monthly mortgage payments imposed on them resulting from a premium interest rate.

OIG did a second audit of loanDepot's FHA-insured loans with Golden State Finance Authority downpayment assistance gifts, which found that loanDepot did not always comply with HUD requirements, putting the FHA insurance fund at unnecessary risk, including potential losses of \$5.5 million for 62 loans with ineligible gifts and \$16.1 million for 178 loans that likely contained ineligible gifts. Looking forward 1 year, this is equivalent to at least \$16 million in potential losses for loans that would contain ineligible gifts and have a higher risk of loss in the first year. Also, loanDepot inappropriately charged borrowers nearly \$14,000 in fees that were not customary or reasonable. This condition occurred because loanDepot relied on Golden State; accepted the Platinum Downpayment Assistance Program structure; and did not conduct its own due diligence with regard to premium pricing, gifts, and fees. The ineligible loans put borrowers at a disadvantage due to higher monthly mortgage payments, including the burden of funding the downpayment assistance program through premium interest rates.

In summary, OIG recommended that HUD require NOVA and loanDepot to (1) stop originating FHA loans with ineligible downpayment assistance, (2) indemnify HUD for the FHA loans that were originated with ineligible downpayment assistance, (3) reimburse borrowers for misrepresented discount fees and fees that were not customary or reasonable, (4) reduce the interest rate for borrowers who received ineligible downpayment assistance, and (5) reimburse borrowers for overpaid interest as a result of the premium interest rate.

The Office of Single Family Housing disagrees with OIG's audit report conclusions that the downpayment assistance used by NOVA and loanDepot, provided by housing finance agencies through premium pricing, is not consistent with established law, guidance, and practice. According to Single Family Housing, the downpayment assistance funding mechanisms used do not constitute premium pricing, nor do they violate FHA guidance regarding downpayment assistance by government entities. Single Family Housing stated that premium pricing is defined only as a higher interest rate in exchange for a credit to be applied toward a borrower's closing costs or other prepaid items and repeated that there are no restrictions on how a government entity may fund its downpayment assistance programs. It considers the downpayment assistance funding mechanisms to be permissible, including the generation of funds through capital market vehicles, which may result in a negotiated interest rate that is higher than a negotiated interest rate for mortgage loans without downpayment assistance.

In response to OIG's audit report, Single Family Housing publicly issued a letter to the lending industry, dated July 20, 2015. The letter reaffirmed FHA's support for certain downpayment assistance programs, like those run by State housing finance agencies. It further stated that the intent of HUD rules regarding downpayment assistance is clear and allows housing finance agencies the discretion necessary to fund these programs appropriately. On August 11, 2015, before an audit resolution or substantive discussions between Single Family Housing and OIG, HUD publicly issued a legal opinion. HUD OGC determined that neither HUD's Interpretative Rule Docket No. FR-5679-N-01 nor Mortgagee Letter 2013-14 placed restrictions on how a government entity may fund its downpayment assistance programs. According to this opinion, FHA's rules and guidance do not place restrictions or prohibitions on how a government entity raises funds to support its downpayment assistance programs. The use of funds derived from the sale of a mortgage with a higher than market interest rate does not constitute premium pricing. There is no violation of FHA restrictions on premium pricing when the rates agreed upon by the borrower and lender are generally the rates available to borrowers participating in downpayment assistance programs. OGC concluded that it found no basis to challenge the legality of NOVA's downpayment assistance programs.

Single Family Housing's position is that the downpayment assistance provided by housing finance agencies through premium pricing is consistent with established law, guidance, and practice. OIG disagrees. OIG determined that NOVA and loanDepot originated FHA loans containing downpayment assistance that violated FHA rules and guidance. Because downpayment assistance programs are intended to help creditworthy families obtain housing they might not otherwise obtain, OIG found downpayment assistance programs structured to repay the downpayment assistance at the expense of the borrowers to be objectionable. The audit reviewed downpayment assistance gifts in which (1) downpayment assistance gift funds were indirectly derived from a premium-priced mortgage and (2) the gifts were not true gifts but were repaid by the borrower through higher interest rates and fees. The audit determined that these downpayment assistance programs violated established law and guidance when the borrowers were burdened with higher interest rates to indirectly repay the gift.

OIG recognizes that housing finance agencies provide home-ownership opportunities to low- and moderate-income families and does not disagree with Interpretative Rule Docket No. FR-5679-N-01 and Mortgagee Letter 2013-14 that housing finance agencies, as instrumentalities of State or local governments, may provide downpayment assistance. The audit report did not dispute that housing finance agencies are an acceptable source of funds. However, FHA loans that contain downpayment assistance from a housing finance agency must meet all HUD requirements, including those on premium pricing and the definition of gift funds.

As lenders, NOVA and loanDepot were obligated to conduct their due diligence to ensure that planned downpayment assistance gifts met the requirements described in HUD Handbook 4155.1. OIG determined that NOVA did not ensure that FHA loans with downpayment assistance met all HUD requirements, specifically those governing premium pricing and gift funds. Neither HUD's Interpretative Rule Docket No. FR-5679-N-01 nor its related Mortgagee Letter 2013-14 contemplate the use of premium pricing by a lender to reimburse the housing finance agency. The Housing and Economic Recovery Act of 2008 amended

section 203(b)(9)(C) of the National Housing Act to preclude the abuse of the program when a seller (or other interested or related party) funds the home buyer's cash investment after the closing by reimbursing third-party entities, specifically, private nonprofit charities. Similarly, it would be contrary to the intended purpose of the Housing and Economic Recovery Act to allow a local government entity to do the same thing.

On December 1, 2015, the Office of Housing issued a response to OIG's NOVA referral to the Principal Deputy Assistant Secretary for Housing. In its response, Housing upheld the decision of the Office of Single Family Housing in disagreeing with OIG's determinations. The decision points to the HUD OGC legal opinion. Housing also stated that downpayment assistance programs, such as the ones administered by NOVA, are key instruments in FHA's efforts to make affordable home ownership available to households that otherwise would be shut out of the housing market. OIG referred the NOVA audit recommendations to the Deputy Secretary on December 15, 2015, and a decision is pending.

OIG referred the two loanDepot reports' audit recommendations to the Principal Deputy Assistant Secretary on March 17, 2016, and a discussion between the parties was held on March 29, 2016. During the meeting, OIG and Office of Housing staff agreed that a disagreement referral to the Deputy Secretary should be made so the issues cited in the two loanDepot reports could be included with the disagreement referral of NOVA Financial & Investment Corporation. (Audit Reports: **2015-LA-1005**, **2015-LA-1009**, and **2015-LA-1010**)

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## DISAGREEMENT IN HOW TO PROCESS CIVIL FRAUD ACTIONS

Currently HUD OIG has 12 civil fraud memorandums totaling nearly \$162 million in questioned costs, on which it cannot reach a management decision with OGC. The 12 memorandums in question relate to civil actions for which settlement has been reached and in some cases, funds have been recovered.

Beginning in 2011, when OIG's Office of Audit was involved in a civil case that reached positive resolution, either through a settlement agreement or court-ordered judgment, OIG documented the monetary outcome in a civil action memorandum, which included a recommendation addressed to the Office of General Counsel, Office of Program Enforcement. OIG routinely recommended that OGC agree to allow it to record the monetary outcome that HUD could expect to receive from the settlement or judgment in HUD's Audit Resolution and Corrective Action Tracking System (ARCATS). Accounting for the expected funds in ARCATS allows HUD and OIG to track the civil monetary outcomes.

While there were some minor adjustments to ARCATS and the related resolution process over the next 4 years, both offices were making it work. However, beginning in early 2015, OGC began to express heightened concerns about various aspects of the arrangement. Primarily, OGC did not want to be held responsible for recommendations regarding the collection of monetary outcomes for which it believed it had no control, namely those that the U.S. Department of Justice (DOJ) or U.S. Attorney's Offices (USAO) were responsible for collecting rather than OGC. Around this same time, OIG began to have concerns regarding the actual recording of the funds due HUD in HUD's accounting records, in addition to recording the funds in ARCATS. In July 2015, OIG met with OCFO and determined that a more appropriate recommendation to OGC would be for it to ensure that HUD records the monetary outcome due HUD in HUD's accounting records. This change in recommendation recognized that OGC is the liaison between HUD and DOJ-USAOs and while OCFO records the civil monetary receivables in HUD's accounting records, it would rely on OGC to provide guidance on what funds HUD should expect to receive. OIG began making the changed recommendation starting with civil action memorandums issued in mid-to-late September 2015.

Between October 6, 2015, and February 26, 2016, OGC issued multiple disagreement management decisions to OIG regarding the adjusted civil-related recommendations, based on various arguments. Specifically, the Office of Program Enforcement asserted that it had no authority or responsibility to take OIG's recommended actions. While these civil actions have already taken place (for example, settlements

and court-ordered judgments), there appears to be a difference of opinion within HUD as to which offices are responsible for tracking funds that HUD is owed, both in ARCATS and HUD's accounting system. The Office of Program Enforcement agrees that as HUD's liaison office with DOJ and USAOs, it is generally responsible for following up on the funds coming into HUD, but OGC does not want to be held responsible for using ARCATS to record the outcome, track collection of the funds, or track overdue or uncollectible funds when collection is out of its control. While OIG has offered several alternatives to allow for circumstances in which the funds are collected by another Federal agency, OGC disagrees with tracking the funds in ARCATS, and now OGC seems to believe that these activities should be handled by OCFO rather than OGC.

OIG believes that HUD not only has the authority but the responsibility to ensure that its offices properly record and account for nearly \$162 million in proceeds from the various settlements or court-ordered judgments mentioned below. Further, while this may require the cooperation of multiple offices within HUD and coordination with DOJ and USAOs, it is reasonable that the civil outcome recommendations be addressed to the Office of Program Enforcement as the liaison among HUD, DOJ, and USAOs. Because of this continued disagreement, OIG will continue to move the civil fraud memorandums mentioned below through the required resolution process to the next appropriate level of management, including the Deputy Secretary, for a decision as to which office is responsible for each action.

Memorandum number	Issue date	Title	Monetary outcomes
2015-PH-1803	January 30, 2015	Borrower Settled Alleged Violations of Home Equity Conversion Mortgage Program	\$3,000
2015-PH-1804	February 19, 2015	Court Ordered a Former Executive Director of the Philadelphia Housing Authority To Pay Civil Penalties for Violating Federal Lobbying Disclosure Requirements and Restrictions	\$75,000
2015-CF-1801	March 27, 2015	Group One Mortgage, Inc., Settled Allegations of Failing To Comply With Federal Housing Administration Underwriting Requirements	\$376,523
2015-CF-1804	March 27, 2015	Borrower Settled Allegations of Not Complying With the Primary Residence Requirement of the Federal Housing Administration Program	\$15,000
2015-SE-1801	March 30, 2015	Civic Construction, LLC, Settled Allegations of Making False Claims to the Seattle Housing Authority	\$34,000
2015-PH-1807	September 16, 2015	Borrower Settled Alleged Violations of Home Equity Conversion Mortgage Program	\$2,500
2015-CF-1807	September 28, 2015	Mason-McDuffie Mortgage Corporation Settled Allegations of Failing To Comply With HUD's Federal Housing Administration Loan Requirements	\$465,981
2015-CF-1808	September 28, 2015	Reverse Mortgage Solutions, Inc., Settled Alleged Violations of Federal Housing Administration Loan Requirements Related to Home Equity Conversion Mortgages	\$13,693,035

Memorandum number	Issue date	Title	Monetary outcomes
2015-AT-1801	September 29, 2015	First Tennessee Settled Allegations of Failing To Comply With HUD's Federal Housing Administration Loan Requirements	\$142,000,000
2015-CF-1809	September 29, 2015	Iron Mountain Settled Allegations of Making False Disclosures and False Statements Regarding Discounts and Prices Relevant to Contracts It Had With HUD	\$202,237
2015-CH-1801	September 30, 2015	GTL Investments, Inc., Doing Business as John Adams Mortgage Company, Settled Allegations of Failing To Comply With HUD's FHA Loan Requirements	\$4,263,931
2015-DE-1802	September 30, 2015	Owner of HUD-Insured Multifamily Property Settled Allegations of Authorizing and Paying Out Project Funds for Unallowable Expenses	\$500,000
<b>TOTAL</b>			<b>\$161,631,207</b>

## SIGNIFICANTLY REVISED MANAGEMENT DECISIONS

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

### REVIEW OF CONTROLS OVER HUD'S MOBILE DEVICES, ISSUE DATE: SEPTEMBER 28, 2012

HUD OIG audited HUD's mobile devices to determine whether HUD had adequate mobile device management controls in place. Mobile device technology continues to advance so rapidly that capabilities for controlling and protecting the information on mobile devices are lagging behind. At the time of the audit, HUD had taken some steps to address the rapidly changing mobile device environment. However, additional work was needed. OIG identified security and management control weaknesses that could negatively affect HUD's mobile devices and put HUD's computing information technology infrastructure at risk. Specifically,

1. HUD did not fully assess the security of its mobile device program. Additionally, it did not complete the development of policies and procedures governing the security and management of mobile devices. These weaknesses occurred because the Office of the Chief Information Officer was unable to develop or update mobile device policies and procedures as rapidly as mobile device technology advanced.
2. Management controls, such as security configuration settings and monitoring of mobile device use, was not effectively implemented. Also, not all hardware or software used by HUD's mobile devices were Configuration Change Management Board approved. HUD had not been able to update its policies and procedures as quickly as mobile device technology has evolved.

Among other things, OIG recommended that HUD require mobile device security features, such as encryption, content protection, and password complexity, to comply with HUD policy and be enabled for all devices. OIG also recommended that these requirements be published as standard operating procedures for users and support contractors.

In its original management decision, HUD agreed to review the encryption, content protection, and password complexity settings for mobile devices and ensure that they comply with HUD policy. For those devices that HUD determined unable to comply, a risk-based decision and request for waiver would be documented. HUD began moving forward with several projects, based on enterprise solutions in existence at the time of the audit that would result in the implementation of a mature, comprehensive mobile device program. However, due to changes in software licensing requirements and increased costs, as well as HUD's mobile device strategy based on current technology, HUD modified its approach to be more robust and cost effective.

HUD recently submitted a revised management decision documenting its modified mobile device strategy. HUD has undertaken several projects that are implementing new mobile devices, mobile management tools (Microsoft Intune), and capabilities by using the Federal Strategic Sourcing Initiative<sup>8</sup> (FSSI). The Wireless FSSI program will improve procurement and management of wireless services across government. This will result in a more effective and efficient mobile device management program. On October 13, 2015, OIG agreed with the revised significant management decision. (Audit Report: **2012-DP-0005**)

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### POTENTIAL ANTIDEFICIENCY ACT VIOLATIONS-INTERGOVERNMENTAL PERSONNEL ACT AGREEMENTS, ISSUE DATE: MAY 30, 2014

Based upon a complaint, HUD OIG reviewed two Intergovernmental Personnel Act (IPA) agreements. The objective was to determine whether HUD violated the Antideficiency Act (ADA) when it obtained the services of two people through IPA agreements. OIG identified potential ADA violations with one of the agreements. Specifically, HUD incorrectly used more than \$620,000 in PIH and Office of Housing-Federal Housing Commissioner personnel compensation funds to pay the salary of a senior advisor to the HUD Secretary. Additionally, HUD paid more than the agreement allowed and made payments without an agreement in place. HUD did not have procedures in place to prevent these potential ADA violations.

In recommendation 1A, OIG recommended that HUD OCFO investigate whether ADA violations of more than \$622,000 occurred and if so, report the violation(s) in accordance with OMB Circular A-11 and HUD Handbook 1830.2, REV-5. HUD performed an investigation, and on October 28, 2015, reported ADA violations totaling nearly \$184,000 to the President, the Senate, the House of Representatives, and the Comptroller General. HUD did not seek a deficiency appropriation associated with the violation. In its revised management decision, HUD explained that the costs were not recoverable because HUD received a benefit for the funds it spent. OIG closed the recommendation, effective February 8, 2016. (Audit memorandum: **2014-FW-0801**)

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### THE OWNER AND FORMER MANAGEMENT AGENTS LACKED ADEQUATE CONTROLS OVER THE OPERATION OF LAKE VILLAGE OF AUBURN HILLS, AUBURN HILLS, MI, ISSUE DATE: SEPTEMBER 30, 2014

HUD OIG audited Lake Village of Auburn Hills to determine whether the project's owner and former management agents operated the project in accordance with the regulatory agreement and HUD's requirements. OIG found that the project's owner and former management agents did not ensure that (1) adequate documentation was maintained to support disbursements or that funds were used for reasonable operating expenses or necessary repairs of the project, (2) the project's housing units were used for their intended purpose, and (3) tenants' security deposits were appropriately maintained. As a result, HUD lacked assurance that more than \$7.1 million was used for reasonable operating expenses or necessary repairs of the

<sup>8</sup> Strategic sourcing is the structured and collaborative process of critically analyzing an organization's spending patterns to better leverage its purchasing power, reduce costs, and improve overall performance. The primary goals of FSSI are to strategically source across Federal agencies, collaborate with industry to develop optimal solutions, and establish mechanisms to increase total cost savings.

project and nearly \$116,000 in additional rental revenue was not lost. Further, more than \$8,400 in project funds and nearly \$134,000 in lost rental revenue was not available for reasonable operating expenses and necessary repairs of the project. In addition, nearly \$192,000 in tenant security deposits was not available to (1) pay for damages to the project's housing units, (2) apply toward tenants' unpaid rent, or (3) reimburse households.

OIG recommended that HUD require the owner to (1) support or reimburse the project for the unsupported disbursements and rental credits; (2) reimburse the project from nonproject funds for the non-revenue-generating housing units, ineligible expenditures, and underfunded security deposit account; and (3) implement adequate procedures and controls to address the finding cited in this report. OIG also recommended that HUD pursue double damages, civil money penalties, and administrative sanctions as appropriate.

HUD's original management decision, dated December 4, 2014, agreed with the recommendations. On December 14, 2015, HUD submitted a revised management decision requesting closure of the recommendations since the owner executed a settlement agreement with HUD and then sold the FHA-insured property. The property was sold at a financial gain, and the new owner's mortgage is not FHA insured, thus presenting no future risk to HUD or the tenants. On December 15, 2015, OIG concurred with the revised management decision. (Audit Report: **2014-CH-1010**)

## **SIGNIFICANT MANAGEMENT DECISION WITH WHICH OIG DISAGREES**

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

### **THE CITY OF PHOENIX, AZ, DID NOT ALWAYS COMPLY WITH PROGRAM REQUIREMENTS WHEN ADMINISTERING ITS NSP1 AND NSP2 GRANTS, ISSUE DATE: JUNE 15, 2012**

HUD OIG reviewed the City of Phoenix's Neighborhood Stabilization Program (NSP) grants NSP1 and NSP2. OIG determined that the City did not administer its NSP1 and NSP2 grants in accordance with HUD rules and regulations. Specifically, the City's rehabilitation contract administration was not adequate and did not comply with the NSP2 grant agreement, resulting in an insufficient contract scope of work, inadequate oversight and verification of contract work and expenditures, insufficient maintenance of procurement documentation, inappropriate contract modifications, installation of substandard air conditioning units, and noncompliance with the grant's buy American requirements.

Among other things, OIG recommended that CPD require the City to (1) support that more than \$1.7 million in NSP1 project funds was used only for its intended purpose and met the terms, conditions, and specifications of the contract for Park Lee Apartments rehabilitation project charges or repay HUD from non-Federal funds; (2) support that more than \$1.2 million in project funds was used only for its intended purpose and met the terms, conditions, and specifications of the NSP2 grant charges or reimburse its NSP2 grant from non-Federal funds; (3) reimburse the City's NSP2 grant from non-Federal funds nearly \$300,000 for substandard equipment; and (4) support nearly \$147,000 in charges related to the Park Lee Apartments rehabilitation project additional payments or reimburse its NSP 2 grant from non-Federal funds.

After lengthy disagreement and many discussions, OIG came to an agreement with CPD on four outstanding recommendations. The revised management decision, dated March 30, 2015, stated the HUD acknowledged that an offset exists between OIG's recommendations and the supporting documentation that was produced. The value of this offset was determined to be more than \$320,000. While the third-party study determined that the project costs charged to the NSP1 account were reasonable and compliant with OMB Circular A-122, the presence of unsupported costs must be addressed. CPD agreed to require the City to repay to HUD more than \$320,000 (covering NSP1 and NSP2) with non-HUD and non-Federal funds, or HUD would seek forgiveness of that amount from the Assistant Secretary. Additionally, based on negotiations between CPD and OIG, if the repayment of more than \$320,000 or a forgiveness action by the HUD Assistant Secretary occurs, OIG would consider closure of all four outstanding recommendations. The revised

management decision considered the more than \$320,000 to be disallowed costs.

CPD submitted a revised management decision to OIG on November 4, 2015. The revised management decision detailed CPD's request and later approval to HUD's Departmental Claims Collection Officer (DCCO) to forgive the City's unsupported costs balance of more than \$320,000. As support, CPD stated that the unsupported costs were attributed to deficiencies in the City's internal controls and, since the original audit report was published, have been addressed. In its support, CPD acknowledged that the City's documentation was poor and procedures used by the City were rushed and imperfect and stated that the City admitted that documentation was missing for the Park Lee Apartments project. The HUD DCCO signed off on the request, forgiving the City's debt of more than \$320,000.

Although the four outstanding recommendations have been closed, effective March 31, 2016, due to HUD's debt forgiveness, OIG disagrees with CPD's actions to close the recommendations. Specifically, OIG determined that CPD did not attempt to collect the more than \$320,000 debt from the City before approaching the DCCO to request forgiveness. CPD admitted that it was never its intention to collect any portion of the debt from the City, indicating that it did not negotiate in good faith with OIG when both parties agreed to the revised management decision, dated March 30, 2015, to reduce the repayable amount from approximately \$3.4 million to about \$320,000. OIG determined that CPD did not submit evidence to support that it exhausted efforts to collect the debt before referring it to the DCCO and asking for forgiveness and did not follow the procedures for debt forgiveness as outlined by Audits Management Systems Handbook 2000.06, REV-4. Paragraph 1-5.B.8 states that when the administrative officer (AO) has exhausted the initial effort and the debt remains delinquent, the AO forwards evidence of his or her attempts to collect the debt to the DCCO and notifies the audit liaison officer (ALO). Paragraph 5-7.C.2.a states that each AO is responsible for monitoring the recovery of disallowed costs due HUD and if the debt becomes delinquent, transferring it through the responsible ALO to the DCCO for processing. The provisions of Handbook 1900.25 must be followed for the forgiveness of disallowed costs due HUD. According to paragraph 2-1.B of Debt Collection Handbook 1900.25, the more than \$320,000 should have been treated as a receivable when the management decision on March 30, 2015, was reached. Paragraph 2-3.A states that the AO should have initiated collection by sending a demand letter to the City. CPD did not submit support that it fulfilled any of the above provisions. (Audit Report: **2012-LA-1008**)

## FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996

HUD did not substantially comply with FFMIA during fiscal year 2015. HUD's continued noncompliance is largely due to a reliance on its legacy financial systems (including primary or general ledger accounting systems and "mixed" or subsidiary systems) and internal control weaknesses. While HUD has continued to work toward financial management system modernization and FFMIA compliance and will move in fiscal year 2016 to a shared service provider for general ledger management and financial reporting functions, significant challenges remain.

FFMIA requires OIG to report in its Semiannual Reports to Congress instances and reasons when an agency has not met the intermediate target dates established in its remediation plan required by FFMIA. Section 803(A) of FFMIA requires that each agency establish and maintain financial management systems that comply with (1) Federal financial management system requirements, (2) Federal accounting standards, and (3) the USSGL at the transaction level.

At the end of 2015, 5 of 40 HUD financial systems were not in substantial compliance with FFMIA. These five systems are the (1) Integrated Disbursement and Information System (IDIS), (2) Facilities Integrated Resources Management System (FIRMS), (3) HUD Procurement System (HPS), (4) Small Purchase System (SPS), and (5) Ginnie Mae Financial and Accounting System (GFAS).

Like many other agencies, HUD struggled to modernize its legacy financial systems. HUD's financial systems, many of which were developed and implemented before the issuance of current standards, were not designed



to provide the range of financial and performance data currently required. In fiscal year 2016, HUD continued the phased transition of key financial management functions to a shared service provider, the U.S. Department of the Treasury, Bureau of Fiscal Services' Administrative Resource Center. To date, HUD has implemented three "releases" of the New Core project. Release 1 transferred the travel and relocation functions to Treasury on October 1, 2014. Release 2, covering the time and attendance function, was implemented on February 8, 2015. Release 3 covers migration of the core financial services that are owned by OCFO. This includes the migration of accounting system services associated with budget execution, accounting, finance, and an interface solution. While New Core work done to date will not solve all of the instances of FFMIA noncompliance, the transition to more modern applications and the retirement of legacy applications should be beneficial. OIG will perform procedures in fiscal year 2016 to validate the effectiveness of the New Core implementation to date.

IDIS does not comply with applicable Federal accounting standards or USSGL at the transaction level.<sup>9</sup> CPD is the system owner of IDIS, and the system is FFMIA noncompliant largely due to the use of the FIFO method to account for grant expenditures. In addition to completely eliminating FIFO, HUD will need to add new data elements to the application and configure new automated controls and accounting logic to remediate this weakness. While CPD has made progress addressing this issue, updating the application to specifically identify grants initiated during 2015 and going forward, funding constraints delayed further remediation. The FIFO elimination project was put on hold until adequate funding was available, which was substantially approved in August 2015. The halt in work has caused the remediation of this noncompliance to be delayed.

The FIRMS application does not comply with Federal financial management systems requirements. While HUD has identified FIRMS as FFMIA noncompliant since 2010, technical issues, including a lapsed maintenance contract, have rendered FIRMS nonfunctional. As a result, HUD did not have a functional, automated property management system during fiscal year 2015. While HUD had initially hoped to remediate the issue by February 2014, resource constraints have resulted in significant delays. The Office of Administration is working with the Office of the Chief Information Officer on a two-phase plan to replace FIRMS and transition to an automated property management application hosted by a Federal shared service provider, the Federal Aviation Administration, during fiscal year 2016.

HUD's legacy procurement applications, HPS and SPS, do not comply with Federal financial management systems requirements. HUD implemented a new procurement system in 2012, HUD Integrated Acquisition Management System (HIAMS), to replace the noncompliant HPS and SPS in 2012. As of 2015, HPS and SPS remain operational to modify and close out purchase orders and contracting actions that have not been entered into HIAMS. In fiscal year 2015, the Office of the Chief Procurement Officer was working to migrate the data in HPS and SPS to the HIAMS Enterprise Acquisition Reporting Tool Data Warehouse. HUD will be able to report on historical data with this tool. HUD has deactivated a majority of HPS and SPS users, leaving only those needing continued access to perform contracting closeout functions. To remediate this weakness, HUD expects to deactivate all HPS and SPS users and decommission HPS and SPS in fiscal year 2016.

GFAS is not compliant with FFMIA primarily due to four material weaknesses related to Ginnie Mae's internal controls over financial reporting and its inability to properly account for its loan portfolio. In addition, OIG noted a material weakness related to the budgetary accounting module of the GFAS application implemented in 2014. Specifically, due to system configuration issues, material on top adjustments was needed to reconcile budgetary account balances. To remediate its FFMIA noncompliance, Ginnie Mae will need to address the material weaknesses first identified during 2014, which remain outstanding. Ginnie Mae's plans to address these material weaknesses were in process as of March 31, 2015.

In addition to the specific financial system weaknesses identified above, financial process weaknesses will need to be remediated for HUD to achieve FFMIA compliance. For example, current process weaknesses include manual cash management processes implemented by PIH that do not comply with FFMIA requirements. OIG will continue to assess HUD's ongoing efforts to modernize HUD's legacy systems and financial processes.

<sup>9</sup> The U.S. Department of the Treasury publishes the United States Standard General Ledger (USSGL) supplement to the Treasury Financial Manual, which directs agencies to post transactions to the financial system in accordance with general ledger accounting requirements.

## CHAPTER 10 – WHISTLEBLOWER OMBUDSMAN PROGRAM

*The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), continues to stress the importance of a strong Whistleblower Protection Program and recognizes that whistleblowers are a crucial source of information about waste, fraud, and abuse. HUD OIG strives to create an environment in which these allegations can be freely reported without fear of reprisal.*

Key to HUD OIG's Whistleblower Protection Program is educating HUD and HUD OIG employees on prohibitions against retaliating against Federal whistleblowers and ensuring that employees understand their specific rights and remedies. Within the last 6 months, the HUD OIG Whistleblower Ombudsman Program has continued to focus on outreach and training. All HUD employees attended mandatory whistleblower training in October of 2015. The training was presented live and then posted on OIG's whistleblower Web page. Secretary Castro, consistent with his emphasis on this program, introduced the training and stressed its importance. The training was also given to all HUD OIG personnel, with Mr. Montoya providing introductory remarks stressing his view of the importance of the program. This briefing was also presented at OIG's managers meeting, September 14, 2015. The Whistleblower Ombudsman and senior Office of Investigation staff attended training provided by the Office of Special Counsel in December 2015. Whistleblower training is incorporated into HUD's new employee training and is also included in HUD's supervisor training series. Training is also retained on HUD OIG whistleblower and ethics Web sites. Additionally, OIG's Whistleblower Ombudsman maintains ongoing discussions with Office of Investigation staff handling whistleblower complaints.

HUD, with support of OIG's Whistleblower Ombudsman, is now certified under the Office of Special Counsel's 2302(c) Certification Program, confirming that the workforce has been informed about the rights and remedies available to it under the Whistleblower Protection Act, the Whistleblower Protection and Enhancement Act, and related civil service laws. In February 2016, HUD OIG registered for separate 2302(c) certification for its Whistleblower Protection Program. OIG certification is voluntary and held by approximately 20 percent of Federal OIGs.

The Whistleblower Ombudsman Program continues to work to find opportunities to highlight how whistleblower disclosures have the potential to save billions of taxpayer dollars. Whistleblowers play a critical role in keeping our Government honest, efficient, and accountable.

Number of complaints received	69
Number of complainants asserting whistleblower status <sup>10</sup>	69 (41 to hotline)
Employee <sup>11</sup> complaints referred for investigation to the HUD OIG Office of Investigation (OI)	19
Employee complaint investigations opened by OI	2
Complaints declined by OI	1
Complaints currently under review by OI	10
Employee complaint investigations closed by OI	6

<sup>10</sup> The complainants allege mistreatment (retaliation) by the housing authority after revealing fraud, waste, or abuse by the same housing authority. They define themselves as whistleblowers. These complaints are referred to OIG's hotline for appropriate referral and disposition.

<sup>11</sup> Employee complaints are those complaints received from employees, potential employees, and former employees of HUD as well as employees of contractors, subcontractors, and grantees.

# APPENDIX 1 – PEER REVIEW REPORTING

## OFFICE OF AUDIT

### 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.

### 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 Treasury Inspector General for Tax Administration on September 30, 2015. There were no recommendations included in the System Review Report. The report stated:

*In our opinion, the system of quality control for the audit organization of the HUD OIG in effect for the year ended March 31, 2015, 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. 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 USPS OIG

HUD OIG conducted an external peer review of the United States Postal Service (USPS) OIG, Office of Audit, and issued a final report on September 22, 2015. USPS OIG received a peer review rating of pass. A copy of the external quality control review report can be viewed at [http://www.uspsoig.gov/sites/default/files/document-library-files/2015/2015 HUD-OIG System Review Report.pdf](http://www.uspsoig.gov/sites/default/files/document-library-files/2015/2015%20HUD-OIG%20System%20Review%20Report.pdf).

## OFFICE OF INVESTIGATION

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

HUD OIG conducted an external peer review of the U.S. Social Security Administration (SSA) OIG, Office of Investigation, and issued a final report on August 12, 2013. HUD OIG determined that SSA OIG was in compliance with the quality standards established by the Council of the Inspectors General on Integrity and Efficiency and the Attorney General's guidelines.

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

The U.S. Department of Justice (DOJ) OIG conducted a peer review of the HUD OIG, Office of Investigation, and issued a final report on April 28, 2014. DOJ OIG determined that HUD OIG was in compliance with the quality standards established by the Council of the Inspectors General on Integrity and Efficiency and the Attorney General's guidelines.

## APPENDIX 2 - AUDIT REPORTS ISSUED

<b>INTERNAL REPORTS</b>	
<b>AUDIT REPORTS</b>	
<b>CHIEF FINANCIAL OFFICER</b>	
2016-FO-0003	Additional Details To Supplement Our Fiscal Years 2015 and 2014 (Restated) U.S. Department of Housing and Urban Development Financial Statement Audit, 11/18/2015. Better use: \$1,071,263,037.
2016-FO-0004	Fiscal Years 2015 and 2014 (Restated) Consolidated Financial Statements Audit, 11/23/2015.
<b>CHIEF INFORMATION OFFICER</b>	
2016-DP-0001	Fiscal Year 2015 Review of Information System Controls in Support of the Financial Statements Audit, 11/13/2015.
<b>DEPUTY SECRETARY</b>	
2016-FW-0001	HUD Did Not Effectively Negotiate, Execute, or Manage Its Agreements Under the Intergovernmental Personnel Act, 03/30/2016. Questioned: \$255,972. Unsupported: \$31,066.
<b>GOVERNMENT NATIONAL MORTGAGE ASSOCIATION</b>	
2016-FO-0001	Audit of Fiscal Years 2015 and 2014 (Restated) Financial Statements, 11/13/2015.
<b>HOUSING</b>	
2016-DP-0002	Single Family Insurance System and Single Family Insurance Claims Subsystem, 12/21/2015.
2016-FO-0002	Fiscal Years 2015 and 2014 Financial Statements Audit, 11/16/2015. Questioned: \$291,489,605. Unsupported: \$291,489,605.
<b>PUBLIC AND INDIAN HOUSING</b>	
2016-CH-0001	HUD Lacked Adequate Oversight of Public Housing Agencies' Compliance With Its Declaration of Trust Requirements, 02/26/2016. Better use: \$509,000,000.

<b>AUDIT-RELATED MEMORANDUMS<sup>12</sup></b>	
<b>CHIEF FINANCIAL OFFICER</b>	
2016-FO-0801	Independent Attestation Review: U.S. Department of Housing and Urban Development, Office of Special Needs Assistance Continuum of Care, Regarding Drug Control Accounting for Fiscal Year 2015, 02/01/2016.
<b>GOVERNMENT NATIONAL MORTGAGE ASSOCIATION</b>	
2016-DP-0801	Review of Information System Controls Over the Government National Mortgage Association, 11/30/2015.
<b>HOUSING</b>	
2016-KC-0801	FHA Approved Nonprofits Purchasing Real Estate-Owned Homes, 03/17/2016.
<b>EXTERNAL REPORTS</b>	
<b>AUDIT REPORTS</b>	
<b>COMMUNITY PLANNING AND DEVELOPMENT</b>	
2016-AT-1002	The Municipality of Toa Alta, PR, Did Not Properly Administer Its Section 108 Loan Guarantee Program, 12/17/2015. Questioned: \$9,717,872. Unsupported: \$9,578,105.
2016-BO-1001	The State of Rhode Island Generally Administered Its CDBG Disaster Recovery Assistance Grant in Accordance With Federal Regulations, 03/09/2016. Questioned: \$127,750. Unsupported: \$127,750.
2016-CH-1001	EdgeAlliance, Inc., Chicago, IL, Did Not Administer Continuum of Care Program Funds for The Daniel R. Ruscitti Phoenix House in Accordance With Federal Regulations, 11/24/2015. Questioned: \$774,352. Unsupported: \$686,701.
2016-FW-1001	The City of Baton Rouge and Parish of East Baton Rouge, LA, Office of Community Development Did Not Always Properly Administer Its CDBG Program Activities, 03/21/2016. Questioned: \$2,264,103. Unsupported: \$2,264,103.
2016-KC-1001	The State of Missouri Did Not Correctly Allocate Salaries to Its Disaster Recovery Grants, 02/22/2016. Questioned: \$1,551,656. Unsupported: \$1,551,656.

<sup>12</sup> The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government auditing standards, to close out assignments with no findings and recommendations, to respond to requests for information, to report on the results of a survey, or to report the results of civil actions or settlements.

2016-LA-1002	The County of Riverside, CA, Did Not Always Support the Eligibility of Its CDBG Program Expenses, 02/18/2016. Questioned: \$44,305. Unsupported: \$44,305.
2016-NY-1002	The City of Niagara Falls Had Weaknesses in Controls Over CDBG-Funded Subgrantee-Administered Rehabilitation Activities, 01/07/2016. Questioned: \$220,538. Unsupported: \$220,538. Better use: \$116,249.
2016-NY-1003	The City of Rochester, NY, Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, 02/05/2016. Questioned: \$8,335,335. Unsupported: \$8,182,056. Better use: \$1,500,000.
2016-NY-1004	The Lower Manhattan Development Corporation, New York, NY, Generally Disbursed CDBG Disaster Recovery Funds in Accordance With HUD Regulations, 02/19/2016.
2016-NY-1005	The City of New York, NY, Generally Disbursed CDBG Disaster Recovery Funds for Its Temporary Disaster Assistance Program in Accordance With Federal Regulations, 03/11/2016.
2016-NY-1006	New York State Did Not Always Disburse CDBG Disaster Recovery Funds in Accordance With Federal and State Regulations, 03/29/2016. Questioned: \$425,162. Unsupported: \$152,703. Better use: \$300,000.
2016-NY-1007	The City of Jersey City, NJ's CDBG Program Had Administrative and Financial Control Weaknesses, 03/30/2016. Questioned: \$1,941,618. Unsupported: \$1,830,823. Better use: \$16,206,508.
<b>HOUSING</b>	
2016-NY-1001	Provident Bank, Iselin, NJ, Needs To Improve Controls Over Its Servicing of FHA-Insured Mortgages and Loss Mitigation Efforts, 11/30/2015. Questioned: \$359,514. Better use: \$696,185.
2016-SE-1001	Homewood Terrace, Auburn, WA, Did Not Always Conduct Timely Reexaminations, Properly Request Assistance Payments, or Verify Income Information, 03/09/2016. Questioned: \$9,015. Unsupported: \$3,087. Better use: \$105,324.
<b>PUBLIC AND INDIAN HOUSING</b>	
2016-AT-1001	The Virgin Islands Housing Authority, St. Thomas, VI, Did Not Adequately Enforce HUD's Housing Quality Standards, 12/08/2015. Questioned: \$152,484. Better use: \$6,217,059.

2016-AT-1003	The Huntsville Housing Authority Administered Its Section 8 Housing Choice Voucher Program in Accordance With HUD's and Its Own Requirements, 02/18/2016.
2016-AT-1004	The Puerto Rico Department of Housing, San Juan, PR, Did Not Adequately Enforce HUD's Housing Quality Standards, 03/14/2016. Questioned: \$112,215. Better use: \$19,344,376.
2016-CH-1002	The Lansing Housing Commission, Lansing, MI, Did Not Always Comply With HUD's Requirements and Its Own Policies Regarding the Administration of Its Section 8 Housing Choice Voucher Program, 12/16/2015. Questioned: \$143,865. Unsupported: \$105,882. Better use: \$391,032.
2016-KC-1002	The Poplar Bluff Housing Authority Improperly Phased In Flat Rents, 03/09/2016. Better use: \$31,532.
2016-LA-1001	The Reno-Sparks Indian Colony, Reno, NV, Did Not Always Comply With HUD Procurement Regulations, 02/10/2016. Questioned: \$6,000. Unsupported: \$6,000.
2016-PH-1001	The Westmoreland County Housing Authority, Greensburg, PA, Did Not Properly Manage Its Housing Choice Voucher Waiting List and Select Applicants as Required, 01/13/2016.
<b>AUDIT-RELATED MEMORANDUMS<sup>13</sup></b>	
<b>COMMUNITY PLANNING AND DEVELOPMENT</b>	
2016-NY-1801	The City of Jersey City's Administration of Its Lead Paint Activities Did Not Comply With Federal and New Jersey State Requirements, 02/11/2016.
<b>GENERAL COUNSEL</b>	
2016-DE-1801	The Owner of a HUD-Insured Multifamily Property Settled Proposed Debarment From Participating in All Procurement and Nonprocurement Transactions With the Executive Branch of the Federal Government for a 5-Year Period, 03/17/2016.
<b>HOUSING</b>	
2016-AT-1801	Saltillo Assisted Living, Saltillo, MS, Did Not Maintain Liability and Property Insurance, 12/16/2015.
<b>PUBLIC AND INDIAN HOUSING</b>	
2016-FW-1801	The Housing Authority of the City of Pearsall, TX, Improperly Procured and Paid Its Interim Executive Director, 10/02/2015. Questioned: \$138,880.

<sup>13</sup> The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government auditing standards, to close out assignments with no findings and recommendations, to respond to requests for information, to report on the results of a survey, or to report the results of civil actions or settlements.



## TABLE A

### Audit reports issued before the start of period with no management decision at 3/31/2016

\*Significant audit reports described in previous Semiannual Reports

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE
* 2014-FO-0003 Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements	See chapter 9, page 41	12/16/2013
* 2014-FO-0004 HUD's Fiscal Year 2013 Compliance With the Improper Payments Elimination and Recovery Act of 2010	See chapter 9, page 42	04/15/2014
* 2014-KC-0002 The Data in CAIVRS Did Not Agree With the Data in FHA's Default and Claims Systems	See chapter 9, page 42	07/02/2014
* 2014-NY-1007 The Niagara Falls Housing Authority Did Not Always Administer Its HOPE VI Grant Program and Activities in Accordance With HUD Requirements	See chapter 9, page 43	07/10/2014
* 2014-LA-0005 HUD Did Not Always Recover FHA Single-Family Indemnification Losses and Ensure That Indemnification Agreements Were Extended	See chapter 9, page 44	08/08/2014
* 2015-FO-0002 Interim Report on HUD's Internal Controls Over Financial Reporting	See chapter 9, page 45	12/08/2014
* 2015-PH-1803 Final Civil Action Borrower Settled Alleged Violations of Home Equity Conversion Mortgage Program	See chapter 9, page 52	01/30/2015
* 2015-PH-1804 Final Civil Action Court Ordered a Former Executive Director of the Philadelphia Housing Authority To Pay Civil Penalties for Violating Federal Lobbying Disclosure Requirements and Restrictions	See chapter 9, page 52	02/19/2015
* 2015-FO-0003 Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2014 and 2013	See chapter 9, page 46	02/27/2015
* 2015-CF-1801 Group One Mortgage, Inc., Settled Allegations of Failing To Comply With Federal Housing Administration Underwriting Requirements	See chapter 9, page 53	03/27/2015
* 2015-CF-1804 Borrower Settled Allegations of Not Complying With the Primary Residence Requirement of the Federal Housing Administration Program	See chapter 9, page 52	03/27/2015
* 2015-SE-1801 Civic Construction, LLC, Settled Allegations of Making False Claims to the Seattle Housing Authority	See chapter 9, page 52	03/30/2015

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE
* 2015-PH-1003 The State of New Jersey Did Not Comply With Federal Procurement and Cost Principle Requirements in Implementing Its Disaster Management System	See chapter 9, page 46	06/04/2015
* 2015-LA-1005 NOVA Financial & Investment Corporation's FHA-Insured Loans With Downpayment Assistance Gifts Did Not Always Meet HUD Requirements	See chapter 9, page 50	07/09/2015
* 2015-PH-1807 Final Civil Action Borrower Settled Alleged Violations of Home Equity Conversion Mortgage Program	See chapter 9, page 52	09/16/2015
* 2015-NY-1011 Program Control Weaknesses Lessened Assurance That New York Rising Housing Recovery Program Funds Were Always Disbursed for Eligible Costs	See chapter 9, page 48	09/17/2015
* 2015-CF-1807 Mason-McDuffie Mortgage Corporation Settled Allegations of Failing To Comply With HUD's Federal Housing Administration Loan Requirements	See chapter 9, page 52	09/28/2015
* 2015-CF-1808 Reverse Mortgage Solutions, Inc., Settled Alleged Violations of Federal Housing Administration Loan Requirements Related to Home Equity Conversion Mortgages	See chapter 9, page 52	09/28/2015
* 2015-AT-1801 Final Civil Action: First Tennessee Settled Allegations of Failing To Comply With HUD's Federal Housing Administration Loan Requirements	See chapter 9, page 52	09/29/2015
* 2015-CF-1809 Iron Mountain Settled Allegations of Making False Disclosures and False Statements Regarding Discounts and Prices Relevant to Contracts It Had With HUD	See chapter 9, page 53	09/29/2015
* 2015-CH-1801 Final Civil Action: GTL Investments, Inc., Doing Business as John Adams Mortgage Company, Settled Allegations of Failing To Comply With HUD's FHA Loan Requirements	See chapter 9, page 53	09/30/2015
* 2015-DE-1802 Owner of HUD-Insured Multifamily Property Settled Allegations of Authorizing and Paying Out Project Funds for Unallowable Expenses	See chapter 9, page 53	09/30/2015
* 2015-LA-1009 loanDepot's FHA-Insured Loans With Downpayment Assistance Funds Did Not Always Meet HUD Requirements	See chapter 9, page 49	09/30/2015
* 2015-LA-1010 loanDepot's FHA-Insured Loans With Golden State Finance Authority Downpayment Assistance Gifts Did Not Always Meet HUD Requirements	See chapter 9, page 49	09/30/2015

## 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
2005-AT-1013	Corporacion para el Fomento Economico de la Ciudad Capital, San Juan, Puerto Rico, Did Not Administer Its Independent Capital Fund in Accordance with HUD Requirements	09/15/2005	01/11/2006	Note 1
2007-AT-1010	The Cathedral Foundation of Jacksonville, FL, Used More Than \$2.65 Million in Project Funds for Questioned Costs	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-DP-0004	Review of Selected FHA Major Applications' Information Security Controls	06/12/2008	10/08/2008	Note 1
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-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	Note 1
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	12/31/2016

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2009-AT-0001	HUD Lacked Adequate Controls to Ensure the Timely Commitment and Expenditure of HOME Funds	09/28/2009	03/18/2011	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-CH-1008	The DuPage Housing Authority Inappropriately Administered Its Section 8 Project-Based Voucher Program, Wheaton, IL	06/15/2010	10/08/2010	10/31/2016
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	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	Note 2
2011-CH-1004	The State of Indiana's Administrator Lacked Adequate Controls Over the State's HOME Investment Partnerships Program and American Dream Downpayment Initiative-Funded First Home/PLUS Program, Indianapolis, IN	01/31/2011	05/25/2011	Note 2
2011-CH-1006	The DuPage Housing Authority Inappropriately Administered Its Section 8 Housing Choice Voucher Program, Wheaton, IL	03/23/2011	07/28/2011	10/31/2016
2011-AT-1006	The Municipality of Mayaguez Did Not Ensure Compliance With HOME Program Objectives, Mayaguez, PR	04/08/2011	08/05/2011	Note 1

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2011-NY-1010	The City of Buffalo Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Buffalo, NY	04/15/2011	01/25/2012	Note 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	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	05/31/2016
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	03/30/2017
2011-NY-1016	The City of Buffalo Did Not Always Disburse Homelessness Prevention and Rapid Re-Housing Program Funds in Accordance With Regulations, Buffalo, NY	09/22/2011	01/25/2012	Note 1
2011-AT-1018	The Municipality of San Juan Did Not Properly Manage Its HOME Investment Partnerships Program, San Juan, PR	09/28/2011	01/12/2012	Note 1
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	07/01/2016
2011-CH-1018	The Pontiac Housing Commission Did Not Adequately Administer Its American Recovery and Reinvestment Act Capital Fund Grant, Pontiac, MI	09/30/2011	01/10/2012	06/30/2016
2012-NY-1002	The City of New York Charged Questionable Expenditures to Its HPRP, New York, NY	10/18/2011	02/16/2012	Note 1
2012-PH-0001	HUD Needed To Improve Its Use of Its Integrated Disbursement and Information System To Oversee Its CDBG Program	10/31/2011	02/28/2012	Note 1
2012-FO-0003	Additional Details To Supplement Our Report on HUD's Fiscal Years 2011 and 2010 Financial Statements	11/15/2011	05/10/2012	04/30/2016

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
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	10/01/2016
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-FW-1005	The State of Texas Did Not Follow Requirements for Its Infrastructure and Revitalization Contracts Funded With CDBG Disaster Recovery Program Funds, Austin, TX	03/07/2012	07/05/2012	Note 1
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	Note 2
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 1
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	12/30/2016
2012-PH-1011	Prince George's County Generally Did Not Administer Its HOME Program in Accordance With Federal Requirements, Largo, MD	08/03/2012	11/30/2012	Note 1
2012-CH-1011	The Stark Metropolitan Housing Authority Did Not Always Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Own Requirements, Canton, OH	09/27/2012	01/15/2013	12/31/2018

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
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	07/25/2016
2012-DP-0005	Review of Controls Over HUD's Mobile Devices	09/28/2012	12/18/2012	04/30/2016
2013-PH-1001	Luzerne County Did Not Properly Evaluate, Underwrite, and Monitor a High-Risk Loan, Wilkes-Barre, PA	10/31/2012	01/31/2013	Note 1
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	Note 2
2013-AT-1001	The Municipality of Ponce Did Not Always Ensure Compliance With HOME Investment Partnerships Program Requirements, Ponce, PR	11/30/2012	03/29/2013	Note 1
2013-NY-1001	The City of Albany CDBG Recovery Act Program, Albany, NY	12/06/2012	04/03/2013	Note 1
2013-PH-0002	HUD Policies Did Not Always Ensure That Borrowers Complied With Program Residency Requirements	12/20/2012	04/19/2013	Note 1
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 1
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	Note 1
2013-AT-1003	The Municipality of Arecibo Did Not Always Ensure Compliance With CDBG Program Requirements, Arecibo, PR	03/22/2013	06/14/2013	Note 1

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
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)	03/29/2013	09/29/2014	Note 2
2013-FW-1004	The Housing Authority of the City of El Paso Did Not Follow Recovery Act Obligation Requirements or Procurement Policies, El Paso, TX	04/12/2013	08/27/2013	Note 1
2013-LA-1004	The City of San Bernardino Did Not Administer Its CDBG and CDBG-Recovery Act Programs in Accordance With HUD Rules and Regulations, San Bernardino, CA	04/23/2013	09/06/2013	09/30/2017
2013-NY-1006	Nassau County Did Not Administer Its HOME Investment Partnerships Program in Accordance With HUD Requirements, Nassau County, NY	05/13/2013	09/06/2013	Note 1
2013-FW-1006	The Management and Board of Commissioners of the Harris County Housing Authority Mismanaged the Authority, Houston, TX	06/19/2013	02/11/2014	08/13/2016
2013-KC-0002	HUD Did Not Enforce the Reporting Requirements of Section 3 of the Housing and Urban Development Act of 1968 for Public Housing Authorities	06/26/2013	10/24/2013	Note 1
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	11/12/2013	10/31/2016
2013-NY-0003	HUD Officials Did Not Always Monitor Grantee Compliance With the CDBG Timeliness Spending Requirement	07/19/2013	11/26/2013	Note 1
2013-AT-1006	The Puerto Rico Housing Finance Authority Did Not Always Comply With HOME Requirements, San Juan, PR	07/23/2013	11/20/2013	Note 1
2013-LA-0002	FHA Paid Claims for Approximately 4,457 Preforeclosure Sales That Did Not Meet Minimum Net Sales Proceeds Requirements	09/05/2013	03/31/2014	Note 1



REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2013-LA-1009	The City of Hawthorne Inappropriately Used Nearly \$1.6 Million in HOME Funds for Section 8 Tenants, Hawthorne, CA	09/13/2013	01/06/2014	Note 1
2013-CH-1006	The State of Michigan Lacked Adequate Controls Over Its NSP Under the American Recovery and Reinvestment Act of 2009, Lansing, MI	09/15/2013	01/13/2014	04/15/2016
2013-CH-1008	Community Advocates Did Not Properly Administer Its Program and Recovery Act Grant Funds, Milwaukee, WI	09/17/2013	01/15/2014	06/30/2016
2013-LA-1010	The City of Hawthorne Did Not Administer Its CDBG Program Cost Allocations in Accordance With HUD Rules and Requirements, Hawthorne, CA	09/20/2013	01/06/2014	Note 1
2013-FW-1008	The City of New Orleans Did Not Have Adequate Financial and Programmatic Controls To Ensure That It Expended and Reported Funds in Accordance With Program Requirements, New Orleans, LA	09/24/2013	01/06/2014	Note 1
2013-FW-1805	The Malakoff Housing Authority Did Not Have Sufficient Controls Over Its Public Housing Programs, Including Its Recovery Act Funds, Malakoff, TX	09/26/2013	12/19/2013	04/30/2016
2013-NY-1010	The City of Auburn Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Auburn, NY	09/26/2013	01/24/2014	Note 2
2013-CH-1009	The Flint Housing Commission Did Not Always Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Own Requirements, Flint, MI	09/27/2013	01/14/2014	07/25/2016
2013-AT-1008	The City of West Palm Beach Did Not Always Properly Administer Its HOME Program, West Palm Beach, FL	09/30/2013	01/17/2014	Note 1
2013-CH-1010	The City of Toledo Did Not Always Administer Its CDBG Program in Accordance With HUD's and Its Own Requirements, Toledo, OH	09/30/2013	01/15/2014	Note 1

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2013-CH-1011	The Michigan State Housing Development Authority Did Not Follow HUD's Requirements Regarding the Administration of Its Program, Lansing, MI	09/30/2013	01/15/2014	07/31/2029
2013-CH-1012	The Hamtramck Housing Commission Did Not Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Own Requirements, Hamtramck, MI	09/30/2013	01/21/2014	07/25/2016
2013-DE-1005	The Jefferson County Housing Authority Did Not Properly Use Its Disposition Sales Proceeds, Wheat Ridge, CO	09/30/2013	01/24/2014	02/28/2020
2014-CH-1001	The City of Flint Lacked Adequate Controls Over Its HOME Investment Partnerships Program, Flint, MI	11/15/2013	03/13/2014	10/14/2016
2014-AT-1001	The Municipality of Arecibo Did Not Properly Administer Its HOME Program, Arecibo, PR	12/03/2013	01/24/2014	Note 1
2014-FO-0001	Government National Mortgage Association Fiscal Years 2013 and 2012 Financial Statements Audit	12/06/2013	05/02/2014	Note 1
2014-FO-0002	Federal Housing Administration Fiscal Years 2013 and 2012 Financial Statements Audit	12/13/2013	04/14/2014	Note 1
2014-FO-0003	Additional Details To Supplement Our Report on HUD's Fiscal Years 2013 and 2012 (Restated) Financial Statements	12/16/2013	07/09/2014	Note 3
2014-PH-1001	The City of Norfolk Generally Failed To Justify Its CDBG Activities, Norfolk, VA	12/17/2013	04/16/2014	Note 2
2014-AT-1004	The State of Mississippi Did Not Ensure That Its Subrecipient and Appraisers Complied With Requirements, and It Did Not Fully Implement Adequate Procedures for Its Disaster Infrastructure Program, Jackson, MS	12/30/2013	04/15/2014	Note 2
2014-CH-1002	The City of Detroit Lacked Adequate Controls Over Its Neighborhood Stabilization Program-Funded Demolition Activities Under the Housing and Economic Recovery Act of 2008, Detroit, MI	01/06/2014	05/05/2014	Note 2

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2014-NY-1001	The Paterson Housing Authority Had Weaknesses in Administration of its Housing Choice Voucher Program, Paterson, NJ	01/15/2014	06/12/2014	07/01/2025
2014-FW-0001	The Boston Office of Public Housing Did Not Provide Adequate Oversight of Environmental Reviews of Three Housing Agencies, Including Reviews Involving Recovery Act Funds	02/07/2014	03/17/2015	10/01/2016
2014-NY-0001	HUD Did Not Provide Effective Oversight of Section 202 Multifamily Project Refinances	02/19/2014	06/10/2014	Note 1
2014-AT-0001	Violations Increased the Cost of Housing's Administration of Its Bond Refund Program	03/14/2014	07/11/2014	Note 2
2014-AT-1801	Vieques Sports City Complex, Office of the Commissioner for Municipal Affairs, Section 108 Loan Guarantee Program, San Juan, PR	03/20/2014	07/11/2014	Note 2
2014-FO-0004	HUD's Fiscal Year 2013 Compliance With the Improper Payments Elimination and Recovery Act of 2010	04/15/2014	01/07/2015	Note 3
2014-CH-1003	The Hamtramck Housing Commission Did Not Always Administer Its Grant in Accordance With Recovery Act, HUD's, or Its Own Requirements, Hamtramck, MI	04/30/2014	08/08/2014	10/31/2016
2014-DP-0005	Fiscal Year 2013 Review of Information Systems Controls in Support of the Financial Statements Audit	04/30/2014	02/09/2015	Note 2
2014-FW-0002	Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Kansas City Office	05/12/2014	03/17/2015	10/01/2016
2014-AT-1005	The City of Huntsville, Community Development Department, Did Not Adequately Account for and Administer the Mirabeau Apartments Project, Huntsville, AL	05/29/2014	09/23/2014	Note 2
2014-NY-1005	Financial and Administrative Control Weaknesses Existed in Middlesex County, NJ's HOME Investment Partnerships Program, Middlesex County, NJ	06/10/2014	07/17/2014	Note 2

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2014-LA-0004	HUD Could Not Support the Reasonableness of the Operating and Capital Fund Programs' Fees and Did Not Adequately Monitor Central Office Cost Centers	06/30/2014	10/20/2014	12/31/2017
2014-KC-0002	The Data in CAIVRS Did Not Agree With the Data in FHA's Default and Claims Systems	07/02/2014	10/27/2014	Note 3
2014-NY-1006	Monmouth County Expended CDBG Funds for Eligible Activities, But Control Weaknesses Need To Be Strengthened, Monmouth County, NJ	07/02/2014	08/06/2014	Note 2
2014-LA-1004	The White Mountain Apache Housing Authority Did Not Always Comply With Its Indian Housing Block Grant Requirements, White River, AZ	07/08/2014	10/24/2014	Note 2
2014-PH-1007	The Cumberland Plateau Regional Housing Authority Did Not Procure Services in Accordance With HUD Requirements, Lebanon, VA	07/15/2014	09/05/2014	10/01/2017
2014-NY-1008	Palladia, Inc., Did Not Administer Its Supportive Housing Program in Accordance With HUD Requirements, New York, NY	07/25/2014	11/21/2014	Note 2
2014-AT-1007	The Municipality of Carolina Did Not Properly Administer Its HOME Program, Carolina, PR	08/08/2014	12/05/2014	Note 2
2014-LA-0005	HUD Did Not Always Recover FHA Single-Family Indemnification Losses and Ensure That Indemnification Agreements Were Extended	08/08/2014	12/03/2014	Note 3
2014-FW-1805	The Kenner Housing Authority Did Not Administer Its Public Housing and Recovery Act Programs in Accordance With Regulations and Guidance, Kenner, LA	08/13/2014	11/10/2014	01/31/2017
2014-CH-1006	The Goshen Housing Authority Failed To Follow HUD's and Its Own Requirements Regarding the Administration of Its Program, Goshen, IN	08/14/2014	01/21/2015	12/31/2016

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2014-FW-1806	The South Landry Housing Authority Did Not Always Comply With Federal Procurement and Financial Requirements, Including a Procurement Using Recovery Act Funds, Grand Coteau, LA	08/19/2014	12/09/2014	12/31/2016
2014-LA-1005	The City of Richmond Did Not Administer Its NSP in Accordance With Requirements, Richmond, CA	08/22/2014	12/19/2014	06/30/2016
2014-PH-1008	The State of New Jersey Did Not Fully Comply With Federal Procurement and Cost Principle Requirements in Implementing Its Tourism Marketing Program	08/29/2014	09/02/2015	Note 2
2014-NY-0003	Asset Repositioning Fees for Public Housing Authorities With Units Approved for Demolition or Disposition Were Not Always Accurately Calculated	09/04/2014	12/29/2014	12/31/2016
2014-AT-1010	Miami-Dade County Did Not Always Properly Administer Its HOME Program, Miami, FL	09/11/2014	12/11/2014	Note 2
2014-KC-0003	HUD Did Not Always Enforce the Requirements of the Regulatory Agreements and HUD Handbooks Pertaining to Owner Advances and Distributions	09/17/2014	11/25/2014	Note 2
2014-NY-1009	The City of Jersey City's HOME Investment Partnerships Program Administration Had Financial and Administrative Controls Weaknesses, City of Jersey City, NJ	09/18/2014	01/13/2015	Note 2
2014-DP-0006	Program Accounting System	09/23/2014	12/01/2014	Note 2
2014-FW-0005	Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Detroit Office	09/24/2014	03/17/2015	10/01/2016
2014-KC-0004	Lenders Generated \$428 Million in Gains From Modifying Defaulted FHA Loans	09/24/2014	01/22/2015	Note 2

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2014-FW-1006	Cornerstone Home Lending Did Not Adequately Underwrite 16 Loans, Violated the Real Estate Settlement Procedures Act, and Did Not Implement an Adequate Quality Control Plan During Our Review Period, Houston, TX	09/26/2014	03/30/2015	Note 2
2014-LA-1007	The City of Los Angeles Did Not Always Ensure That CDBG-Funded Projects Met National Program Objectives, Los Angeles, CA	09/29/2014	01/27/2015	03/31/2017
2014-AT-1016	The Housing Authority of the City of Spartanburg Used HUD Program Funds for Ineligible Expenses, Spartanburg, SC	09/30/2014	01/28/2015	05/31/2016
2014-CH-0001	HUD Did Not Always Provide Adequate Oversight of Its Property-Flipping Waiver Requirements	09/30/2014	03/24/2015	Note 2
2014-CH-1011	The City of Chicago Lacked Adequate Controls Over Its HOME Investment Partnerships Program-Funded Rental New Construction Projects and Program Income, Chicago, IL	09/30/2014	01/28/2015	08/29/2016
2014-CH-1012	The Owner and Former Management Agents Lacked Adequate Controls Over the Operation of Lake Village of Fairlane Apartments, Dearborn, MI	09/30/2014	01/28/2015	06/30/2016
2014-KC-0006	The HUD Office of the Chief Financial Officer Had Not Always Implemented Its User Fee Policy	09/30/2014	01/22/2015	11/30/2016
2014-PH-0001	HUD Policies Did Not Always Ensure That HECM Borrowers Complied With Residency Requirements	09/30/2014	01/28/2015	Note 2
2015-FW-1801	The Management of the Housing Authority of the City of Taylor Did Not Exercise Adequate Oversight of Its Programs, Taylor, TX	10/02/2014	01/30/2015	08/03/2016
2015-DP-0001	Information System Control Weaknesses Identified in the Single Family Housing Enterprise Data Warehouse	10/21/2014	12/12/2014	Note 2

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2015-FW-1802	The Rotan Housing Authority Did Not Administer Its Public Housing and Recovery Act Programs in Accordance With Regulations and Other Requirements, Rotan, TX	10/31/2014	02/20/2015	01/31/2017
2015-FO-0001	Audit of the Federal Housing Administration's Financial Statements for Fiscal Years 2014 and 2013	11/14/2014	04/14/2015	Note 2
2015-NY-1001	The City of New York Did Not Always Disburse CDBG Disaster Recovery Assistance Funds to Its Subrecipient in Accordance With Federal Regulations, New York, NY	11/24/2014	03/23/2015	Note 2
2015-NY-1002	The Freeport Housing Authority Did Not Administer Its Low-Rent Housing and Homeownership Programs in Accordance With HUD's Regulations, Freeport, NY	12/01/2014	03/19/2015	10/01/2016
2015-NY-0001	HUD Did Not Always Follow Applicable Requirements or Use Best Practices in the Procurement and Administration of Its Multifamily Servicing Contract	12/02/2014	05/19/2015	05/02/2016
2015-AT-1001	The Office of the Commissioner for Municipal Affairs Needs To Make Improvements in Administering Its Section 108 Loan Guarantee Program, San Juan, PR	12/05/2014	04/03/2015	04/02/2016
2015-FO-0002	Interim Report on HUD's Internal Controls Over Financial Reporting	12/08/2014	09/28/2015	Note 3
2015-DP-0004	Office of the Chief Financial Officer Loan Accounting System	12/09/2014	04/17/2015	04/14/2016
2015-FW-0801	Intergovernmental Personnel Act Appointment Created an Inherent Conflict of Interest in the Office of Public and Indian Housing	01/20/2015	05/20/2015	04/30/2016
2015-PH-0001	HUD Lacked Adequate Oversight To Ensure That Public Housing Agencies Complied With Federal Lobbying Disclosure Requirements and Restrictions	01/30/2015	07/10/2015	10/01/2016

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2015-PH-1001	The County of Beaver Did Not Always Administer Its HOME Program in Accordance With Applicable HUD and Federal Requirements, Beaver Falls, PA	01/30/2015	08/31/2015	08/31/2016
2015-BO-1002	Rhode Island Housing Did Not Always Adequately Support HOME Fund Expenditures, Providence, RI	02/04/2015	05/21/2015	05/02/2016
2015-CH-1001	The Chicago Housing Authority Moving to Work Housing Choice Voucher Program, Chicago, IL	02/24/2015	06/10/2015	04/01/2018
2015-DP-0005	Fiscal Year 2014 Review of Information Systems Controls in Support of the Financial Statements Audit	02/24/2015	07/02/2015	07/02/2016
2015-FO-0003	Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2014 and 2013	02/27/2015	06/25/2015	Note 3
2015-BO-1003	The State of Rhode Island Did Not Always Operate Its NSP in Compliance With HUD Regulations, Providence, RI	03/04/2015	07/01/2015	06/30/2016
2015-KC-1001	Breakthrough Living Program Did Not Administer Its Program in Accordance With HUD Rules and Regulations, Topeka, KS	03/05/2015	05/05/2015	05/16/2016
2015-AT-0001	HUD's Office of Community Planning and Development Did Not Always Pursue Remedial Actions but Generally Implemented Sufficient Controls for Administering Its Neighborhood Stabilization Program	03/31/2015	08/28/2015	04/30/2016
<b>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 03/31/2016</b>				
2015-LA-1002	Veterans First, Santa Ana, CA, Did Not Administer and Spend Its HUD Funding in Accordance With HUD Requirements	04/16/2015	08/14/2015	07/31/2016
2015-LA-0001	HUD's Claim Payment System Did Not Always Identify Ineligible FHA-HAMP Partial Claims	04/20/2015	08/19/2015	06/30/2016



REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2015-AT-1002	The Housing Authority of the City of Comer Did Not Comply With Conflict-of-Interest and Procurement Requirements	04/24/2015	05/19/2015	05/31/2016
2015-NY-1005	The City of Paterson, NJ's HOME Investment Partnerships Program Controls Did Not Ensure Compliance With Regulations	04/30/2015	06/03/2015	04/29/2016
2015-FO-0005	Compliance With the Improper Payments Elimination and Recovery Act	05/15/2015	10/02/2015	08/31/2018
2015-NY-1006	First Niagara Bank, Lockport, NY, Did Not Always Properly Implement HUD's Loss Mitigation Requirements in Servicing FHA-Approved Mortgages	05/22/2015	11/19/2015	05/22/2016
2015-LA-1004	The Housing Authority of the County of San Bernardino, San Bernardino, CA, Used Shelter Plus Care Program Funds for Ineligible and Unsupported Participants	05/29/2015	09/16/2015	09/09/2016
2015-PH-1003	The State of New Jersey Did Not Comply With Federal Procurement and Cost Principle Requirements in Implementing Its Disaster Management System	06/04/2015	10/02/2015	Note 3
2015-FW-1806	The Housing Authority of Bexar County, TX, Did Not Operate Its HUD Public Housing Programs in Accordance With Regulations and Other Requirements	06/11/2015	08/28/2015	07/01/2016
2015-FO-0801	Potential Antideficiency Act Violation HOME Investment Partnerships Program	06/16/2015	12/11/2105	06/16/2016
2015-FW-0001	HUD Did Not Adequately Implement or Provide Adequate Oversight To Ensure Compliance With Environmental Requirements	06/16/2015	10/07/2015	10/14/2016
2015-FW-1002	The City of New Orleans, LA, Did Not Always Comply With Requirements When Administering Its 2013 Disaster Relief Grant	06/26/2015	09/29/2015	06/01/2016
2015-AT-1003	Prudential Huntoon Paige Associates, LTD, Did Not Underwrite and Process a \$19.9 Million Loan in Accordance With HUD Requirements	06/30/2015	09/18/2015	08/10/2016

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2015-DE-1002	The City Used Grant Funds for Unsupported Salary and Project Costs and Did Not Properly Complete Environmental Reviews of Its Projects	06/30/2015	10/28/2015	05/31/2016
2015-DE-1003	The City Of Colorado Springs Did Not Always Administer Its HOME Program in Accordance With Applicable Requirements	06/30/2015	10/28/2015	05/31/2016
2015-LA-0002	HUD Did Not Provide Adequate Oversight of the Section 184 Indian Home Loan Guarantee Program	07/06/2015	10/28/2015	11/02/2016
2015-AT-1005	The City of High Point Did Not Properly Administer Its Lead-Based Paint Hazard Control Grants in Compliance With Federal Requirements	07/09/2015	11/06/2015	11/07/2016
2015-LA-1005	NOVA Financial & Investment Corporation's FHA-Insured Loans With Downpayment Assistance Gifts Did Not Always Meet HUD Requirements	07/09/2015	09/11/2015	Note 3
2015-PH-0002	Overincome Families Resided in Public Housing Units	07/21/2015	01/15/2016	04/01/2016
2015-AT-1006	The State of Florida, Tallahassee, FL, Did Not Properly Support the Eligibility of Some Funds Used for the CDBG Disaster Recovery Program	07/27/2015	11/24/2015	05/23/2016
2015-PH-0003	HUD Did Not Adequately Oversee Enhanced Vouchers Administered by New York Agencies	07/29/2015	10/29/2015	10/28/2016
2015-CH-0001	HUD Did Not Always Provide Adequate Oversight of Its Section 203(k) Rehabilitation Loan Mortgage Insurance Program	07/31/2015	11/27/2015	11/24/2016
2015-KC-1005	Berkadia Approved a Mortgage for the Temtor Project That Was Not Economically Sound	08/04/2015	12/02/2015	11/16/2016
2015-KC-0002	The Office of Community Planning and Development's Reviews of Matching Contributions Were Ineffective and Its Application of Match Reductions Was Not Always Correct	08/11/2015	12/09/2015	10/31/2016

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2015-AT-1007	Prudential Huntoon Paige Associates, LTD, Did Not Underwrite and Process a \$22 Million Loan in Accordance With HUD Requirements	08/14/2015	09/11/2015	12/02/2016
2015-AT-0002	HUD's Office of Multifamily Asset Management and Portfolio Oversight Did Not Comply With Its Requirements For Monitoring Management Agents' Costs	08/21/2015	12/16/2015	09/30/2016
2015-PH-0004	HUD Policies Did Not Always Ensure That HECM Borrowers Complied With Residency Requirements	08/21/2015	12/18/2015	12/18/2016
2015-AT-1008	Broward County, Fort Lauderdale, FL, Did Not Properly Administer One of Its Projects and Did Not Comply With Some Match Requirements	08/23/2015	10/30/2015	06/21/2016
2015-CH-0802	HUD's Office of Public Housing Investments Could Improve Its Oversight of the Chicago Housing Authority's Exception Payment Standards Under Its Moving to Work Housing Choice Voucher Program	08/26/2015	10/29/2015	10/15/2016
2015-AT-0003	HUD Did Not Complete an Adequate Front-End Risk Assessment for the Rental Assistance Demonstration	09/03/2015	12/21/2015	06/30/2016
2015-AT-1009	St. Francis Hospital, Inc., Did Not Comply With the Executed Regulatory Agreement and Federal Regulations for the HUD Section 242 Program	09/03/2015	10/17/2015	11/14/2016
2015-DP-0007	New Core Project: Release 1 of Phase 1 New Core Interface Solution	09/03/2015	10/22/2015	09/30/2016
2015-FW-1808	The Duson Housing Authority, Duson, LA, Failed To Administer Its Public Housing Program in Accordance With HUD Requirements	09/10/2015	11/05/2015	11/03/2016
2015-NY-1010	New York State Did Not Always Administer Its Rising Home Enhanced Buyout Program in Accordance With Federal and State Regulations	09/17/2015	03/01/2016	02/16/2017

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2015-NY-1011	Program Control Weaknesses Lessened Assurance That New York Rising Housing Recovery Program Funds Were Always Disbursed for Eligible Costs	09/17/2015	03/18/2016	Note 3
2015-LA-0003	HUD Did Not Have Effective Controls or Clear Guidance in Place for the FHA-HAMP Partial Claim Loss Mitigation Option	09/18/2015	03/23/2016	09/30/2016
2015-CH-1007	The Jefferson Metropolitan Housing Authority, Steubenville, OH, Did Not Adequately Enforce HUD's Housing Quality Standards and Its Own Requirements	09/24/2015	01/13/2016	12/31/2016
2015-LA-1802	Veterans First Did Not Administer or Spend Its Supportive Housing Program Grants in Accordance With HUD Requirements	09/24/2015	10/29/2015	10/25/2016
2015-CH-1008	The Housing Authority of the City of South Bend, IN, Did Not Always Comply with HUD Requirements and Its Own Policies Regarding the Administration of Its Section 8 Housing Choice Voucher Program	09/25/2015	01/22/2016	12/31/2016
2015-PH-1005	The State of Maryland Could Not Show That Replacement Homes Complied With the Green Building Standard	09/25/2015	01/19/2016	01/19/2017
2015-CH-1009	The State of Illinois' Administrator Lacked Adequate Controls Over the State's Community Development Block Grant Disaster Recovery Program-Funded Projects	09/30/2015	01/28/2016	01/27/2017
2015-CH-1010	The Cooperative and Management Agent Lacked Adequate Controls Over the Operation of Carmen-Marine Apartments, Chicago, IL	09/30/2015	01/28/2016	01/28/2017
2015-KC-1012	LoanCare Did Not Always File Claims for Foreclosed-Upon Properties Held on Behalf of Ginnie Mae and Convey Them to FHA in a Timely Manner	09/30/2015	01/04/2016	12/21/2016
2015-LA-1009	loanDepot's FHA-Insured Loans With Downpayment Assistance Funds Did Not Always Meet HUD Requirements	09/30/2015	01/12/2016	Note 3

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
2015-LA-1010	loanDepot's FHA-Insured Loans With Golden State Finance Authority Downpayment Assistance Gifts Did Not Always Meet HUD Requirements	09/30/2015	01/12/2016	Note 3
2015-LA-1803	The City of Richmond, CA, Did Not Adequately Support Its Use of HUD-Funded Expenses for Its Filbert Phase 1 and Filbert Phase 2 Activities	09/30/2015	01/08/2016	06/30/2016
2015-PH-1008	The Richmond Redevelopment and Housing Authority, Richmond, VA, Did Not Comply With HUD Requirements When Procuring Services	09/30/2015	10/29/2015	01/27/2017

### Audits excluded:

78 audits under repayment plans

31 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 more than 1 year old.

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

3 No management decision

# TABLE C

## Inspector General-issued reports with questioned and unsupported costs at 3/31/2016 (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	63 <sup>13</sup>	\$568,338	\$297,887
A2	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	5	27,333	5,170
A3	For which additional costs were added to reports in beginning inventory	-	1,605	172
A4	For which costs were added to noncost reports	0	0	0
B1	Which were issued during the reporting period	19	318,070	316,274
B2	Which were reopened during the reporting period	0	0	0
<b>SUBTOTALS (A + B)</b>		<b>87</b>	<b>915,346</b>	<b>619,503</b>
C	For which a management decision was made during the reporting period	54 <sup>14</sup>	438,287	368,836
	(1) Dollar value of disallowed costs:	22 <sup>15</sup>	324,966	307,003
	Due HUD	39	89,401	38,199
	Due program participants			
	2) Dollar value of costs not disallowed	6 <sup>16</sup>	23,920	23,634
D	For which a management decision had been made not to determine costs until completion of litigation, legislation, or investigation	5	27,333	5,170
E	For which no management decision had been made by the end of the reporting period	28 <52> <sup>17</sup>	449,726 <368,385> <sup>17</sup>	245,497 <189,237> <sup>17</sup>

13 Due to a system malfunction, an audit that was closed out was not detected in reporting at the conclusion of the reporting cycle.

Therefore, the beginning count and balance are being reduced to account for the amount of that report.

14 Twenty-one audit reports also contain recommendations with funds to be put to better use.

15 Seven audit reports also contain recommendations with funds due program participants.

16 Six audit reports also contain recommendations with funds agreed to by management.

17 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 3/31/2016 (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	35	\$2,437,637
A2	For which litigation, legislation, or investigation was pending at the commencement of the reporting period	2	1,854
A3	For which additional costs were added to reports in the beginning inventory	-	0
A4	For which costs were added to noncost reports	0	0
B1	Which were issued during the reporting period	12	1,625,171
B2	Which were reopened during the reporting period	0	0
<b>SUBTOTALS (A + B)</b>		<b>49</b>	<b>4,064,662</b>
C	For which a management decision was made during the reporting period	25 <sup>18</sup>	435,524
	(1) Dollar value of recommendations that were agreed to by management:	5	86,712
	Due HUD	21	348,812
	Due program participants		
	2) Dollar value of recommendations that were not agreed to by management	0	0
D	For which a management decision had been made not to determine costs until completion of litigation, legislation, or investigation	2	1,854
E	For which no management decision had been made by the end of the reporting period	22 <32> <sup>19</sup>	3,627,284 <701,978> <sup>19</sup>

<sup>18</sup> Twenty-one audit reports also contain recommendations with questioned costs.

<sup>19</sup> 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 its 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

Washington, DC	202-402-0364
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## OFFICE OF AUDIT

### REGION 1

Boston, MA	617-994-8380
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Hartford, CT	860-240-4837
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### REGION 2

New York, NY	212-264-4174
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Buffalo, NY	716-551-5755
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Newark, NJ	973-776-7339
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### REGION 3

Philadelphia, PA	215-656-0500
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Baltimore, MD	410-962-2520
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Pittsburgh, PA	412-644-6372
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Richmond, VA	804-771-2100
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### REGION 4

Atlanta, GA	404-331-3369
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Greensboro, NC	336-547-4001
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Jacksonville, FL	404-331-3369
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Knoxville, TN	404-331-3369
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Miami, FL	305-536-5387
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San Juan, PR	787-766-5540
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### REGION 5

Chicago, IL	312-353-7832
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Columbus, OH	614-280-6138
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Detroit, MI	313-226-6280
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**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	702-366-2100
Phoenix, AZ	602-379-7250
San Francisco, CA	415-489-6400

**OFFICE OF INVESTIGATION****HEADQUARTERS**

Washington, DC	202-708-5998
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**OFFICE OF INVESTIGATION****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**

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Philadelphia, PA	215-430-6758
Baltimore, MD	410-209-6533
Pittsburgh, PA	412-644-6598
Richmond, VA	804-822-4890

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**REGION 4**

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Atlanta, GA	404-331-5001
Birmingham, AL	205-745-4314
Columbia, SC	803-451-4318
Greensboro, NC	336-547-4000
Memphis, TN	901-554-3148
Miami, FL	305-536-3087
San Juan, PR	787-766-5868
Tampa, FL	813-228-2026
Jackson, MS	601-329-6924

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**REGION 5**

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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	317-957-7377
Minneapolis-St. Paul, MN	612-370-3130

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**REGION 6**

Fort Worth, TX	817-978-5440
Baton Rouge, LA	225-448-3941
Houston, TX	713-718-3227
Little Rock, AR	501-324-5931
New Orleans, LA	504-671-3700
Oklahoma City, OK	405-609-8601
San Antonio, TX	210-475-6822

**REGION 7-8-10**

Denver, CO	303-672-5350
Billings, MT	406-247-4080
Kansas City, KS	913-551-5566
Salt Lake City, UT	801-524-6090
St. Louis, MO	314-539-6559
Seattle, WA	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**

<b>Audit</b>	Kansas City, KS	913-551-5566
<b>Investigation</b>	Kansas City, KS	913-551-5566

# ACRONYMS AND ABBREVIATIONS LIST

<b>ACD</b>	Accelerated Claims Disposition program
<b>ADA</b>	Antideficiency Act
<b>AFR</b>	agency financial report
<b>ALO</b>	audit liaison officer
<b>AO</b>	administrative officer
<b>ARCATS</b>	Audit Resolution and Corrective Action Tracking System
<b>CAIVRS</b>	Credit Alert Verification Reporting System
<b>CDBG</b>	Community Development Block Grant
<b>CDBG-DR</b>	Community Development Block Grant Disaster Recovery
<b>CFR</b>	Code of Federal Regulations
<b>CIGIE</b>	Counsel of the Inspectors General on Integrity and Efficiency
<b>CPD</b>	Office of Community Planning and Development
<b>CWCOT</b>	Claims Without Conveyance of Title program
<b>DCCO</b>	Departmental Claims Collection Officer
<b>DCIA</b>	Debt Collection Improvement Act of 1996
<b>DEC</b>	Departmental Enforcement Center
<b>DOJ</b>	U.S. Department of Justice
<b>ERC</b>	Ethics Research Center
<b>FAEC</b>	Federal Audit Executive Counsel
<b>FBI</b>	Federal Bureau of Investigation
<b>FFMIA</b>	Federal Financial Management Improvement Act of 1996
<b>FHA</b>	Federal Housing Administration
<b>FHIP</b>	Fair Housing Initiatives Program
<b>FIFO</b>	first-in, first-out
<b>FIRMS</b>	Facilities Integrated Resource Management System
<b>FISMA</b>	Federal Information Security Modernization Act
<b>GAAP</b>	generally accepted accounting principles
<b>GAO</b>	U.S. Government Accountability Office
<b>GFAS</b>	Ginnie Mae Financial and Accounting System
<b>Ginnie Mae</b>	Government National Mortgage Association
<b>HECM</b>	home equity conversion mortgage

# ACRONYMS AND ABBREVIATIONS LIST (CONTINUED)

<b>HIAMS</b>	HUD Integrated Acquisition Management System
<b>HOA</b>	homeowner association
<b>HPS</b>	HUD Procurement System
<b>HUD</b>	U.S. Department of Housing and Urban Development
<b>ICP</b>	Integrity and Compliance Program
<b>IDIS</b>	Integrated Disbursement and Information System
<b>IPA</b>	Intergovernmental Personnel Act
<b>IPERA</b>	Improper Payments Elimination and Recovery Act of 2010
<b>IRS-CI</b>	Internal Revenue Service, Criminal Investigations
<b>ISCM</b>	information security continuous monitoring
<b>IT</b>	information technology
<b>MIP</b>	mortgage insurance premium
<b>NSP</b>	Neighborhood Stabilization Program
<b>OCFO</b>	Office of the Chief Financial Officer
<b>OCPO</b>	Office of the Chief Procurement Officer
<b>OGC</b>	Office of General Counsel
<b>OHF</b>	Office of Hospital Facilities
<b>OI</b>	Office of Investigation
<b>OIG</b>	Office of Inspector General
<b>OMB</b>	Office of Management and Budget
<b>OPHI</b>	Office of Public Housing Investments
<b>PDAS</b>	Principal Deputy Assistant Secretary
<b>PHA</b>	public housing agency
<b>PIH</b>	Office of Public and Indian Housing
<b>QAP</b>	qualified allocation plan
<b>SPS</b>	Small Purchase System
<b>SSA</b>	Social Security Administration
<b>UFMIP</b>	upfront mortgage insurance premium
<b>USAO</b>	U.S. Attorney's Office
<b>USPS</b>	United States Postal Service
<b>USSGL</b>	United States Standard General Ledger
<b>VA</b>	U.S. Department of Veterans Affairs

# REPORTING REQUIREMENTS

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

SOURCE-REQUIREMENT	PAGES
Section 4(a)(2)-review of existing and proposed legislation and regulations	
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	14 - 36
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, 67
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	41
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	14 - 36
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, 61
Section 5(a)(7)-summary of each particularly significant report.	14 - 36
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs. <sup>20</sup>	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, 65
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	53
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	55
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	56

<sup>20</sup> Unsupported costs are a subset of questioned costs that the IG Act requires be identified separately from the cumulative questioned costs identified.

# FRAUD ALERT

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

## COMMON LOAN MODIFICATION SCAMS

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

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

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

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

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

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

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

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





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

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

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

### **Sending written information to**

Department of Housing and Urban Development

Inspector General Hotline (GFI)

451 7th Street, SW

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 75  
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