

Semiannual Report to
CONGRESS

\$26
Billion

FORECLOSURE

Historic Settlement



2012

Largest Mortgage Lender Settlement
in U.S. History

April 1, 2012, Through September 30, 2012



Profile of Performance

Audit profile of performance for the period April 1, 2012, to September 30, 2012

Results	This reporting period	FY 2012
Recommendations that funds be put to better use	\$827,131,502	\$3,291,053,596
Recommended questioned costs	\$1,201,914,633	\$1,334,803,897
Collections from audits	\$33,615,240	\$173,163,871
Administrative sanctions	3	6
Subpoenas	117	163

Investigation profile of performance for the period April 1, 2012, to September 30, 2012

Results	This reporting period	FY 2012
Recoveries and receivables	\$538,068,750	\$4,079,787,377
Arrests ¹	280	614
Indictments and informations	354	708
Convictions, pleas, and pretrial diversions	285	663
Civil actions ²	32	94
Total administrative sanctions	181	489
Suspensions	77	148
Debarments	79	178
Limited denial of participation	0	0
Removal from program participation	18	63
Systemic implication reports	7	7
Personnel actions ³	20	62
Search warrants	47	79
Subpoenas	584	1,223

Hotline profile of performance for the period April 1, 2012, to September 30, 2012

Results	This reporting period	FY 2012
Funds put to better use	\$623,886	\$1,480,230
Recoveries and receivables	\$172,288	\$315,693
Hotline complaints processed related to OIG mission	387	637

¹Included in the arrests is our focus on the nationwide Fugitive Felon Initiative. During fiscal year (FY) 2012, we arrested 30 fugitive felons with 2 occurring this reporting period.

²Civil actions no longer include contact letters.

³Personnel actions include reprimands, suspensions, demotions, or termination of the employees of Federal, State, or local governments or of Federal contractors and grantees as the result of OIG activities.



A Message From Inspector General David A. Montoya

I am honored to submit my second Semiannual Report to Congress, which highlights key results for the period ending September 30, 2012. This submission closes out fiscal year 2012, arguably one of the most successful years this Office of Inspector General (OIG) has ever had. With much admiration, I want to highlight the exceptional performance reflected in this report and the tireless dedication of our staff of auditors, investigators, computer specialists, evaluators, attorneys, and other support staff.

Our office is charged with eliminating and preventing fraud, waste, and abuse in U.S. Department of Housing and Urban Development (HUD) programs and operations, and the audits and investigations conducted by our office have had a significant impact on safeguarding HUD and the taxpayer. During this 6-month cycle, we issued 86 audits, which resulted in more than \$827 million in funds put to better use, nearly \$1.2 billion in questioned costs, and more than \$33 million in collections from audits. Our investigations led to \$538 million in recoveries, 354 indictments or informations, and 285 convictions of criminals impacting HUD programs.

One of the key audits during the period was our review of the Federal Housing Administration's (FHA) Preforeclosure Sales Program. Of 80 claims statistically sampled, 61 did not meet the criteria for participation in the program. As a result, we estimated that HUD paid \$1.6 billion in claims for 11,693 preforeclosure sales. We recommended that HUD strengthen program controls and obtain reimbursement from those lenders that were not previously pardoned from repayment in the national mortgage settlement.

An important investigation for your attention involves our emphasis on fraud rescue schemes. Three former owners of several loan modification companies pled guilty for their part in a scheme to defraud distressed homeowners seeking to modify FHA and conventional mortgages. More than 200 victims of this scheme have been identified to date, along with an estimated \$1.6 million stolen by the defendants.

Our strategic plan going forward will center on four new initiatives. While we remain committed to our statutory mission of detecting fraud, waste, and abuse, we will concentrate on identifying and mitigating problems before they become systemic, rather than limiting ourselves solely to reacting to allegations. Along with our traditional audit and investigative work, we will implement four initiatives over the next 5 years to tackle the conditions we currently face. These are

- An emphasis on civil fraud cases,
- Enhanced evaluations and inspections,
- Increased use of data analytics, and
- Renewed fraud prevention efforts.

The men and women who comprise HUD OIG are an outstanding group of professionals, who are strong in their commitment to making a difference in HUD programs and operations and are pledged to ensuring that government programs are run with honesty and competence.

David A. Montoya
Inspector General



Acronyms List

ARRA	American Recovery and Reinvestment Act of 2009
CDBG	Community Development Block Grant
CDBG-R	Community Development Block Grant-Recovery
CFR	Code of Federal Regulations
CPD	Office of Community Planning and Development
DOJ	U.S. Department of Justice
FBI	Federal Bureau of Investigation
FFMIA	Federal Financial Management Improvement Act of 1996
FHA	Federal Housing Administration
FIFO	first-in, first-out
FY	fiscal year
GAO	U.S. Government Accountability Office
HECM	home equity conversion mortgage
HIAMS	HUD Integrated Acquisition Management System
HOME	HOME Investment Partnerships Program
HPS	HUD Procurement System
HUD	U.S. Department of Housing and Urban Development
IDIS	Integrated Disbursement and Information System
IRS	Internal Revenue Service
LMDC	Lower Manhattan Development Corporation
M&M	management and marketing
NOAH	New Orleans Affordable Homeownership Program
NSP	Neighborhood Stabilization Program
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PHA	public housing agency
PIH	Office of Public and Indian Housing
REO	real estate-owned
SEMAP	Section Eight Management Assessment Program
SPS	Small Purchase System
U.S.C.	United States Code
USDA	U.S. Department of Agriculture





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.	32
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	1-31
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	35
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
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	1-31
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
Section 5(a)(7)-summary of each particularly significant report.	1-31
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Appendix 3, table C
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
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
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	36
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	39
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	40



Contents

Chapter 1 - Single-Family Programs	
Audit	1
Investigation	4
Chapter 2 - Public and Indian Housing Programs	
Audit	8
Investigation	11
Chapter 3 - Multifamily Housing Programs	
Audit	13
Investigation	13
Chapter 4 - Community Planning and Development Programs	
Audit	15
Investigation	18
Chapter 5 - American Recovery and Reinvestment Act of 2009	
Audit	20
Investigation	24
Chapter 6 - Disaster Relief Programs	
Audit	25
Investigation	26
Chapter 7 - Other Significant Audits and Investigations and the OIG Hotline	
Audit	27
Investigation	30
OIG Hotline	30
Chapter 8 - Legislation, Regulation, and Other Directives	
Notices and Policy Issuances	32



Chapter 9 - Audit Resolution

Audit Reports Issued Before the Start of the Period With
No Management Decision as of September 30, 201235
Significantly Revised Management Decisions.....36
Significant Management Decision With Which OIG Disagrees.....39
Federal Financial Management Improvement Act of 199640

Appendix 1 - Peer Review Reporting.....42

Appendix 2 - Audit Reports Issued.....43

Appendix 3 - Tables.....53

Appendix 4 - 5-Year Recap: HUD OIG’s Impact on the FHA Insurance Program
2008-201279

OIG Telephone Directory.....81



Chapter 1

Single-Family Programs

Strategic Initiative 1:
Contribute to the reduction of fraud
in single-family insurance programs

Audit

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:

Key program results	Audit
	17 audits
Questioned costs	\$322.2 million
Funds put to better use	\$792.7 million

Review of the FHA Preforeclosure Sale Program

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), reviewed the FHA Preforeclosure Sale Program to determine whether FHA paid claims for only preforeclosure sales that met the criteria for participation in the program.

Of 80 claims reviewed, 61 did not meet the criteria for participation in the Preforeclosure Sale Program. Of these ineligible claims, 55 were submitted by the 5 lenders involved in the national mortgage settlement. In exchange for roughly \$25 billion, the settlement pardoned these lenders' misconduct in loan servicing, including their processing of preforeclosure sale claims. The remaining six improper claims totaling nearly \$361,000 were submitted by

lenders that were not involved in the national mortgage settlement. Based on the sample results, OIG statistically projected that HUD paid an estimated \$1.06 billion in claims for 11,693 preforeclosure sales during the audit period that did not meet the criteria for participation in the program. While this amount of claims did not comply with HUD requirements, it does not represent a direct loss to the FHA insurance fund. The ultimate final cost to the FHA insurance fund would likely be less than this amount because some of these loans could have been processed differently and would have instead gone to foreclosure and become conveyance claims. However, it is also reasonable to assume that at least some of these loans would have resulted in no claim or reduced claims due to alternative loss mitigation procedures.

OIG recommended that HUD strengthen controls over the Preforeclosure Sale Program and require lenders to reimburse the FHA insurance fund for improper claims. (Audit Report: 2012-KC-0004)

Review of Mortgage Loan Servicing and Foreclosure Abuses – Rollup

HUD OIG reviewed the foreclosure practices for five of the largest FHA mortgage servicers (Ally Financial, Incorporated; Bank of America; CitiMortgage; JPMorgan Chase; and Wells Fargo Bank) due to reported allegations made in the fall of 2010 that national mortgage servicing lenders were engaged in widespread questionable foreclosure practices involving the use of foreclosure “mills” and a practice known as “robsigning.” On March 12, 2012, OIG issued separate memorandums to HUD, which detailed its results for each of the five reviews (2012-PH-1801, 2012-FW-1802, 2012-KC-1801, 2012-CH-1801, and 2012-AT-1801).



In February 2012, the U.S. Department of Justice (DOJ) and State attorneys general announced their proposed joint settlement agreement totaling \$25 billion with the five mortgage servicers for their reported violations of State and Federal foreclosure requirements. On March 12, 2012, DOJ and the State attorneys general filed consent judgments with the court. The consent judgments provided details of the servicers' financial obligations under the agreement, such as payments to borrowers whose properties were foreclosed upon and the Federal and State governments. They also included more than \$20 billion in consumer relief activities. The Federal settlement payment amount of more than \$684 million would be used for (1) losses incurred to FHA's capital reserve account and the Veterans Housing Benefit Program Fund or as otherwise directed by the U.S. Department of Veterans Affairs and the U.S. Department of Agriculture's Rural Housing Service and (2) the resolution of *qui tam* actions. Of the \$684 million, as of July 15, 2012, more than \$315.2 million had been deposited into FHA's account.

OIG recommended that HUD (1) determine the changes needed to FHA's servicing and foreclosure policies based on the consent judgments and ensure that the servicers incorporate the necessary changes into their procedures for servicing FHA-insured loans; (2) ensure that the servicers establish or implement adequate procedures and controls to address the control deficiencies cited in the five issued memorandums, including but not limited to the withholding of claims for insurance benefits and the retention of appropriate legal documentation supporting the appropriateness of the foreclosure for all FHA-insured properties for the life of the loans; and (3) pursue appropriate administrative sanctions against attorneys who may have violated professional obligations related to the foreclosure of FHA-insured properties. (Audit Memorandum: 2012-CH-1803)

Mortgagees, Loan Correspondents, and Direct Endorsement Lenders

HUD OIG reviewed FHA loans underwritten by Shea Mortgage, Inc., in **Aliso Viejo, CA**, to determine the extent to which Shea Mortgage failed to prevent the recording of prohibited restrictive covenants or potential liens in connection with FHA-insured loans closed between January 1, 2008, and December 31, 2011.

Shea Mortgage did not follow HUD requirements when it underwrote loans that had executed and recorded agreements between Shea Homes and the FHA borrower, containing prohibited restrictive covenants in connection with FHA-insured properties. As a result, 600 FHA-insured loans (29 claim loans and 571 active loans) had a corresponding prohibited restrictive covenant recorded with the applicable county recording office, and Shea Mortgage placed the FHA insurance fund at unnecessary risk for potential losses.

OIG recommended that HUD require Shea Mortgage to (1) reimburse the FHA insurance fund for nearly \$1.5 million in actual losses resulting from the amount of claims and associated expenses paid on 11 loans that contained prohibited restrictive covenants; (2) support the eligibility of nearly \$2.6 million in claims paid or execute an indemnification agreement requiring any unsupported amounts to be repaid for claims paid on 19 loans, for which HUD has paid claims but not sold the properties; (3) remove prohibited restrictive language or execute an indemnification agreement that prohibits it from submitting claims on 27 active loans with prohibited restrictive covenants in the amount of more than \$7.7 million, thereby putting more than \$5 million to better use; (4) nullify all active restrictive covenants on FHA loans or execute an indemnification agreement that prohibits it from submitting claims on those loans; and (5) follow 24 CFR (Code of Federal Regulations) 203.41 requirements and ensure that policies





and procedures reflect FHA requirements. In addition, OIG recommended that HUD determine legal sufficiency and if legally sufficient, pursue civil remedies, civil money penalties, or other administrative action against Shea Mortgage, its principals, or both for incorrectly certifying to the integrity of the data or that due diligence was exercised during the origination of FHA-insured mortgages. (Audit Memorandum: 2012-LA-1801)

HUD OIG audited Allen Mortgage, Limited Liability Company, an FHA nonsupervised lender in **Centennial Park, AZ**, to determine whether (1) Allen Mortgage complied with HUD's regulations, procedures, and instructions in underwriting FHA-insured loans and (2) its quality control plan, as implemented, met HUD's requirements.

Allen Mortgage did not comply with HUD's regulations, procedures, and instructions in underwriting FHA-insured loans. Specifically, of the 73 streamline refinanced loans reviewed, 23 contained material underwriting deficiencies. Allen Mortgage also (1) allowed borrowers to skip mortgage payments due on their previous loans and close their loans without paying settlement costs; (2) did not always ensure that FHA case binders sent to HUD contained complete and accurate information; (3) provided mortgage services to borrowers, such as paying their mortgage payments, to prevent them from defaulting on their mortgages within the first six payments; (4) sought reimbursement from the borrowers for the advanced payment; and (5) did not fully implement its quality control program in accordance with HUD's requirements. As a result, the risk to FHA's insurance fund was increased by more than \$2 million, and HUD lacked assurance that Allen Mortgage acted in the best interests of FHA borrowers.

OIG recommended that HUD require Allen Mortgage to (1) reimburse the FHA insurance fund more than \$811,000 for losses incurred on 8 loans and for any future losses for more than

\$199,000 in claims paid on 1 loan; (2) indemnify HUD for 11 loans with material underwriting deficiencies; and (3) implement adequate policies, procedures, and controls to address the issues cited. (Audit Report: 2012-CH-1015)

HUD OIG audited loans originated by Bankers Mortgage Group in **Woodland Hills, CA**, to determine whether the lender originated FHA-insured loans using sufficient, reliable, and valid documentation.

Bankers Mortgage Group did not originate loans using sufficient, reliable, and valid documentation in compliance with HUD requirements. Specifically, 9 of 10 loans reviewed contained significant deficiencies that affected the integrity of data entered into the automated underwriting system. These loans were originated with false or questionable income and asset documentation, including income that could not be verified, gifts to borrowers that lacked evidence of source of funds, and improperly sourced earnest money deposits.

OIG recommended that Bankers Mortgage Group or another responsible lender (1) indemnify HUD against potential losses of more than \$1.5 million for eight loans and (2) reimburse the FHA insurance fund nearly \$59,000 for the actual loss on one loan. OIG recommended that HUD pursue remedies under the Program Fraud Civil Remedies Act (31 U.S.C (United States Code) 3801-3812), civil money penalties (24 CFR 30.35), or both against Bankers Mortgage Group, its principals, or both for certifying to the truthfulness and correctness of false or questionable loan information. OIG also recommended that HUD review all of the remaining loans that were originated by Bankers Mortgage Group and take action as appropriate. (Audit Report: 2012-LA-1011)





Review of the Real Estate-Owned Management and Marketing III Program

HUD OIG audited HUD's oversight of its real estate-owned (REO) Management and Marketing (M&M) III program to determine whether HUD's policies and procedures provided for efficient and effective oversight of asset managers and field service managers under the program.

HUD did not have adequate procedures in place to ensure consistent and adequate enforcement of asset and field service manager contracts. Specifically, (1) list prices were not always reduced according to the marketing plans, (2) bids were approved that did not meet HUD's flexible threshold, (3) bids were rejected that met the marketing plan thresholds, (4) bids that met applicable thresholds were not always counteroffered or forwarded to the government technical representative for approval, and (5) properties were not assigned to field service managers based on performance even when HUD identified performance issues. In addition, HUD did not always pay field service managers in accordance with their contracts, resulting in an estimated net underpayment of nearly \$554,000 to field service managers.

OIG recommended that HUD (1) develop and implement policies and procedures for oversight of the M&M III program, to ensure that field service managers are paid only for routine inspections that are conducted, and procedures for the its tracking system, to ensure that bids meeting applicable thresholds based on the listed and appraised values are accepted; (2) review the tracking system and its related controls; (3) finalize and implement the field service manager scorecard; (4) reimburse or request repayment for the field service managers that were underpaid or overpaid; and (5) ensure that HUD receives repayment for routine inspections that were not conducted by field service managers. (Audit Report: 2012-LA-0003)

HUD OIG audited HUD's REO M&M III program at Innotion Enterprises, Inc., in Las Vegas, NV, to determine whether Innotion performed property preservation and protection services according to contract requirements.

Innotion did not always perform property protection and preservation services according to contract requirements. Specifically, 38 of 96 properties reviewed materially failed because homes were not secured or properly maintained. As a result, HUD did not have assurance that Innotion maintained REO homes at the high standard of care required in the performance work statement. HUD paid Innotion more than \$11,000 for monthly services for 38 homes that did not reflect a high standard of care.

OIG recommended that HUD require Innotion to develop and implement adequate procedures and controls, including improving its quality control inspections, to ensure that all units meet HUD's REO contract requirements to prevent more than \$1 million in program funds from being spent over the next year on units that are in material noncompliance with HUD standards. (Audit Report: 2012-LA-1010)

Investigation

The HUD OIG Office of Investigation conducts criminal, civil, and administrative investigations involving allegations of fraud against HUD's programs, including theft, embezzlement, and false statements by HUD project management and housing development employees, contractors, and others and false statements and theft by housing program participants, including tenants. The investigations are generated in many ways to include leads provided by HUD program staff and may be conducted jointly with our Office of Audit and Federal, State, and local law enforcement agencies. The Office of Investigation works closely with law enforcement partners on task forces as well. This interagency cooperation allows for a free exchange of information among Federal agencies





– particularly with respect to government intellectual property. Consequently, HUD, FHA, and the Government National Mortgage Association are now moving to protect their names, logos, and marks from those defrauding consumers under the guise of government affiliation or endorsement.

Program results	Investigations
Administrative-civil actions	98
Convictions-plea-pretrial diversions	78
Financial recoveries	\$528,541,175

Three Plead Guilty in Scheme Using HUD Logo

Three former owners of several loan modification companies pled guilty to mail fraud and aiding and abetting for their part in a scheme to defraud distressed homeowners seeking to modify FHA and conventional mortgages. The defendants told the victims that their companies were endorsed by a department of HUD. Additionally, the defendants displayed the HUD logo on multiple documents provided to victims. The defendants convinced homeowners to send their mortgage payments directly to the companies instead of their respective lenders. The defendants kept the mortgage payments for personal use, causing the victims' homes to go into foreclosure. More than 200 victims have been identified in this scheme to date, with an estimated \$1.6 million stolen by the defendants. (San Diego, CA)

Former Loan Officer Sentenced in Mortgage Fraud Case After Guilty Plea

A former mortgage company loan officer was sentenced to 54 months incarceration and 3 years supervised release. He was further ordered to pay more than \$9.2 million in restitution to FHA. The defendant previously pled guilty to

conspiracy to commit wire fraud. He conspired with others to create and submit false and fraudulent FHA mortgage loan applications and accompanying documents to a lender on behalf of unqualified borrowers. The defendant created false pay stubs, Federal tax forms, verification of employment forms, explanation letters, and other documents to ensure that otherwise unqualified borrowers could obtain FHA-insured loans. He enticed borrowers to obtain an FHA mortgage by paying them an incentive of up to \$20,000 per loan. The loss to FHA is estimated at \$6.5 million. (Miami, FL)

Former Loan Processor Sentenced

A former loan processor for an FHA-approved lender was sentenced to 49 days in jail and 3 years of supervised probation with the additional condition of not possessing the personally identifiable information of others. The defendant forged rental agreements claiming that borrowers were receiving rental income and submitted them in FHA loan files without the borrowers' knowledge. Five FHA loans totaling \$1.1 million were identified as containing forged rental agreements, and it was determined that the loans would not have been approved without the added income provided by the fraudulent rental agreements. To date, two of the FHA loans have gone to claim with a total loss to HUD of \$307,198. In several instances, the buyers walked away from existing conventional loans once the FHA-insured loan was fraudulently obtained. This investigation was conducted with the HUD civil fraud unit. (Sacramento, CA)

Two Former Mortgage Company Principals Plead Guilty in a Mortgage Fraud Scheme That Included Junior Mortgages

Two former principals of a HUD-approved mortgage company pled guilty to one count of racketeering following their original indictment in June 2011. The defendants





were involved in a complex scheme to defraud FHA through a series of false statements on at least 65 FHA loans totaling in excess of \$10 million. The fraudulent acts included the use of straw purchasers, phony employers, bogus bank statements and pay stubs, forged college transcripts, counterfeit court documents, and phony downpayment gifts. Additionally, the defendants profited from the scheme by recording junior mortgages that were payable to business entities or associates from the loan proceeds. This case was worked jointly with the State of Minnesota and the U.S. Department of Commerce OIG. (Minneapolis, MN)

Former Owner Charged Civilly With Mortgage Fraud

The former owner of a realty group was sentenced to 63 months incarceration and 3 years supervised release and ordered to pay restitution of more than \$1 million to victim financial institutions. The defendant previously pled guilty to wire fraud affecting a financial institution and false statements on a loan application. He placed fraudulent income and employment data into FHA and conventional loan files to get them approved. He was assisted with this scheme by several employees of his company. This case was prosecuted for violations of the Financial Institutions Reform, Recovery, and Enforcement Act, a Federal civil statute. This case was worked jointly with the HUD civil fraud unit. (Los Angeles, CA)

Former State Department Employee Sentenced in Mortgage Fraud Scheme

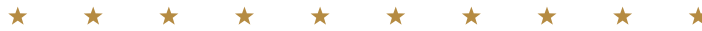
A former U.S. Department of State employee and FHA-insured borrower was sentenced to 8 months home detention and 3 years probation and ordered to pay restitution to FHA. The defendant previously pled guilty to wire fraud in connection with a scheme to defraud a large bank by securing an FHA-insured mortgage loan using false documents and falsely inflating her

income and assets. She further defrauded FHA and the bank by submitting false documents and information to secure a loan modification of the original FHA-insured mortgage. This case was worked jointly with the Department of State OIG. (Greenbelt, MD)

Complex Mortgage Fraud Scheme Results in a Number of Arrests and Indictments

Twenty Federal indictments were filed against real estate agents and property investors, a loan officer, straw buyers, and several coconspirators who were involved in a scheme with several mortgage companies. The indictments resulted in 19 arrests. Two of the defendants acted as real property investors, home improvement contractors, or real estate agents, while acting as the recruiters for straw buyers. The defendants identified properties in the process of foreclosure or properties of owners who were deceased. The defendants offered to buy the properties or find buyers for them. Once owners agreed, the defendants produced either false mortgage notes or home improvement contracts so they could justify collecting part of the sales proceeds directly from the lenders or from the sellers. Straw buyers were recruited, who applied and obtained approval for FHA-insured loans for the purchase of the properties. The defendants helped the straw buyers obtain false income verification documents, such as pay stubs, Federal tax forms, tax returns, and verifications of employment. The former loan officer assisted with the approval of the loans. This was a joint investigation with the Internal Revenue Service (IRS)-Criminal Investigation Division, the Federal Bureau of Investigation (FBI), Immigration and Customs Enforcement, the United States Secret Service, and the Puerto Rico Office of the Commissioner of Financial Institutions. (San Juan, PR).





Bank Officials Plead Guilty in \$30 Million Loan Fraud

A former senior vice president and loan officer, a former senior vice president of residential lending, a former underwriter, and a former loan processor at a large bank pled guilty to conspiracy to submit false statements in loan applications and submitting false statements in loan applications to FHA. The defendants were involved in originating and approving FHA-insured loans and conventional loans that contained fraudulent information. The case involved approximately 1,900 FHA loans with a potential loss to FHA of \$30 million. This case was worked jointly with the FBI, IRS, and Postal Inspection Service. (Tacoma, WA)

Financial Group Owner Sentenced in Distressed Homeowner Scheme

The owner of a financial group was sentenced to 27 months confinement and 5 years supervised release and ordered to pay \$544,602 in restitution (\$242,760 payable to HUD) for his earlier guilty plea to submitting false statements on a credit application. The defendant found distressed homeowners and convinced them to deed their property to a trust while leaving the mortgage in the name of the original homeowner. Rent was collected on the homes, but the mortgage payments were not made, causing the mortgages to go into foreclosure. On at least one occasion, fraudulent pay stubs and other documents were presented to the bank in an attempt to modify the FHA loan and prevent foreclosure. This case was worked jointly with the U.S. Department of Veterans Affairs OIG. (Waco, TX)



★ ★ ★ Chapter 2 ★ ★ ★

Public and Indian Housing Programs



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

Strategic Initiative 2:
Contribute to the reduction of erroneous payments in rental assistance

Audit

Program results	Audit
Questioned costs	26 audits ⁴
Funds put to better use	\$25 million
	\$5.7 million

Section 8 Housing Choice Voucher Program

HUD's Office of Inspector General (OIG) audited the Housing Choice Voucher program of the Allegheny County Housing Authority in **Pittsburgh, PA**, to determine whether the

⁴The total public and Indian housing audits, questioned costs, and funds put to better use amounts include any American Recovery and Reinvestment Act of 2009 (11 audits) type audits conducted in the public and Indian housing area. The writeups for these audits are shown separately in chapter 5 of this semiannual report.

Authority ensured that its Housing Choice Voucher program units met HUD's housing quality standards.

The Authority did not conduct adequate inspections to ensure that its program units met housing quality standards as required. Of 70 program units inspected, 57 did not meet HUD's housing quality standards, and 26 were in material noncompliance with HUD standards. The Authority disbursed nearly \$15,000 in housing assistance payments and received more than \$500 in administrative fees for these 26 units.

OIG recommended that HUD require the Authority to (1) reimburse its program more than \$15,000 from non-Federal funds for the 26 units that materially failed to meet HUD's housing quality standards and (2) use the results of the audit to train all of its inspectors to ensure that program units meet housing quality standards, thereby ensuring that \$5.2 million in program funds is expended for units that are decent, safe, and sanitary. (Audit Report: **2012-PH-1012**)

HUD OIG audited the Section 8 Housing Choice Voucher program of the Saginaw Housing Commission in **Saginaw, MI**, to determine whether the Commission operated its program in accordance with HUD's and its own requirements.

The Commission did not always administer its program in accordance with HUD's and its own requirements. It failed to ensure that program participants' Family Self-Sufficiency program escrow account balances were calculated appropriately. Specifically, it (1) underfunded participants' graduation and port-out payments, (2) overpaid participants' graduation and interim payments, (3) underfunded participants' escrow





account balances, (4) failed to recapture funds in its system due to incorrect escrow account balances, and (5) failed to maintain required documentation in its participants' files. Further, the Commission failed to (1) appropriately use HUD's Enterprise Income Verification system income discrepancy reports and (2) recover or reimburse its Section 8 Housing Choice Voucher program housing assistance and utility allowance payments for households with unreported or underreported income. As a result, HUD and the Commission lacked assurance that more than \$1 million in program funds was used appropriately.

OIG recommended that HUD require the Commission to (1) reimburse its Family Self-Sufficiency program nearly \$22,000 for escrow overpayments, (2) reimburse its participants nearly \$12,000 for the underpayment of escrow funds, (3) provide support or reimburse HUD more than \$812,000 from non-Federal funds, (4) ensure that nearly \$178,000 in program funds was used appropriately, and (5) implement adequate procedures and controls to address the findings cited. (Audit Report: **2012-CH-1012**)

HUD OIG audited the Housing Choice Voucher program of the Maine State Housing Authority in **Augusta, ME**, pertaining to its housing quality standards inspections and other expenditures and procurements using HUD funds, based on a congressional request. The objectives of the audit were to determine whether (1) the Authority's Housing Choice Voucher program units selected for review met housing quality standards and (2) the use of HUD funds for expenditures and procurements complied with HUD rules and regulations.

Of 61 units inspected, 53 did not meet HUD's housing quality standards. Authority officials did not have adequate oversight of contracted program agents and had an ineffective quality control system for their own inspectors. There were units that should have failed inspection due to deficiencies but were instead passed, and

Authority officials continued to make housing assistance payments for these inadequate units. As a result, some tenants lived in units that did not meet HUD's standards for decent, safe, and sanitary housing, and Authority officials made housing assistance payments for units that did not meet housing quality standards.

In addition, although Authority officials generally charged expenses to HUD programs that were eligible, reasonable, and supported, they awarded a contract to an information technology consultant without following HUD's or their own procurement regulations or policies for noncompetitive proposals. From January 1, 2010, to December 31, 2011, the Authority paid the consultant more than \$848,000, of which nearly \$112,000 was charged to the Homeless Management Information Systems program.

OIG recommended that HUD require Authority officials to (1) repay the Housing Choice Voucher program nearly \$195,000 from non-Federal funds and (2) conduct an independent cost analysis of the funds charged to the Homeless Management Information Systems program to determine whether costs were eligible, reasonable, and supported. (Audit Report: **2012-BO-1005**)

Public Housing Program Activities

HUD OIG audited the financial and procurement operations of the Housing Authority of the City of **Port Arthur, TX**, to determine whether the Authority had sufficient financial and procurement controls to ensure that it used HUD funds in accordance with laws, regulations, and policies, including whether the internal control environment was designed to provide reasonable assurance about the achievement of the Authority's mission, goals, and objectives. Also, OIG reviewed the Authority's capital funds to determine whether the Authority complied with its consolidated annual contributions contract.

The Authority failed to establish a control





environment designed to provide reasonable assurance about the achievement of its mission, goals, and objectives. It (1) failed to enact policies and procedures to ensure the integrity of financial operations and compliance with procurement requirements, (2) abused its charge card accounts, and (3) paid its management and board ineligible and unsupported compensation. Further, the Authority's resident commissioner was not a resident of the Authority so he was not eligible to serve on the board of commissioners according to HUD and State rules. The Authority also (1) improperly administered its Public Housing Capital Fund program and drew down more than \$469,000 in unused funds that it had not expended and (2) imposed a scope limitation on the audit, which limited OIG's ability to completely assess the Authority's operations. As a result, the Authority incurred questioned costs of more than \$5.9 million and violated its annual contributions contract, and its lack of controls put it at substantial risk for fraud, errors, and financial misstatements.

OIG recommended that HUD (1) determine whether the Authority was in substantial default of its annual contributions contract and take appropriate administrative actions against its executive director and commissioners; (2) require the Authority to adopt and implement policies and procedures to control its financial and procurement operations, repay more than \$462,000 in ineligible costs, and support or repay almost \$5 million in unsupported costs to HUD; and (3) recapture the unexpended capital funds. (Audit Report: 2012-FW-1008)

HUD OIG audited the Lawrence Housing Authority in **Lawrence, MA**, regarding its administration of HUD programs, to determine whether the Authority had acceptable management and financial practices to efficiently and effectively administer the use of Section 8 and public housing program funds in compliance with its annual contributions contracts and HUD requirements.

The Authority generally had acceptable management and financial practices to efficiently and effectively administer the use of HUD Section 8 and low-income public housing program funds in compliance with its annual contributions contracts and HUD requirements. However, Authority officials did not seek HUD approval to (1) establish a trust for their other postemployment benefits, (2) transfer \$2.5 million in reserves to fund the trust, and (3) restrict the use of these funds to the trust exclusive of any other housing-related purpose. In addition, Authority officials did not (1) properly delegate procurement duties, (2) monitor or prevent interfund borrowing, (3) have adequate procedures for tracking and reviewing the Authority's force account labor projects, and (4) update the Authority's travel policy. As a result, the Authority did not (1) assign procurement duties in writing, (2) have sufficient awareness of interfund imbalances, (3) have a sufficient system to determine whether the use of force account labor was reasonable, or (4) have a travel policy that was adequate.

OIG recommended that HUD require Authority officials to provide proper supporting documentation to show how the Federal funds used to fund a trust benefited each Federal program or repay the funds to the Federal program. Further, HUD should obtain a legal opinion identifying whether this trust constitutes an investment and was properly created and whether Federal funds may be used to pay for other postemployment benefits. In addition, Authority officials should strengthen their management controls by updating their (1) procurement policy to delegate procurement authority to employees, (2) procedures to prevent interfund accounts, and (3) methods of tracking force account labor. Also, the updated travel policy should be submitted to HUD and implemented. (Audit Report: 2012-BO-1004)

HUD OIG reviewed HUD's receivership of the East St. Louis Housing Authority in **East St. Louis, IL**, to determine whether HUD





effectively oversaw and managed the recovery and turnaround of the Authority during the 3-year period ending in September 2011.

HUD did not effectively oversee and manage the recovery and turnaround of the Authority. Specifically, it did not have an adequate structure for its staff and did not develop a receivership plan specific to the Authority. As a result, the Authority continued to be under receivership after 26 years and continued to experience significant management and operational deficiencies.

OIG recommended that HUD (1) develop and implement a receivership plan for the Authority that includes sufficient assessments, decision points, measurable goals, and accountability mechanisms; (2) improve its structure for managing receiverships; (3) permanently fill the director position in its Office of Receivership Oversight; and (4) develop adequate accountability mechanisms for HUD staff members whose primary responsibilities involve receiverships. (Audit Report: 2012-KC-0003)

Investigation

Program results	Investigations
Administrative-civil actions	75
Convictions-pleas-pretrial diversions	157
Financial recoveries	\$5,663,485

Former City Department of Neighborhood Development Official Convicted of Mortgage and Section 8 Fraud

A former program manager of a large city’s Department of Neighborhood Development was sentenced to 41 months imprisonment and 3 years supervised release and ordered to pay restitution of \$535,676, of which \$67,037

was ordered to be paid to the Boston Housing Authority. The defendant was previously convicted of bank fraud, wire fraud, and theft of public money. From May 2003 through January 2009, the defendant was involved in a mortgage fraud scheme that involved six properties, including her own residence. Two of the properties were obtained with FHA-insured mortgage loans. The defendant was involved in recruiting straw buyers, providing false information to lenders to secure mortgages on properties, collecting proceeds from property flips, and collecting rents that included HUD Section 8 payments from tenants who resided in the fraudulently obtained properties. To execute another part of the scheme, the defendant created false identification documents, which she provided to the Boston Housing Authority to pose as a landlord and then collected HUD Section 8 payments for her own residence under this false identity. This scheme caused HUD to lose approximately \$650,000. This case was worked jointly with the Federal Bureau of Investigation (FBI), the U.S. Postal Service, and the Boston Police Department. (Boston, MA)

Two Brothers Sentenced for Scheme To Defraud Housing Authority

Two brothers of the former director of the Housing Authority of the City of Los Angeles were sentenced to 21 months incarceration and ordered to pay \$526,727 jointly to the Authority as a result of their guilty pleas to conspiracy to steal government money. One brother was employed as the director of technical services for an organization that received HUD funds for public housing construction projects fixing units occupied by disabled residents. From August 2003 through June 2007, this defendant steered contracts to shell companies operated by his brother. As a result, approximately \$526,727 in HUD funds was diverted and used for personal gain. The brothers double-billed the Authority for construction work that was actually performed by an in-house construction company. The former director pled guilty in August 2012 for his role in





the scheme and is scheduled to be sentenced in October 2012. This case was worked jointly with the FBI. (Los Angeles, CA)

Former Executive Director Sentenced for Stealing Housing Authority Funds

The former executive director of the Jacksonville Housing Authority was sentenced to 5 years probation and 6 months home confinement and ordered to pay \$37,475 in restitution to HUD for her earlier guilty plea to theft of government funds. From September 2007 to April 2008, the defendant devised and executed a scheme to steal \$37,475 from Authority program funds by using the Authority's credit cards, fuel, computer, and rental cars for her own personal use. She also increased her salary without authorization. (Jacksonville, TX)

Former Section 8 Tenant and Husband Sentenced for Stealing More Than \$400,000

A former King County Housing Authority Housing Choice Voucher program recipient and her husband-landlord were sentenced for providing false statements to the Authority, the Social Security Administration, and the Washington State Department of Social and Health Services in order to receive benefits. The defendant was sentenced to 18 months confinement and 3 years supervised release and ordered to pay \$261,643 in restitution. The husband-landlord was sentenced to 18 months confinement and 3 years supervised release and ordered to pay \$160,359 in restitution and a criminal monetary penalty of \$30,000. (Seattle, WA)



★ ★ ★ Chapter 3 ★ ★ ★ Multifamily Housing Programs



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

Strategic Initiative 2:
Contribute to the reduction of erroneous payments in rental assistance

Audit

	Audit
Program results	3 audits
Questioned costs	\$1.5 million
Funds put to better use	\$275,000

Review of Section 220-Insured Property

The HUD Office of Inspector General (OIG) audited the West Village Expansion Project in **Durham, NC**, a HUD Section 220-insured property, to evaluate the merits of a citizen's complaint and determine whether the owner administered the project in accordance with its regulatory agreement with HUD.

The owner violated its regulatory agreement when it repaid more than \$502,000 for previous advances from its managing member's principals, paid \$225,000 for unnecessary legal expenses, did not pay its mortgage in a timely manner,

and underfunded the project's replacement reserve account by more than \$36,000. It took these actions without HUD approval at a time when the property had no surplus cash and the mortgage was delinquent. As a result, the project had fewer funds to operate, pay for future repairs, and keep the mortgage out of default, thus placing HUD at risk for the \$54 million mortgage.

On July 20, 2012, a new investor provided funds to bring the mortgage and required escrows current as well as fund the unauthorized distributions cited. Accordingly, all issues were resolved, and OIG's recommendations were closed. (Audit Report: **2012-AT-1014**)

Investigation

Program results	Investigations
Administrative-civil actions	18
Convictions-plea-pretrial diversions	27
Financial recoveries	\$2,748,668

Former HUD Employee Pleads Guilty to Theft Charges

A former HUD multifamily housing employee pled nolo contendere to charges of theft of personal property and was sentenced to 36 months probation and 15 days in the county jail. The defendant altered his personal identity verification credential card and payroll statements and forged Federal tax forms to reflect the photographs and names of other individuals, including fictitious government employees, to facilitate a scheme to illicitly purchase high-end electronic merchandise from an Internet electronic vendor without making proper payment for the items.





The employee used his official HUD-assigned computer, while in the work place, to facilitate his scheme. Upon receiving the items, he posted them for sale on the Craigslist Internet Web site, using his HUD computer, and conducted email communication to negotiate the sale of the illicitly acquired items using his official HUD government email account. (Los Angeles, CA)

falsified Standard Forms 50 on job applications while applying for employment positions within HUD. (Denver, CO)

Former HUD Multifamily Housing Director Pleads Guilty in Scheme With Multifamily Owners

A former HUD multifamily housing director pled guilty to conspiracy in September 2012. From June 2007 to December 2008, the defendant accepted approximately \$38,000 from coconspirators to facilitate and approve an FHA-insured multifamily housing loan in the amount of \$1.5 million. The defendant underwrote and processed the loan in-house at HUD after a private lender could not recommend approval of the loan; directed staff to sign certain documents necessary for the loan to proceed to him for approval; approved a waiver allowing the use of letters of credit in lieu of a cash downpayment, which the coconspirators did not have; and waived certain inspections of the property. The multifamily project owners were suspended by HUD's Departmental Enforcement Center following an indictment on charges of bribery, false statements, and mail fraud. Additionally, the project owners submitted false certifications to obtain housing assistance payments for the property they owned. (St. Louis, MO)

Former HUD Employee Pleads Guilty to Submitting False Documents

A former HUD employee was removed from his position as project manager in a multifamily housing program office after pleading guilty to submitting false documents to HUD and was sentenced to 1 year probation. The defendant



★ ★ ★ 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.

Strategic Initiative 3:
Contribute to the strengthening of communities

Audit

	Audit
Program results	22 audits ⁵
Questioned costs	\$45.5 million
Funds put to better use	\$11.3 million

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), audited the Community Development Block Grant (CDBG) program, the HOME Investment Partnerships Program (HOME), and the Neighborhood Stabilization Program 1 (NSP1). While OIG’s objectives varied by auditee, the majority of the reviews were to determine whether the grant funds were administered for eligible activities and that the auditee met program objectives.

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

Community Development Block Grant Programs

HUD OIG audited the City of **Elizabeth, NJ**’s administration of its CDBG program and found that City officials did not always administer the City’s CDBG program in accordance with Federal regulations and program requirements. Specifically, CDBG funds were expended for ineligible and unsupported costs, program income was not properly recognized and used, liens were not imposed on assisted properties, and subrecipient monitoring and compliance with other program requirements were not adequate. Consequently, (1) nearly \$400,000 and nearly \$194,000 were expended on ineligible and unsupported costs, respectively, (2) program income of more than \$870,000 was not reported and made available for eligible CDBG activities, (3) HUD’s interest in two assisted properties totaling more than \$4.2 million was not protected, and (4) officials did not adequately monitor subrecipients and comply with program administrative requirements.

OIG recommended that City officials (1) reimburse the City’s CDBG line of credit from non-Federal funds for the ineligible expenses; (2) provide documentation to support the unsupported expenditures and if such documentation cannot be provided, reimburse the City’s CDBG line of credit from non-Federal funds; (3) reimburse the CDBG line of credit for unreported program income of more than \$475,000; (4) provide documentation to enable HUD to determine whether the City was entitled to program income of nearly \$264,000; (5) impose liens or other appropriate notices of record on two real properties assisted with Federal funds to ensure that HUD’s and the City’s interest is adequately protected; and (6) strengthen internal controls to ensure that the City’s CDBG program is administered in accordance with Federal regulations and program requirements. (Audit Report: 2012-NY-1011)





HUD OIG performed a corrective action verification of recommendation 1B in audit report 2008-FW-1012, “The City of **Tulsa, OK**, Allowed Its Largest Subrecipient To Expend \$1.5 Million in Unsupported CDBG Funding.” OIG expanded the review to include recommendation 1C. The purpose of the review was to determine whether HUD closed recommendations 1B and 1C in accordance with requirements and actions taken to resolve the underlying findings.

HUD closed the recommendations before the City of Tulsa required the Tulsa Development Authority to implement specific plans to dispose of land purchased with CDBG funds and remit program income earned on the land. The Authority still held land valued at more than \$3.1 million without specific plans for its use and retained at least \$42,000 in program income. In addition, the Authority did not provide supporting documentation to ensure that it correctly computed and remitted program income to the City for two properties that it sold.

OIG recommended that HUD require the City to repay HUD the higher of the current cost or market value for the land the Authority still holds and either support or repay more than \$2 million for the two properties it sold without supporting calculations of program income remitted. Due to the inability of the City to use these funds for eligible CDBG activities, the City should return the funds to HUD. HUD should also require the City to report monthly on its actions to return the funds and obtain prior HUD approval before funding future land acquisitions with CDBG funds. Further, HUD should reopen recommendation 1C concerning the remittance and use of program income. (Audit Memorandum: 2012-FW-1803)

HOME Investment Partnerships Program

HUD OIG audited **Prince George’s County, MD’s** administration of its HOME program and found that the County generally did not administer its HOME program in accordance with HUD requirements and guidelines. It did not ensure that three of its four active community housing development organizations were eligible and operating in compliance with program requirements. It also improperly committed HOME funds and could not show that it followed requirements related to HOME funds it provided for rental, downpayment, and rehabilitation assistance. As a result, it made ineligible disbursements and could not properly account for all disbursements. The County also had excess, improperly committed, or underused HOME funds.

OIG recommended that HUD require the County to (1) repay its HOME program \$2.4 million in ineligible expenses, (2) provide support for \$1.3 million in expenses or repay the unsupported amount to the program, (3) reprogram \$4.7 million in HOME funds as appropriate for eligible program activities and to improve its administration of the program, and (4) implement procedures to ensure that HOME funds are disbursed and used in compliance with applicable requirements. (Audit Report: 2012-PH-1011)

HUD OIG audited the Municipality of **Bayamón, PR’s** HOME program and found that the Municipality’s financial management system (1) did not properly identify the source and application of more than \$3.5 million in HOME funds, (2) did not support the eligibility of more than \$288,000 in program charges, and (3) failed to disburse more than \$420,000 in HOME funds within HUD-established timeframes. As a result, HUD lacked assurance that funds were adequately accounted for, safeguarded, and used in accordance with HUD requirements.





The Municipality disbursed more than \$703,000 in HOME funds for two activities that showed signs of slow progress without assurance that the activities would generate the intended benefits. As a result, HUD had no assurance that funds were used solely for eligible purposes and that HOME-funded activities met program objectives and fully provided the intended benefits.

The Municipality (1) reported to HUD more than \$901,000 in HOME commitments without executing a written agreement or identifying the property in accordance with HUD requirements, (2) failed to reprogram and put to better use more than \$48,000 in unexpended obligations associated with two activities that were terminated, and (3) did not report and put to better use more than \$62,000 in program income and recaptured funds. As a result, HUD had no assurance that the Municipality met HOME program objectives, commitments, and disbursement requirements.

OIG recommended that HUD require the Municipality to (1) provide all supporting documentation to demonstrate the eligibility and allocability of more than \$4 million in HOME program funds; (2) reprogram or return to its line of credit and put to better use more than \$1.3 million in unexpended obligated funds and HOME funds maintained in its local bank account; and (3) develop and implement an internal control plan to ensure that its financial management system complies with HUD requirements, its HOME-funded activities meet the program objectives, and accurate information is reported to HUD. (Audit Report: **2012-AT-1009**)

HUD OIG reviewed HUD's technical assistance for the HOME program, based upon a congressional request, and found that CPD did not have a centralized system or database that allowed it to sufficiently track all program technical assistance activities and efficiently and effectively provide information on completed activities.

OIG recommended that HUD implement adequate procedures and controls to ensure that CPD (1) uses the tracking mechanisms within HUD's systems to sufficiently track all technical assistance activities regarding the HOME program, once HUD's OneCPD Integrated Practitioner Assistance System is fully implemented, and (2) sufficiently tracks all technical assistance activities regarding the program until it fully implements HUD's OneCPD Integrated Practitioner Assistance System. (Audit Memorandum: **2012-CH-0801**)

Neighborhood Stabilization Program 1

HUD OIG audited the NSPI administered by the Texas Department of Housing and Community Affairs in **Austin, TX**, and found that the Department improperly obligated more than \$42,000. In addition, it could not support more than \$25 million in obligations made by the deadline and nearly \$9,000 in expenditures. Further, it did not report on its progress as required and did not appear to be on schedule to spend funds within required timeframes. As a result, the Department could not assure HUD that it properly managed its more than \$101 million program.

OIG recommended that HUD recapture the improperly obligated funds and require the Department to provide support for the unsupported obligations and costs. (Audit Report: **2012-FW-1013**)





Investigation

Program results	Investigations
Administrative-civil actions	14
Convictions-pleas-pretrial diversions	22
Financial recoveries	\$1,104,222

Former Property Developer Sentenced in HOME Funds Fraud

A former property developer was sentenced to serve 14 months in Federal prison followed by 36 months of Federal probation and ordered to pay \$180,000 in court-ordered restitution, including \$139,198 payable to HUD and \$40,802 payable to a national bank. The defendant previously pled guilty to theft of government funds and filing false claims. The defendant presented false claims to a city’s Office of Economic and Community Development. He fraudulently used HOME funds, which should have been used to rehabilitate three low-income properties in an urban community, for his own personal use. This case was worked jointly with the Lewiston, ME, Police Department. **(Portland, ME)**

Builder Sentenced in HOME Funds Bribery Case

A builder was sentenced to serve 48 months in prison and ordered to pay \$66,449 in restitution. The defendant previously pled guilty to seven counts of wire fraud in connection with attempting to obtain more than \$1.9 million in public financing, to include \$800,000 in CPD HOME funds, for a failed development located in an urban community. The defendant contracted with a city to construct a \$5.6 million low-income affordable housing project. Instead, he provided cash payments and promises of future employment to the director of the city’s Community Development Department. The defendant admitted that he did this to ensure that he would receive favorable treatment from

the city as he attempted to develop the project. A second individual also pled guilty in May 2011 to aiding and abetting, wire fraud, and bribery for accepting improper benefits in connection with business conducted by his office. The second defendant unlawfully obtained \$66,449 in CPD HOME funds from the city’s Community Development Department. He was ordered to pay restitution to that Department. This case was worked jointly with the Federal Bureau of Investigation (FBI) and Internal Revenue Service-Criminal Investigation Division. **(East St. Louis, IL)**

Former CDBG Grant Administrator Sentenced in Misuse of Funds Case

A former CDBG grant administrator was sentenced to 36 months probation and ordered to pay restitution to HUD in the amount of \$116,064. The defendant pled guilty earlier to one count of HUD fraud. Between October 2002 and July 2006, the defendant received a salary from a city department as the grant administrator and also formed a company for which he was paid as the executive director. As part of the defendant’s responsibilities as the CDBG grant administrator, he was responsible for overseeing how the city spent its CDBG funds. The defendant awarded several CDBG contracts to the company for which he was the executive director. He collected a salary from the city as a grant administrator and also collected a salary as the executive director of his company, which was paid using HUD CDBG funds. The loss to HUD was more than \$116,000. This case was worked jointly with the FBI. **(Salt Lake City, UT)**





Asbestos Contractor Sentenced in Scheme To Defraud HUD

An asbestos abatement contractor was sentenced to 21 months imprisonment and 2 years supervised release after pleading guilty to one count of conspiracy to defraud the government. A second defendant was sentenced to 36 months imprisonment and 2 years supervised release. The first defendant conspired to submit a false claim to HUD and made a false statement under the Federal Clean Air Act relating to a contract to remove asbestos and demolish a dilapidated theater using a HUD NSPI grant. Additionally, the defendant conspired to give money to the second defendant, a town supervisor, and a town grant coordinator to influence the award of the demolition contract he received. This case was worked jointly with the FBI and Environmental Protection Agency OIG. (**Detroit, MI**)



★ ★ ★ *Chapter 5* ★ ★ ★
American Recovery and Reinvestment Act of 2009



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

Table 1: HUD programs receiving ARRA funding

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





Strategic Initiative 3: Contribute to the strengthening of communities

Audit

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

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

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

The following section demonstrates the audit work that has been completed during this reporting period.

Program results	Audit
	21 audits ⁶
Questioned costs	\$22.4 million
Funds put to better use	\$9.6 million

Review of Overall ARRA Program

HUD OIG audited HUD’s oversight of four selected housing programs funded by ARRA to determine whether HUD (1) monitored the recipients to ensure that ARRA funds would be fully expended by the expenditure due dates and (2) ensured that expired unliquidated funds would be recaptured and returned to the U.S. Department of the Treasury in accordance with the Pay-It-Back Act.

HUD adequately monitored ARRA recipients to ensure that (1) ARRA funds would be fully expended by the expenditure due dates and (2) unliquidated but expired ARRA funds would be identified and recaptured as appropriate. However, HUD was not effective in ensuring that \$9.52 million in expired and unused ARRA funds would be returned promptly to the Treasury in accordance with the intent of the Pay-It-Back Act.

OIG recommended that HUD establish policies and procedures governing the return of recaptured ARRA funds and immediately transfer the expired and unused ARRA funds to the Treasury’s general fund. (Audit Report: 2012-FO-0006)

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





Office of Public and Indian Housing Audits and Reviews

Public Housing Capital Fund

HUD OIG audited the Public Housing Capital Fund Stimulus (Formula) program, funded under ARRA, awarded to the Buffalo Municipal Housing Authority in **Buffalo, NY**, to determine whether Authority officials (1) procured contracts in accordance with HUD regulations and (2) obligated and expended capital funds in accordance with ARRA and submitted mandated reports in a timely manner and with accurate information.

Authority officials did not always comply with the procurement requirements of the ARRA program and, therefore, did not properly obligate ARRA funds. Specifically, Authority officials did not ensure that the procurement of ARRA contracts was conducted in a manner that provided full and open competition. In addition, payments were made on other obligations that were executed after the ARRA obligation deadline. Authority officials charged questionable expenditures to the ARRA Capital Fund grant. Specifically, they (1) expended ARRA funds on nondwelling equipment purchases that benefited their central office cost center, (2) requisitioned funding from HUD's Line of Credit Control System in excess of the amounts needed, (3) failed to expend funds in accordance with their ARRA Capital Fund annual statement, and (4) did not accurately report ARRA expenditure and job creation or retention information.

OIG recommended that HUD instruct Authority officials to (1) provide documentation or justification for more than \$9.7 million expended on costs that did not meet ARRA procurement and obligation requirements and reimburse the U.S. Treasury the amounts determined to be ineligible from non-Federal or other eligible funds, (2) reimburse the U.S. Treasury from non-Federal funds nearly \$111,000 that was expended

on ineligible costs pertaining to nondwelling equipment purchases for their central office cost center, and (3) provide documentation to justify more than \$30,000 in unsupported costs requisitioned in excess of the Authority's needs. (Audit Report: **2012-NY-1012**)

HUD OIG audited the ARRA Public Housing Capital Fund competitive grants awarded to the Flint Housing Commission, in **Flint, MI**, to determine whether the Commission administered its grants in accordance with ARRA, HUD's, and its own requirements.

The Commission generally complied with the requirements of the Davis-Bacon Act for all four of its ARRA competitive grants. However, it failed to follow HUD's and its own procurement requirements for its ARRA competitive grants. Specifically, it did not (1) provide an adequate rationale for using a noncompetitive procurement method for its ARRA contracts, (2) prepare an independent cost estimate or analysis before the solicitation of offers, and (3) obtain approval from HUD and its board before revising its plan for use of the funds. Additionally, the Commission did not (1) issue payments to its contractor in accordance with HUD's requirements and (2) ensure that its contractor included Section 3 clauses in contracts for work funded by the ARRA grants. As a result, the Commission hindered full and open competition, and HUD and the Commission lacked assurance that ARRA competitive grant funds were used appropriately.

OIG recommended that HUD require the Commission to (1) reimburse HUD more than \$3 million in grant funds for the inadequate procedures used in the procurement process and (2) implement adequate procedures and controls to ensure that contracts are awarded and managed in accordance with HUD's requirements and its own procurement policy. (Audit Report: **2012-CH-1013**)





HUD OIG audited HUD's Public Housing Capital Fund program and ARRA Capital Fund program monitoring procedures to determine whether HUD's Capital Fund program monitoring procedures and reporting system details were adequate to ensure that public housing agencies disclosed and used property insurance recoveries in accordance with program requirements.

HUD did not adequately monitor insurance recoveries to ensure that public housing agencies appropriately applied the applicable credits either as a cost reduction or cash refund as appropriate. HUD's program guidance was outdated, and the procedures for the annual in-office review of the agencies' ongoing capital activities and for monitoring ARRA program grants were not sufficiently detailed to address the review of insurance recoveries. In addition, the information HUD required agencies to submit in their annual plans and in HUD's Financial Assessment Sub-System lacked sufficient detail to be effectively used in the monitoring of insurance recoveries.

OIG recommended that HUD (1) update its information collection requirements to ensure that public housing agencies disclose insurance recoveries, (2) revise its policies and procedures to ensure oversight of the disclosure of insurance recoveries, and (3) issue a notice with guidance for public housing agencies related to the procedures for the disclosure and use of insurance recoveries. (Audit Report: 2012-LA-0004)

Office of Community Planning and Development Audits and Reviews

Community Development Block Grant Program

HUD OIG reviewed the Community Development Block Grant-Recovery (CDBG-R) program of the City of **St. Louis, MO**, to

determine whether the City complied with applicable ARRA requirements for CDBG-R funds and properly reported its ARRA activities.

The City did not comply with applicable requirements for CDBG-R funds and did not properly report its ARRA activities. Specifically, it (1) approved contracts that did not comply with Federal procurement requirements, (2) did not adequately enforce Davis-Bacon Act or Section 3 requirements, and (3) reported incomplete and inaccurate information. As a result, the City used CDBG-R funds for unsupported expenses, failed to ensure that all contractors paid the appropriate wages and disadvantaged workers received economic opportunities, and did not have transparency in its reported use of ARRA funds.

OIG recommended that HUD require the City to (1) support that more than \$1.3 million in ARRA contracts awarded was granted at a reasonable cost and repay any amount determined to be unreasonable or ineligible, (2) review all payments to its contractors' employees to determine whether wage restitution is owed, and (3) make any needed corrections in FederalReporting.gov. In addition, OIG recommended that HUD assist the City in receiving formal training on the issues identified. (Audit Report: 2012-KC-1006)

Neighborhood Stabilization Program

HUD OIG audited the City of **Phoenix, AZ**'s Neighborhood Stabilization Program (NSP) 1 and 2 grants to determine whether the City administered its NSP2 grant in accordance with HUD requirements. OIG also reviewed the Park Lee Apartments rehabilitation activity for compliance with NSP1 and NSP2 requirements.

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. Additionally, the City inappropriately charged the NSP1 and NSP2 grants for actual losses that could have been covered by insurance, unsupported Park Lee Apartments additional payments, and salaries and wages that did not comply with Federal cost principles.

OIG recommended that HUD require the City to (1) stop incurring costs for NSP-funded multifamily rehabilitation projects until HUD determines whether the City has the capacity to carry out these activities in compliance with HUD rules and regulations; (2) support or repay from non-Federal funds expenditures totaling \$6.16 million; (3) reimburse HUD more than \$140,000 from non-Federal funds for ineligible actual loss charges related to the theft and vandalism of air conditioners; (4) reimburse the City's NSP2 grant from non-Federal funds nearly \$391,000 for ineligible costs; and (5) develop and implement policies and procedures to ensure that HUD-funded projects and construction contracts are managed according to HUD rules and regulations and adequately monitored and grant charges comply with Federal cost eligibility requirements. OIG also recommended that HUD determine legal sufficiency and if legally sufficient, pursue civil remedies against the City, its principals, its contractor, or all of the above for incorrectly certifying to the integrity of the data or that due diligence was exercised during the approval of rehabilitation payments. (Audit Report: 2012-LA-1008)

Investigation

Former Housing Authority Employee Sentenced for Stealing ARRA Funds

A Sokaogon Chippewa Community Housing Department employee and former community planner who administered HUD Indian Housing Block Grant funds was sentenced following a bench trial in which she was found guilty of theft of government funds. The defendant was sentenced to 15 months incarceration and 36 months supervised release and was ordered to pay a \$5,000 fine and \$13,054 in restitution to HUD. Between December 2009 and January 2010, the defendant diverted and personally used \$13,054 in ARRA funds to purchase a number of high-end appliances, including a refrigerator, a stove, an oven, a dishwasher, a microwave, a washer, and a dryer. (Milwaukee, WI)



★ ★ ★ Chapter 6 ★ ★ ★

Disaster Relief Programs



In response to disasters, Congress may appropriate additional funding as Disaster Recovery Assistance grants to rebuild the affected areas and provide crucial seed money to start the recovery process.

Over the past several years, disaster funding for the U.S. Department of Housing and Urban Development (HUD) has exceeded \$30 billion, from which HUD provides flexible grants to help cities, counties, and States recover from presidentially declared disasters. These active disaster grants nationwide have approximately \$27 billion in obligations and \$21.8 billion in disbursements, with \$8.2 billion yet to be expended. Of the total \$30 billion in current HUD disaster funds, \$19.6 billion was provided for Hurricanes Katrina, Rita, and Wilma. Regarding the \$19.6 billion in funds provided to Gulf Coast States, \$17.2 billion, or 87.6 percent of the funds, had been disbursed as of September 30, 2012.

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

Strategic Initiative 3: Contribute to the strengthening of communities

Audit

Program results	Audit
Questioned costs	2 audits ⁷
Funds put to better use	\$159,000
	\$2,000

⁷The disaster grant program audits are community planning and development audits. The questioned costs and funds put to better use amounts relate to only disaster-related costs.

HUD OIG audited the Lower Manhattan Development Corporation (LMDC) in **New York, NY**, regarding its administration of the \$2.783 billion in Community Development Block Grant (CDBG) Disaster Recovery Assistance funds awarded to the State of New York in the aftermath of the September 11, 2011, terrorist attacks on the World Trade Center in New York City. The objective of this audit was to determine whether LMDC officials disbursed CDBG Disaster Recovery Assistance funds in accordance with the guidelines established under the HUD-approved partial action plans for the Chinatown Clean Streets and the New York Stock Exchange Security and Streetscape programs.

LMDC officials generally disbursed the funds reviewed in accordance with the guidelines established under the HUD-approved partial action plans. However, officials approved invoices for reimbursement that were not always consistent with the terms of the subrecipient agreements and all applicable requirements.

OIG recommended that HUD direct LMDC officials to (1) strengthen controls over the invoice approval process; (2) recoup, through offsets of future reimbursements, nearly \$108,000 in ineligible and more than \$13,000 in unreasonable costs reimbursed under the Chinatown Clean Streets program; and (3) recover, through offsets of future reimbursements, more than \$4,000 in ineligible costs and provide supporting documentation for more than \$34,000 in costs reimbursed under the New York Stock Exchange Security and Streetscape program. (Audit Report: 2012-NY-1010)





Investigation

Former CDBG Grant Administrator Found Guilty After Jury Trial

The former CDBG grant administrator of a large metropolitan city was found guilty, following a jury trial, of conspiracy and theft of Federal funds and conspiracy for impeding or obstructing a Federal audit. The defendant conspired with others to illegally convey and sell a parcel of land. The land was owned by one of the coconspirators and was purchased by the city she worked for using Federal Emergency Management Agency disaster funds. The defendant concealed the fact that the HUD CDBG Disaster Assistance grant program was not administered in accordance with the grant agreement and convinced HUD OIG auditors that the city complied with the grant agreement. During a 2010 HUD OIG audit, the defendant instructed her staff to alter or omit documents that documented a duplication of benefits and transmitted the fraudulent information via email to HUD OIG auditors. An individual who worked for the defendant entered into a pretrial diversion agreement with the government as a result of this investigation. The city was awarded an aggregate amount of \$37.6 million in CDBG funds for recovery efforts in the aftermath of Hurricane Katrina. This case was worked jointly with the Federal Bureau of Investigation (FBI) and the Alabama Attorney General's Office. (Mobile, AL)

the rehabilitation work. This investigation was conducted by HUD OIG, the FBI, and the New Orleans Inspector General. (New Orleans, LA)

Contractor Pleads Guilty in Overbilling Scheme

A contractor with the New Orleans Affordable Homeownership Program (NOAH) pled guilty to conspiracy. The defendant, along with others, conspired to steal CDBG grant funds provided to NOAH that were designated to be used to repair homes damaged by Hurricane Katrina. The scheme involved overbilling for charges related to



★ ★ ★ Chapter 7 ★ ★ ★

Other Significant Audits and Investigations and the OIG Hotline

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

Audit

Program results	Audit
	18 audits ⁸
Questioned costs	\$807.3 million*
Funds put to better use	\$14.8 million

*A portion of the program results and related costs (questioned costs - \$485,363,750 and funds put to better use - \$5 million) was the result of work performed jointly with the Office of Investigation.

Bank of America Settled Alleged Violations of the False Claims Act by Countrywide Home Loans, Inc.

HUD OIG conducted a review of loans underwritten by Countrywide Home Loans, Inc., and its divisions Countrywide Bank, FSB, and Countrywide Mortgage Ventures, LLC, to determine whether Countrywide underwrote Federal Housing Administration (FHA) loans in accordance with FHA regulations.

Countrywide is a subsidiary of Bank of America, **Charlotte, NC**. Bank of America acquired Countrywide on January 11, 2008. Countrywide’s FHA approval was voluntarily terminated on September 2, 2010. To address

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

the review objective, OIG reviewed 110 statistically selected loans from a universe of 8,724 FHA-insured loans, which Countrywide and two of its related entities closed between January 1, 2003, and December 31, 2009, and that met specific loan default criteria. OIG referred its findings to the U.S. Attorney’s Office of the Eastern District of New York. Bank of America and its affiliated entities entered into a settlement agreement with the U.S. Department of Justice (DOJ). The consent judgment stated that the parties agreed to resolve their claims without the need for litigation and that Bank of America did not admit the allegations of the complaint other than those facts deemed necessary to the jurisdiction of the court. On April 4, 2012, the U.S. District Judge for the District of Columbia approved the consent judgment, which was based in large part on OIG’s review of the 110 statistically selected FHA loans. As a result, Bank of America paid FHA nearly \$471 million to settle the Countrywide portion of the consent judgment.

Bank of America and its affiliated entities also agreed to a deferred settlement payment to FHA of \$850 million. The \$850 million is deferred for 3 years from the effective date of the consent judgment to allow Bank of America to conduct a one-time, nationwide modification program to be offered to underwater borrowers with economic hardship on first-lien loans. Bank of America will have no obligation to make the \$850 million deferred settlement payment to FHA if it satisfactorily completes the stipulations of the modification program. (Audit Memorandum: 2012-CF-1809)

Deutsche Bank Settled Alleged Violations of the False Claims Act by MortgageIT, Inc.

HUD OIG, assisted the U.S. Attorney’s Office, Southern District of New York, in conducting



a review of MortgageIT, Inc., headquartered in New York, NY. The objective of the review was to determine whether the MortgageIT loans reviewed were underwritten in violation of FHA regulations.

OIG reviewed 21 FHA loans and other documentation. On May 3, 2011, the U.S. Attorney's Office commenced a civil action against Deutsche Bank and MortgageIT under the False Claims Act and the common law. On May 10, 2012, Deutsche Bank and related entities agreed to settle the complaint and pay \$202.3 million to the United States to resolve the Federal Government's claims for damages and penalties under the False Claims Act. Of that amount, FHA was to receive approximately \$196 million. As part of the settlement, MortgageIT admitted, acknowledged, and accepted responsibility for various conduct, including failing to conform fully with FHA rules for maintaining a quality control program and conducting reviews of all early payment defaults on loans endorsed for FHA insurance. It also agreed that it did not conform to all applicable FHA regulations from 1999 through 2009. MortgageIT further agreed that it falsely certified to FHA that certain loans were eligible for FHA mortgage insurance, and HUD incurred losses when some of those loans defaulted. Deutsche Bank admitted, acknowledged, and accepted responsibility for the fact that after MortgageIT became a wholly owned, indirect subsidiary of Deutsche Bank in January 2007, Deutsche Bank defendants were in a position to know that the operations of MortgageIT did not conform fully to all of FHA's regulations, policies, and handbooks. It also agreed that one or more of the annual certifications made to FHA falsely stated that MortgageIT conformed to all applicable FHA regulations. (Audit Memorandum: 2012-CF-1811)

CitiMortgage, Inc., Settled Allegations of Failing To Fully Comply With FHA Requirements and Submitting False Certifications to HUD on FHA Loans

HUD OIG assisted the U.S. Attorney's Office, Southern District of New York, in conducting a review of CitiMortgage, Inc. CitiMortgage is a direct subsidiary of Citibank, N.A., and Citibank is an indirect subsidiary of Citigroup. CitiMortgage is based in O'Fallon, MO. The review began due to a *qui tam* filing in the U.S. District Court for the Southern District of New York.

CitiMortgage has participated in the FHA direct endorsement lender program since 1981. The direct endorsement lender program authorizes private-sector mortgage lenders to approve mortgage loans for insurance by FHA. Lenders approved for the program must follow various FHA requirements and provide annual and per loan certifications that the lender complies with these requirements when underwriting and approving loans for FHA insurance.

In 2011, the *qui tam* relator filed a complaint alleging, among other things, that CitiMortgage, Citibank, and Citigroup violated the False Claims Act, 31 U.S.C. (United States Code) 3729 et seq., in connection with CitiMortgage's participation in the direct endorsement lender program. The complaint alleged that CitiMortgage, Citibank, and Citigroup caused the United States or its departments or agents to insure mortgages originated by these entities, based on the entities' false statements that these loans were consistent with applicable regulations and rules regarding the quality of the mortgages or loans. On or about February 13, 2012, the U.S. Attorney's Office intervened (joined the relator's case on behalf of HUD) in the civil action against these entities. On February 15, 2012, CitiMortgage, Citibank, and Citigroup agreed to settle the complaint by paying the





Federal Government and relator \$158.3 million. The settlement payment included the portion payable to DOJ and the relator for bringing the lawsuit, and the remainder of the more than \$122.8 million was paid to the FHA insurance fund. (Audit Memorandum: 2012-CF-1814)

Flagstar Bank, FSB, Settled False Claims Act Allegations of Submitting False Certifications to HUD on FHA Loans

HUD OIG assisted the U.S. Attorney's Office, Southern District of New York, in conducting a review of Flagstar Bank, FSB, to determine whether Flagstar conducted its operations in the underwriting of FHA loans in accordance with FHA regulations.

Flagstar Bank is a supervised direct endorsement lender headquartered in **Troy, MI**. Since 1988, Flagstar has been a participant in the direct endorsement lender program.

Flagstar did not conduct its operations in the underwriting of FHA loans in accordance with FHA regulations. On February 24, 2012, Flagstar admitted, acknowledged, and accepted responsibility for submitting false certifications to HUD about the eligibility of its loans for FHA insurance. In a settlement reached with the U.S. Attorney's Office, the lender agreed to pay \$132.8 million to the United States in damages and penalties under the False Claims Act and to reform its business practices. Flagstar admitted that during the period January 1, 2002, to February 24, 2012, it delegated underwriting decisions to unauthorized staff. The lender also admitted that it underwrote and approved for FHA insurance loans that did not comply with certain FHA underwriting requirements, and HUD paid insurance claims on these ineligible loans. Further, the U.S. Attorney's Office announced that Flagstar set daily quotas for its HUD-approved underwriters and underwriting assistants and paid these employees substantial incentive awards for exceeding daily quotas.

(Audit Memorandum: 2012-CF-1810)

Settlement of Alleged Violations of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989

HUD OIG conducted a civil fraud review of an alleged foreclosure rescue scheme in **Seal Beach, CA**. The alleged scheme involved more than 100 properties in three States that were financed through FHA and conventional loans and allegedly defrauded distressed homeowners, renters, and lenders. Based on OIG's work, the U.S. Attorney's Office of the Central District of California filed a complaint in June 2011. The complaint alleged that the complainant perpetrated a fraudulent scheme that involved mail fraud, bank fraud, and false statements affecting financial institutions, which violated the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. On July 20, 2012, the complainant entered into a settlement agreement with DOJ and agreed to pay a \$5 million civil penalty judgment. He also agreed to other stipulations, including but not limited to being prohibited from participating in the home finance or real estate industries and being barred from filing bankruptcy petitions on behalf of himself or any other person or entity, both for a period of 10 years or until such time as the civil penalty judgment is satisfied by full payment.

In agreeing to the settlement, the complainant did not admit to liability or fault. The settlement agreement was accepted by the court and filed on July 31, 2012. (Audit Memorandum: 2012-CF-1813)





Bartlesville Health Care Center, Inc., Owners and Lender Settled Alleged Violations of the False Claims Act

HUD OIG audited three related nursing facilities in **Bartlesville, OK**: Bartlesville Health Care Center, Inc., doing business as Silver Lake Care Center; Mannford Health Care Center, Inc., doing business as Cimarron Pointe Care Center; and Owasso Nursing Center, Inc., doing business as Sequoyah Pointe Living Center. The audit objective was to determine whether the owners of Bartlesville, Mannford, and Owasso and the multifamily accelerated processing lender, Harry Mortgage, followed HUD requirements when refinancing the nursing facilities' mortgages.

Less than 1 year before the FHA-insured refinance, Bartlesville obtained a non-FHA-insured second mortgage to pay its owners \$2.6 million. Harry Mortgage should not have recommended to HUD that FHA insure this mortgage. The FHA-insured refinance mortgage inappropriately increased the risk to FHA's insurance fund, and the owners received nearly \$2.6 million when they refinanced the nursing home with FHA insurance. Due to the seriousness of the findings, OIG referred the matter to DOJ through HUD's Associate General Counsel of Program Enforcement.

Through a civil settlement, the government will receive more than \$5.3 million from the owners and lender. HUD will receive more than \$2.6 million, the amount it lost on the sale of the note, and the U.S. Department of the Treasury will receive nearly \$2.7 million. (Audit Memorandum: 2012-FW-1805)

Evaluation of HUD's Conference Spending

In response to a congressional request, HUD OIG compiled information from audits and investigative activities it performed that included findings or allegations regarding HUD's

conference spending and related travel.

OIG performed 34 such reviews between October 1995 and January 2012. Its audit reports disclosed immaterial instances of unsupported, ineligible, or unnecessary travel expenses by HUD employees or personnel of entities that administered HUD funds. HUD has addressed the recommendations associated with these reports to OIG's satisfaction, and all are closed. The allegations reviewed were either unfounded or resulted only in administrative actions. Therefore, OIG made no recommendations. (Inspections and Evaluations: 2012-IE-0801)

Investigation

In addition to investigating fraud and thefts against the major HUD programs, the HUD OIG Office of Investigation pursues investigations of other crimes against HUD programs, including the theft of funds from the Government National Mortgage Association. HUD OIG is taking a proactive role to combat consumer fraud, including mortgage loan origination and foreclosure rescue scams. Many of these investigations are conducted jointly with the Federal Bureau of Investigation and other Federal, State, and local law enforcement partners.

Program results	Investigations
Administrative-civil actions	8
Convictions-plea-pretrial diversions	1
Financial recoveries	\$11,200

OIG Hotline

The HUD OIG hotline is operational 5 days a week, Monday through Friday, from 10:00 a.m. to 6:00 p.m. Eastern Standard Time. The hotline is staffed by 10 full-time OIG employees, who take allegations of waste, fraud, abuse, or serious

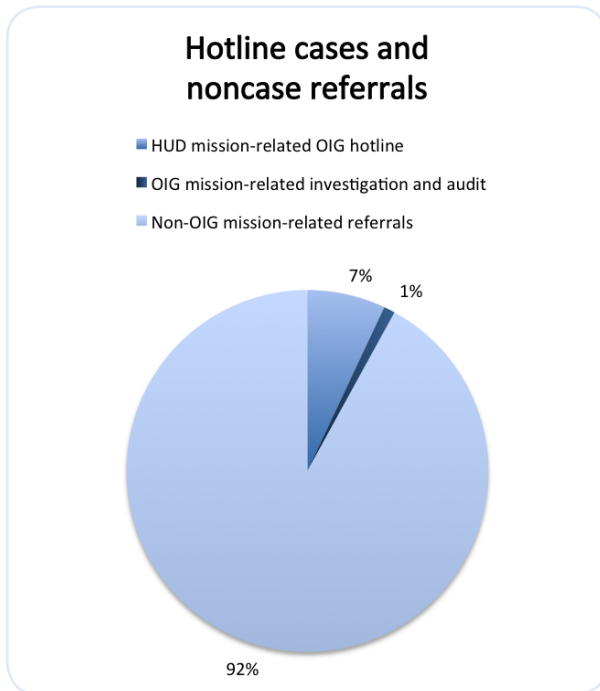




mismanagement in HUD or HUD-funded programs from HUD employees, contractors, and the general public. The hotline also coordinates reviews of allegations with internal audit and investigative units or with HUD program offices.

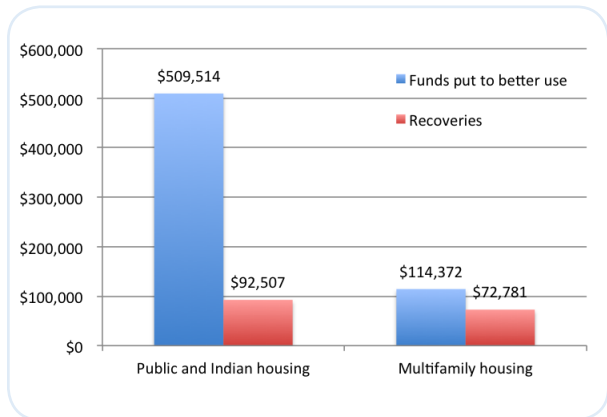
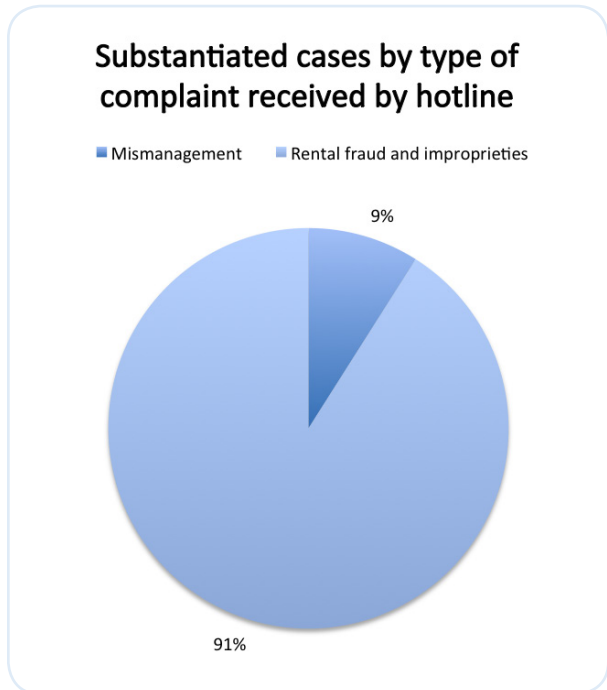
During this reporting period, the hotline received and processed 4,616 contacts – 81 percent received by telephone, 11 percent by email, and 7 percent by mail and fax. Every allegation determined to be related to the OIG mission is logged into the hotline database and tracked.

Of the contacts received, 387 (8 percent) were related to the mission of OIG and were addressed as hotline case referrals. Hotline cases are referred to the OIG Offices of Audit and Investigation or to responsible HUD program offices for action and response. The following illustration shows the distribution of hotline cases and noncase referrals by percentage.



The hotline closed 148 cases this reporting period. The closed hotline cases included 33 substantiated allegations. The Department took corrective actions that resulted in \$172,288 in recoveries of losses and \$623,886 in HUD funding that could be put to better use. The

recoveries included repayments of overpaid rental subsidies. Some of the funds that could be put to better use were the result of cases in which tenants were terminated from public housing or multifamily housing programs for improperly reporting their incomes or family composition to qualify for rental assistance.



★ ★ ★ 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 approximately 573 hours to reviewing 131 issuances.⁹ The draft directives consisted of 18 notices of funding availability, 77 mortgagee letters and notices, and 36 other directives. OIG provided comments on 29 percent (38 of the 131 reviewed) of these draft directives.

Notices and Policy Issuances

Single-Family Housing

During this 6-month period, OIG reviewed and commented on various departmental clearance items affecting the Federal Housing Administration's (FHA) single-family programs. A selection of what was reviewed is summarized below.

HECM program - In response to our audit report 2010-FW-0003, issued August 25, 2010, HUD sent through departmental clearance a proposed rule addressing requirements related to the mortgagors' obligations and payment of property charges and the processes for mortgagors and mortgagees to follow when the mortgagors fail to comply with the obligations under the terms of the Home Equity Conversion Mortgage (HECM) program. The proposed rule would also cap the amount of insurance benefits paid in connection with a claim involving amounts advanced by the mortgagee for those

⁹Issuances require internal clearance through OIG. Issuances include documents such as handbooks, mortgagee letters, and notices. Issuances generally supplement existing regulatory or statutory requirements that pertain to HUD programs or operations. Issuances also include Federal Register publications that introduce new or revised rules and policies prescribed by statutes or executive order.

instances in which HECM mortgagors fail to pay property charges after the available HECM proceeds have been exhausted and enhance clarity concerning when HECMs are "due and payable" by establishing specific timeframes for "due and payable" notifications and revising the "due date" for purposes of computing HECM insurance claims. In addition, the proposed rule would establish a new property inspection requirement to ensure that a property that is the security for a HECM is adequately maintained and meets applicable property standards. While OIG is encouraged by the proposed regulation changes governing the HECM program and believes it will positively strengthen program weaknesses, OIG did express concerns regarding (1) ensuring that property taxes are current at the time of loan closing, (2) requiring that a set-aside of funding be a requirement of funding versus an option to handle payment of taxes and insurance, (3) whether a 2-year cap on insurance benefits for advances on property charges is too long, and (4) how often property inspections should be performed.

Risk management - As part of HUD's efforts to strengthen the risk management practices of FHA, HUD published a final rule in 2010, revising its regulations pertaining to the FHA approval of mortgage lenders. That final rule increased the net worth requirement for FHA-approved lenders and mortgagees, eliminated HUD's approval of loan correspondents, and amended the general standards for lenders and mortgagees. However, on August 24, 2012, HUD published a final rule that made several clarifications and corrections to the provisions of the prior final rule. Specifically, the August 2012 final rule

- Clarified liquidity requirements for FHA-approved lenders and mortgagees. FHA-approved non-small business lenders and mortgagees were required to have a minimum net worth of \$1 million, of which 20 percent must be liquid assets consisting





of cash or its equivalent acceptable to the HUD Secretary. The 20 percent intent of the liquidity requirement applies solely to the required minimum net worth instead of a lender's net worth.

- Clarified the definition of a sponsored third-party originator and that a sponsored third-party originator may hold a Title I contract of insurance or Title II origination approval agreement if it is also an FHA-approved lender or mortgagee.
- Removed references to loan correspondents, loan originators, and other outdated terms and when appropriate, replaced those terms with "sponsored third-party originator."

Loss mitigation – OIG reviewed a proposed mortgagee letter concerning loss mitigation expectations required of servicers. Some of the topics covered included (1) timely notification to borrowers after review, (2) timing of foreclosure initiation, (3) loss mitigation options during the foreclosure process, (4) extensions of time for loss mitigation during foreclosure, and (5) terminating foreclosure proceedings. OIG also reviewed another proposed mortgagee letter establishing new requirements for FHA's loss mitigation home retention options in an effort to help reduce the number of full claims against the FHA insurance fund by assisting a greater number of qualified, distressed mortgagors with staying in their homes.

Financial reporting – In the prior reporting period, OIG reviewed a proposed rule that would streamline the FHA financial statement reporting requirements for lenders and mortgagees that are supervised by a Federal banking agency and the consolidated assets of which do not meet the threshold set by their supervising Federal banking agency for submission of audited financial statements (currently set at \$500 million in consolidated assets). OIG had nonconcurred on this original proposed rule due to concerns with HUD's removing an important control in the FHA process to monitor its approved

lenders and mortgagees. OIG met with HUD during this 6-month period and discussed its concerns. HUD agreed to revise language in the proposed rule to address OIG's concerns. HUD resubmitted the proposed rule during this 6-month period with changes that addressed OIG's concerns, and OIG lifted the nonconcurrence. HUD has not yet published the final rule, which will have an impact only on the requirements for submitting annual financial statements by small supervised lenders and mortgagees.

Office of Healthcare Programs

The Office of Healthcare Programs submitted a final rule to implement regulatory changes regarding how operators of healthcare facilities treat project income. The rule is in response to an audit report issued in 2002 (2002-KC-0002). The changes were needed to ensure that program requirements are sufficient to meet increased demand and prevent mortgage defaults that not only impose a risk to the FHA insurance fund, but can also jeopardize the safety and stability of healthcare facilities and their residents. Changes were also made to the physical inspection requirements and mortgage insurance contract requirements.

Public and Indian Housing

Rental Assistance Demonstration Program – The notice responds to comments received and provides instructions for the full program, including eligibility and selection criteria. OIG commented that the front-end risk assessment should be completed before implementation. During this reporting period, the Office of Public and Indian Housing (PIH) issued a notice for the full implementation of the program; however, a front-end risk assessment was not started until June 2012 and has yet to be completed.





Community Planning and Development

HOME - Congress mandated changes to the HOME Investment Partnerships Program (HOME) in the Consolidated and Further Continuing Appropriations Act of 2012. The Act requires participating jurisdictions to (1) repay HOME funds invested in projects that are not completed within 4 years of the commitment date unless a waiver is given by HUD, (2) commit fiscal year (FY) 2012 HOME funds only when a project has been properly underwritten and market conditions examined to ensure that there is adequate need for the HOME project, (3) convert any FY 2012 home ownership units to HOME-assisted rental units if they are not sold within 6 months, and (4) provide FY 2012 HOME funds only to community housing development organizations that have shown that they have staff with demonstrated development experience. On May 8, 2012, HUD issued Notice CPD 12-007 to implement changes required by the Act.

However, HUD previously proposed other significant changes to the Office of Community Planning and Development's HOME program regulations. HUD OIG generally agreed with the proposed changes but included additional changes, which HUD OIG believes will strengthen the program. These proposed changes had not become final as of September 30, 2012. Although there are similarities between the law mandated by Congress and the regulatory changes proposed by HUD, the Act required HUD to immediately implement the congressional requirements on all FY 2012 HOME-funded activities.





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 the needed actions and timeframes for resolving audit recommendations. Through this process, OIG hopes to achieve measurable improvements in HUD programs and operations. The overall responsibility for ensuring that the agreed-upon changes are implemented rests with HUD managers. This chapter describes significant management decisions with which OIG disagrees. It also contains a status report on HUD’s implementation of the Federal Financial Management Improvement Act of 1996 (FFMIA). In addition to this chapter on audit resolution, see appendix 3, table B, “Significant audit reports in 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 September 30, 2012

HUD Lacked Adequate Controls To Ensure the Timely Commitment and Expenditure of HOME Funds, Issue Date: September 28, 2009

HUD OIG audited HUD’s HOME Investment Partnerships Program (HOME). The OIG report included a recommendation that the HUD Office of Community Planning and Development (CPD) establish and implement controls to ensure that field offices require participating jurisdictions to close out future HOME activities within a timeframe that will permit reallocation and use of the funds for

eligible activities in time to avoid losing them to recapture by the U.S. Treasury under provisions of Public Law 101-510.

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

OIG also recommended that CPD obtain a formal legal opinion from HUD’s Office of General Counsel regarding whether HUD’s cumulative technique for assessing compliance with commitment deadlines is consistent with and an allowable alternative to the 24-month commitment required by 42 U.S.C. (United States Code) 12748 and HUD’s first-in, first-out (FIFO) method for assessing compliance with HOME expenditure requirements is consistent with and an allowable alternative to the 8-year recapture deadline pursuant to Public Law 101-510, codified at 31 U.S.C. 1552.

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

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





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

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

Another issue is whether HUD's FIFO accounting method complies with Federal accounting requirements for maintaining the U.S. Standard General Ledger and general appropriations law. The accounting issues require review for compliance with Federal accounting standards and appropriation law.

Since OIG's last semiannual report date, in conjunction with its annual audit of HUD's financial statements, OIG has continued to discuss the FIFO accounting method with the U.S. Government Accountability Office (GAO) and is waiting for GAO to determine whether the FIFO accounting method violates Federal standards for appropriation accounting and whether the cumulative method is an acceptable alternative to the statutory recapture provision. (Audit Report: 2009-AT-0001)

Significantly Revised Management Decisions

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

HUD Lacked Adequate Controls Over the Physical Condition of Section 8 Voucher Program Housing Stock, Issue Date: May 14, 2008

HUD OIG audited HUD's controls over the physical condition of Section 8 housing stock for the Housing Choice Voucher program. OIG's objective was to determine whether HUD had adequate controls to ensure that its Section 8 housing stock was in material compliance with housing quality standards.

HUD did not have adequate controls to ensure that its Section 8 housing stock was in material compliance with housing quality standards. This condition occurred because HUD had not fully implemented its Section 8 Management Assessment Program (SEMAP). As a result, it could not ensure that the primary mission of the Section 8 program, paying rental subsidies so





that eligible families can afford decent, safe, and sanitary housing, was met. In addition, HUD's lack of knowledge regarding the condition of its Section 8 housing stock resulted in inflated performance ratings for public housing agencies administering the program. Consequently, HUD routinely rated some agencies as being high performers when a significant percentage of the units they administered were in material noncompliance with housing quality standards. HUD was revising its Section 8 regulations. These revisions included developing a physical inspection system to help ensure that HUD's Section 8 housing stock is in material compliance with housing quality standards.

Our recommendations included completion of the departmental clearance process of the proposed revised Section 8 regulations by the end of fiscal year (FY) 2008, allowing the proposed revisions to SEMAP and housing quality standards to go through the proper process and carefully considering all questions and comments made by the affected parties (HUD Office of Public and Indian Housing staff, tenants, landlords, Real Estate Assessment Center, HUD OIG, etc.) before publishing the final rule, and fully developing and implementing a physical inspection system for the tenant-based Housing Choice Voucher program within 3 years of the issue date of this report.

In its original management decision, HUD agreed to publish the final rule and to develop and implement a new physical inspection system by October 31, 2010. Due to various delays, HUD requested and OIG agreed to extend the target completion date to September 30, 2012. In September 2012, HUD revised its management decisions. HUD has embarked on a major initiative to overhaul and improve its information system through the Next Generation Management System and plans to delay development and implementation of a new SEMAP rule. HUD recognizes that the lack of an independent assessment of the quality of assisted units is a major flaw within SEMAP and that HUD needs to take action to address this concern. HUD intends to perform up to 10,000

quality control inspections at up to 100 of the largest public housing agencies during 2013 and complete follow-up and administrative action by October 31, 2014. (Audit Report: 2008-AT-0003)

The City of East St. Louis Did Not Properly Allocate Salary and Building Expenses or Properly Document Its Process To Secure a Consulting Services Contract, Issue Date: March 26, 2010

HUD OIG audited the City of East St. Louis' Community Development Block Grant (CDBG) program to determine whether the City properly expended block grant funds for salaries and building expenses and followed proper procurement processes while awarding significant administration contracts.

The City did not properly allocate salary and building expenses to the CDBG program. It also did not properly document the cost estimate and selection process used to procure a contract for developing its 5-year consolidated plan.

Among other things, OIG recommended that HUD provide technical assistance to the City to ensure that its management and staff comply with Office of Management and Budget (OMB) Circular A-87 requirements for rental costs. In its original management decision, HUD agreed to provide the City with technical assistance. HUD submitted a revised management decision because it had transferred full administrative responsibility for the grant program to St. Clair County, IL, and the old recommendations were no longer necessary. Beginning in FY 2012, the City has become a member of the St. Clair County Urban County and will not have a CDBG program to administer. On July 30, 2012, OIG agreed with the revised significant management decision. (Audit Report: 2010-KC-1003)





The City of East St. Louis, IL, Did Not Properly Manage Housing Rehabilitation Contracts Funded by the Community Development Block Grant Program, Issue Date: February 9, 2011

HUD OIG audited the City of East St. Louis' CDBG program to determine whether the City properly managed its housing rehabilitation contracts.

The City awarded more than \$1 million in grant funds for 124 of the 147 rehabilitation contracts reviewed without adequately ensuring that it complied with requirements and that the work was completed in an acceptable manner. Specifically, it did not ensure that contractors completed all of the contracted work as required and at a reasonable cost. Additionally, the City created scopes of work for the rehabilitation contracts that were not detailed and specific in nature. Finally, it did not comply with Federal procurement requirements and its own policies and procedures when it managed the rehabilitation contracts.

Among other things, OIG recommended that HUD require the City to obtain detailed inspection reports with pictures of completed repairs to ensure that all work items are properly completed according to the approved scopes of work before the contractors are paid. OIG also recommended that the City develop and implement a postrepair quality control process to ensure that work is completed according to the scope. In its original management decision, HUD agreed to require the City to implement adequate internal controls. HUD submitted a revised management decision because it had transferred full administrative responsibility for the grant program to St. Clair County, IL, and the old recommendations were no longer necessary. Beginning in FY 2012, the City has become a member of the St. Clair County Urban County and will not have a CDBG program to administer. On July 30, 2012, OIG agreed with

the revised significant management decision. (Audit Report: 2011-KC-1001)

The East St. Louis, IL, Housing Authority Drew Capital Funds for Unsupported and Ineligible Expenses, Issue Date: March 1, 2011

HUD OIG audited the East St. Louis Housing Authority's Public Housing Capital Fund program to determine whether the Authority had proper support for its capital fund draws.

The Authority drew down grant funds for ineligible items and without adequate support. Specifically, it made unsupported draws, excessive administration draws, draws for force account labor without prior approval, draws above the invoiced amount, and duplicate draws. As a result, HUD had no assurance that nearly \$172,000 in capital funds was properly spent.

Among other things, OIG recommended that HUD require the Authority to provide support for nearly \$91,000 drawn for unsupported costs or return the funds to HUD. OIG also recommended that the Authority return more than \$81,000 in ineligible draws to HUD. In its original management decision, HUD agreed to review documentation submitted by the Authority and require repayment to the project from non-Federal funds for the amount that could not be supported. HUD recently submitted a revised management decision because it had completed its review of the documentation and determined the amount of repayment remaining. It planned to enter into a 10-year repayment agreement with the Authority totaling more than \$31,000. On July 13, 2012, OIG agreed with the revised significant management decision. (Audit Report: 2011-KC-1002)



Significant Management Decision With Which OIG Disagrees

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

The Housing Authority of the City of Shreveport, LA, Mismanaged Its Recovery Act Funds by Entering Into Imprudent Contracts To Meet the Obligation Deadline, Issue date: October 14, 2010

HUD OIG audited the Housing Authority of the City of Shreveport as part of its annual audit plan to review American Recovery and Reinvestment Act of 2009 (ARRA) funds. The audit objective was to determine whether obligations the Authority made between January 30 and March 17, 2010, were appropriate, prudent, eligible, and supported and whether procurements were made in accordance with requirements.

The Authority mismanaged more than \$1.5 million in ARRA funding by entering into imprudent contracts to meet the March 17, 2010, obligation deadline. In addition, it could not provide assurance that it properly awarded the contracts.

Working with the New Orleans field office, OIG obtained management decisions for three of the six recommendations. However, OIG could not resolve the remaining three recommendations and referred the recommendations to HUD's Deputy Assistant Secretary for Public Housing Investments in accordance with requirements to aid in the resolution.

On March 25, 2011, HUD's Deputy Assistant Secretary for Public Housing Investments proposed and OIG concurred with HUD, requesting a formal legal opinion for a

- Determination of whether the Authority could enter into a contract for the encapsulating paint for nearly \$192,000 and determining whether any funds should be recaptured (recommendation 1A).
- Determination of whether the Authority's submission of a revised budget constituted an amendment to its public housing authority plan and determining whether any funds should be recaptured (recommendation 1B).

HUD and OIG agreed on the management decision that HUD would deposit any recaptured funds pursuant to the outcomes of recommendations 1A and 1B with the Treasury for deficit reduction in accordance with ARRA as amended (recommendation 1E).

HUD obtained a legal opinion from the Assistant General Counsel on February 7, 2012. HUD requested closure of the three recommendations based upon the legal opinion.

The legal opinion required HUD to obtain from the Authority an independent cost estimate and the Authority to submit to HUD a noncompetitive procurement exception request to resolve recommendation 1A. Because the legal opinion required additional action by HUD, on May 22, 2012, HUD submitted a revised management decision for recommendation 1A to include obtaining this information and approving the noncompetitive procurement request. On September 12, 2012, HUD's Assistant Secretary for Public and Indian Housing granted the Authority's request for an exception to procurement requirements. OIG disagreed with the result of the revised management decision.

While OIG acknowledged that HUD could provide this procurement exception, OIG continues to disagree that the Authority



showed sufficient justification for its failure to comply with procurement requirements or that an exception was warranted. OIG did not agree with the Authority's determination that competitive methods of procurement were infeasible, since it competitively solicited bidders and received multiple bidders. Likewise, OIG disagreed that the Authority's inability to select activities to undertake and competitively procure those activities in a timely manner warranted an exception to procurement requirements. Further, OIG questioned the prudence of granting an exception to procurement requirements more than 2 years after the procurement took place.

With respect to recommendation 1B, the legal opinion concluded that the Authority did not consider the 450 percent budget increase and reallocating more than \$1.2 million from the Authority's scattered sites to its Wilkinson Terrace Apartments as significant and that the Authority's actions complied with applicable requirements.

OIG disagreed with this determination and maintained that the budget increase and reallocation of resources were material and, therefore, significant, which triggered requirements that the Authority failed to meet, including obtaining board approval and public notification. The Authority's 2008 5-year plan, which was in effect at the time of the 450 percent budget increase, did not have a definition of what constituted a significant amendment as required. After issuance of the OIG audit report, the Authority provided HUD its 2010 5-year plan, which included a definition of a significant amendment. The Office of General Counsel incorrectly based its opinion on the 2010 plan rather than the 2008 plan. Further, OIG could not agree with the determination that the facts as cited in the report were insignificant. (Audit Report: 2011-FW-1001)

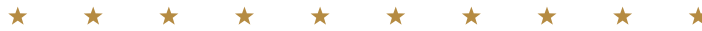
Federal Financial Management Improvement Act of 1996

In FY 2012, HUD did not substantially comply with FFMIA. In this regard, HUD's financial management systems did not substantially comply with Federal financial management system requirements.

During FY 2012, HUD made limited progress in bringing the Federal financial management systems into compliance with FFMIA. However, HUD's financial management systems continued to not meet current requirements. HUD's systems were not operated in an integrated fashion and linked electronically to efficiently and effectively provide the agencywide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

HUD's financial systems, many of which were developed and implemented before the issue date of current standards, were not designed to provide the range of financial and performance data currently required. The modernization project, HUD's Integrated Financial Management Improvement Project, was launched in FY 2003 but has been plagued by delays. Originally planned for implementation in 2006, the contract for the Project was awarded on September 23, 2010. The 10-year contract plan was established based on the implementation Project start date and current schedule. With the award of the contract, HUD anticipated implementation of phase I of the Project in time to have all of the fiscal year 2012 financial data within the new system. During fiscal year 2012, HUD convened an independent government assessment team, composed of several subject-matter experts from multiple government agencies, to rapidly evaluate the status of the Project. HUD has renamed the Project the HUD Enterprise-wide Financial Management Project.





As of September 30, 2012, HUD does not have an operational new core financial system. Base period performance goals and objectives were not met, and in March 2012, the Project was stopped, and HUD began reevaluating its options for the Project. Sponsorship of the Project has been transferred from the Office of the Chief Financial Officer (OCFO) to the HUD Deputy Secretary. The Deputy Secretary and a working group comprised of OCFO, the Office of the Chief Information Officer, and the Office of the Chief Procurement Officer are reassessing HUD's options for the Project.

systems requirements, HUD did not perform independent reviews of all of its financial management systems in accordance with OMB Circular A-127. Collectively and in the aggregate, deficiencies continued to exist.

OIG remains concerned about the successful execution and completion of the Project. In addition, OIG remains concerned that completion of the Project will not result in a truly integrated core financial system. As HUD assesses the future of the Project, it is clear that it is in jeopardy and that additional time and funding will be needed.

FFMIA requires OIG to report in its Semiannual Reports to the Congress instances and reasons when an agency has not met the intermediate target dates established in its mediation plan required by FFMIA. At the end of 2012, HUD reported that 3 of the 39 financial management systems were not in substantial compliance with FFMIA. These three systems are the HUD Procurement System (HPS), Small Purchase System (SPS), and Facilities Integrated Resources Management System. HUD acquired a new application, the HUD Integrated Acquisition Management System (HIAMS), to replace HPS and SPS on September 30, 2010. The HIAMS application went live on October 1, 2011. The HIAMS implementation used a phased approach; therefore, HPS and SPS were still operational and used during FY 2012. HUD plans to decommission HPS and SPS in the first quarter of 2013. Additionally, OIG determined that the Integrated Disbursement and Information System (IDIS) was not in substantial compliance with FFMIA. However, HUD continues to report IDIS as compliant. Although HUD certified 36 individual systems as compliant with Federal financial management



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 U.S. Department of Education Inspector General on September 28, 2012. There were no recommendations included in the System Review Report. The report stated:

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

Peer Review Conducted by HUD OIG on USDA

The U.S. Department of Agriculture (USDA) OIG received a rating of pass on the peer review report issued by HUD OIG on September 30, 2009. The System Review Report contained no findings or recommendations.

Office of Investigation

Peer Review Conducted on HUD OIG

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

★ ★ ★ *Appendix 2* ★ ★ ★
Audit Reports Issued

★ ★ ★ ★ ★ ★ ★ ★ ★ ★
Internal Reports

Audit Reports

Chief Financial Officer

2012-FO-0006 HUD's Oversight of Recovery Act-Funded Housing Programs, 09/27/2012. Better use: \$9,518,991.

Chief Information Officer

2012-DP-0004 Security Implemented on HUD's IBM Mainframe Lacked Some Configuration and Technical Controls, 08/24/2012.

2012-DP-0005 Review of Controls Over HUD's Mobile Devices, 09/28/2012.

Housing

2012-CH-0001 HUD's Oversight of Lenders' Underwriting of FHA-Insured Loans Was Generally Adequate, 08/17/2012. Questioned: \$280,107; Unsupported: \$280,107.

2012-KC-0001 HUD Generally Established Controls Over the Section 242 Program but Used an Outdated Handbook, and Its Guidance Had Not Been Cleared Through HUD's Directives System, 04/10/2012.

2012-KC-0004 FHA Paid Claims for Approximately 11,693 Preforeclosure Sales that Did Not Meet FHA Requirements, 09/18/2012. Questioned: \$360,760; Better use: \$781,642,944.

2012-LA-0003 HUD Did Not Always Enforce REO M&M III Program Requirements, 09/18/2012. Questioned: \$491,946; Better use: \$1,045,730.

Office of Chief Human Capital Officer

2012-KC-0002 HUD Did Not Implement Adequate Policies and Procedures for Sanitizing Media in Its Multifunction Devices, 05/03/2012.

Public and Indian Housing

2012-AT-0001 The Section Eight Management Assessment Program Lacked Adequate Controls To Accomplish Its Objective, 08/03/2012.

2012-KC-0003 HUD Did Not Effectively Oversee and Manage the Receivership of the East St. Louis Housing Authority, 09/05/2012.

Internal Reports

Audit Reports

- 2012-KC-0005 HUD’s Real Estate Assessment Center Did Not Always Ensure That Independent Public Accountants Followed Statement on Auditing Standards (SAS) 99 Requirements, 09/28/2012.

- 2012-LA-0004 HUD Did Not Ensure Public Housing Agencies’ Use of Property Insurance Recoveries Met Program Requirements, 09/21/2012.

- 2012-LA-0005 HUD’s Office of Native American Programs Did Not Provide Adequate Oversight To Ensure Grantee Compliance With Annual Audit Report Submission Requirements, 09/28/2012.

Audit-Related Memorandums¹⁰

Chief Financial Officer

- 2012-IE-0801 HUD's Conference Spending, 08/06/2012.

Community Planning and Development

- 2012-CH-0801 HUD's Office of Community Planning and Development Needs To Improve Its Tracking of HOME Investment Partnerships Program Technical Assistance Activities, 09/28/2012.

- 2012-NY-0802 Corrective Action Verification, City of Newburgh, NY, Section 108 Loan Guarantee Program, Audit Report 2009-NY-1001, 09/21/2012.

Housing

- 2012-NY-0801 Corrective Action Verification, Office of Single Family Program Development, Housing Counseling Assistance Program, Audit Report 2006-NY-0001, 05/08/2012.

¹⁰The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government audit standards, to close out assignments with no findings and recommendations, to respond to requests for information, to report on the results of a survey, or to report the results of civil actions or settlements.



External Reports

Audit Reports

Community Planning and Development

2012-AT-1009	The Municipality of Bayamón Did Not Always Ensure Compliance With HOME Investment Partnerships Program Requirements, Bayamon, PR, 05/23/2012. Questioned: \$4,040,662; Unsupported: \$4,039,462; Better use: \$1,300,878.
2012-AT-1010	The Alabama Department of Economic and Community Affairs Did Not Follow Its NSP Requirements, Montgomery, AL, 05/24/2012. Questioned: \$8,540; Unsupported: \$8,540; Better use: \$304,043.
2012-AT-1015	Little Haiti Did Not Fully Comply With Federal Rules When Administering NSP2, Miami, FL, 09/06/2012. Questioned: \$55,052; Better use: \$31,257.
2012-FW-1011	The City of Houston Could Have Better Used Its CDBG Disaster Recovery Downpayment Assistance Funds, Houston, TX, 07/19/2012.
2012-FW-1013	The Texas Department of Housing and Community Affairs Did Not Always Comply with NSP Requirements, Austin, TX, 08/22/2012. Questioned: \$25,346,773; Unsupported: \$25,304,591.
2012-FW-1014	The State of Louisiana Generally Complied With Recovery Act HPRP, Baton Rouge, LA, 09/07/2012. Questioned: \$41,764; Unsupported: \$41,764.
2012-KC-1006	The City of St. Louis Did Not Effectively Manage Its Recovery Act Funding, St. Louis, MO, 09/27/2012. Questioned: \$1,369,308; Unsupported: \$1,369,308.
2012-LA-1007	Los Angeles Neighborhood Housing Services Did Not Always Properly Administer Its NSP2 Grant, Los Angeles, CA, 06/05/2012. Questioned: \$45,625; Unsupported: \$30,000.
2012-LA-1008	The City of Phoenix Did Not Always Comply With Program Requirements When Administering Its NSP1 and NSP2 Grants, Phoenix, AZ, 06/15/2012. Questioned: \$6,688,248; Unsupported: \$6,156,905.
2012-LA-1012	The City of Long Beach Did Not Fully Comply With Federal Regulations When Administering Its NSP2 Grant, Long Beach, CA, 09/21/2012. Questioned: \$84,110.





External Reports

Audit Reports

2012-NY-1009	The City Newark Generally Obligated and Expended NSP1 Funds in Accordance With Regulations, but Had Weaknesses in Administrative Controls, Newark, NJ, 07/20/2012. Questioned: \$60,525; Unsupported: \$49,275; Better use: \$123,193.
2012-NY-1010	The Lower Manhattan Development Corporation Approved Invoices That Were Not Always Consistent With Subrecipient Agreements, New York, NY, 07/27/2012. Questioned: \$159,261; Unsupported: \$34,485; Better use: \$2,258.
2012-NY-1011	The City of Elizabeth Did Not Always Administer Its CDBG Program in Accordance With Regulations, Elizabeth, NJ, 08/15/2012. Questioned: \$856,805; Unsupported: \$457,712; Better use: \$4,812,195.
2012-PH-1009	The City of Philadelphia Generally Administered Its NSP2 Grant in Accordance With Applicable Requirements, Philadelphia, PA, 06/21/2012.
2012-PH-1011	Prince George's County Generally Did Not Administer Its HOME Program in Accordance With Federal Requirements, Largo, MD, 08/03/2012. Questioned: \$3,797,139; Unsupported: \$1,385,545; Better use: \$4,733,357.
2012-SE-1003	Washington State Generally Complied With HOME Program Requirements; However, It Did Not Always Verify Project Accessibility or Report Accurate Matching Contributions, Olympia, WA, 05/09/2012.
2012-SE-1004	The City of Seattle Used Its CDBG-R Funds in Accordance With HUD and Recovery Act Requirements, Seattle, WA, 06/25/2012.

Housing

2012-AT-1011	Nationwide Mortgage & Associates, Inc., Did Not Follow HUD Requirements in Approving FHA Loans and Implementing Its Quality Control Program, Fort Lauderdale, FL, 05/31/2012. Better use: \$378,858.
2012-AT-1013	Universal American Mortgage Company Did Not Comply With HUD Regulations When Originating and Underwriting FHA Loans and Implementing Its Quality Control Program, Miami, FL, 06/06/2012. Better use: \$284,776.





External Reports

Audit Reports

2012-AT-1014	The Owner of the West Village Expansion Project Failed To Comply With Its Regulatory Agreement With HUD, Durham, NC, 07/27/2012. Questioned: \$1,333,657.
2012-CH-1008	Nations Lending Corporation Needs To Improve Its Quality Control Reviews of Early Payment Defaulted Loans, Independence, OH, 06/01/2012.
2012-CH-1014	Mortgage Now Inc. Did Not Always Comply With HUD's Underwriting and Quality Control Requirements, Shrewsbury, NJ, 09/28/2012. Better use: \$555,678.
2012-CH-1015	Allen Mortgage, LLC, Did Not Comply With HUD Requirements for Underwriting FHA Loans and Fully Implement Its Quality Control Program in Accordance With HUD's Requirement, Centennial Park, AZ, 09/30/2012. Questioned: \$1,067,119; Unsupported: \$199,361; Better use: \$1,000,042.
2012-DE-1005	A Hotline Complaint About Utah Housing Corporation Mortgage Servicing Was Not Substantiated, West Valley City, UT, 09/27/2012.
2012-FW-1007	SWBC Mortgage Corporation Did Not Follow HUD-FHA Underwriting Requirements in 1 and Had Minor Deficiencies in 3 of 10 Single-Family Loans, San Antonio, TX, 05/15/2012. Better use: \$115,654.
2012-FW-1012	Weststar Mortgage Corporation Did Not Comply With HUD FHA Single Family Requirements for 10 Loans Reviewed, Albuquerque, NM, 08/02/2012. Questioned: \$554,130.
2012-LA-1006	Amar Plaza Was Not Administered in Accordance With HUD Rules and Regulations, La Puente, CA, 05/21/2012. Questioned: \$192,808; Unsupported: \$142,369; Better use: \$274,587.
2012-LA-1010	Innotion Enterprises, Inc., Did Not Always Comply With Its REO Contract Requirements, Las Vegas, NV, 09/12/2012. Questioned: \$11,210; Better use: \$1,035,780.
2012-LA-1011	Bankers Mortgage Group Loan Originations Did Not Comply With FHA-Insured Loan Documentation Requirements, Woodland Hills, CA, 09/13/2012. Questioned: \$58,704; Better use: \$1,521,014.





External Reports

Audit Reports

- 2012-PH-1010 The National Foundation for Credit Counseling Generally Met HUD Requirements But Did Not Always Ensure That Home Equity Conversion Mortgage Counseling Requirements Were Met, Washington, DC, 07/31/2012. Questioned: \$76,146; Unsupported: \$29,296.
- 2012-SE-1006 Gruening Park Apartments, Did Not Always Comply With HUD Rules and Regulations, Juneau, AK, 09/05/2012. Questioned: \$7,025.

Lead Hazard Control

- 2012-SE-1005 Washington State Generally Complied With Lead Hazard Control Grant and Recovery Act Requirements but Charged Excessive Administrative Costs, Olympia, WA, 08/09/2012. Questioned: \$202,824.

Public and Indian Housing

- 2012-AO-1002 The Jefferson Parish Housing Authority Violated Federal Regulations, Marrero, LA, 07/30/2012. Questioned: \$655,907; Unsupported: \$453,793.
- 2012-AT-1012 The Housing Authority of the City of Hickory Mismanaged Some of Its HUD Funds, Hickory, NC, 06/01/2012. Questioned: \$611,640; Unsupported: \$80,634.
- 2012-BO-1004 The Lawrence Housing Authority Did Not Obtain HUD Approval to Fund a Trust Account and Had Weaknesses in Its Controls, Boston, MA, 07/31/2012. Questioned: \$2,510,174; Unsupported: \$2,510,174.
- 2012-BO-1005 Housing Choice Voucher Program Units Did Not Meet HUD's Housing Quality Standards, and Authority Officials Did Not Always Comply with HUD's or Their Own Procurement Policy, Augusta, ME, 09/28/2012. Questioned: \$306,698; Unsupported: \$111,742.
- 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. Questioned: \$282,674; Unsupported: \$281,049; Better use: \$7,000.
- 2012-CH-1010 The Aurora Housing Authority Did Not Administer Its Grant in Accordance With Recovery Act, HUD, and Its Own Requirements, Aurora, IL, 09/05/2012. Questioned: \$345,838; Unsupported: \$343,438; Better use: \$919.





External Reports

Audit Reports

- 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. Questioned: \$7,500; Unsupported: \$6,820; Better use: \$537.
- 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. Questioned: \$845,253; Unsupported: \$812,054; Better use: \$177,705.
- 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. Questioned: \$3,120,000.
- 2012-DE-1004 The Aurora Housing Authority Did Not Always Follow Requirements When Obligating, Expending, and Reporting Information About Its Recovery Act Capital Funds, Aurora, CO, 05/04/2012. Questioned: \$228,395; Unsupported: \$206,377.
- 2012-FW-1008 The Management and Board of Commissioners of the Housing Authority of the City of Port Arthur Failed To Exercise Their Fiduciary Responsibilities, Port Arthur, TX, 06/01/2012. Questioned: \$5,920,931; Unsupported: \$5,458,657; Better use: \$59,191.
- 2012-FW-1009 The Gonzales Housing Authority Generally Followed Recovery Act Public Housing Capital Fund Requirements, Gonzales, TX, 06/18/2012. Questioned: \$7,600.
- 2012-FW-1010 The Housing Authority of the City of Mineral Wells Had Errors in the Administration of Its Recovery Act Public Housing Capital Fund Grant, Mineral Wells, TX, 06/29/2012. Questioned: \$14,145.
- 2012-KC-1003 The Topeka Housing Authority Did Not Always Document Its Procurement Actions and Did Not Accurately Report on Its Recovery Act Funds, Topeka, KS, 04/05/2012.
- 2012-KC-1004 The Manhattan Housing Authority Improperly Executed a Contract Change Order and Did Not Accurately Report on Its Recovery Act Funds, Manhattan, KS, 04/09/2012. Questioned: \$10,349; Unsupported: \$10,349.





External Reports

Audit Reports

2012-KC-1005	The Wichita Housing Authority Did Not Always Properly Administer Its Housing Choice Voucher Program, Wichita, KS, 09/19/2012. Questioned: \$67,269.
2012-LA-1009	Most Allegations Against the Oakland Housing Authority Related to Housing Quality Standards Inspection Services, Were Generally Not Valid, Oakland, CA, 08/03/2012. Questioned: \$28,508.
2012-NY-1008	Transactions Between the Housing Authority of the City of Perth Amboy and its Nonprofit Subsidiary Did Not Always Comply With HUD Regulations, Perth Amboy, NJ, 06/01/2012. Questioned: \$156,250; Unsupported: \$156,250; Better use: \$286,782.
2012-NY-1012	The Buffalo Municipal Housing Authority Public Housing Capital Fund Stimulus (Formula) Recovery Act Program, Buffalo, NY, 09/12/2012. Questioned: \$9,872,405; Unsupported: \$9,761,591.
2012-PH-1012	The Allegheny County Housing Authority, Needs To Improve Its Inspections To Ensure That All Section 8 Housing Choice Voucher Units Meet Housing Quality Standards, Pittsburgh, PA, 09/21/2012. Questioned: \$15,070; Better use: \$5,163,804.

Audit-Related Memorandums¹¹

Community Planning and Development

2012-FW-1803	Corrective Action Verification, City of Tulsa – CDBG, Land Use and Program Income, Audit Report 2008-FW-1012, Tulsa, OK, 04/10/2012. Questioned: \$2,048,750; Unsupported: \$2,048,750; Better use: \$42,000.
2012-FW-1804	The City of San Antonio, TX, Did Not Administer Its NSP Grant in Accordance With Requirements, San Antonio, TX, 08/06/2012.

¹¹The memorandum format is used to communicate the results of reviews not performed in accordance with generally accepted government audit standards, to close out assignments with no findings and recommendations, to respond to requests for information, to report on the results of a survey, or to report the results of civil actions or settlements.





2012-NY-1802 Village of Spring Valley, Hotline Complaint, Federal Housing Finance Agency Complaint Number Z-12-0445-1, Village of Spring Valley, NY, 09/28/2012. Questioned: \$927,438; Unsupported: \$102,438.

General Counsel

2012-CF-1805 Final Civil Action - Alleged Violations of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pasadena, CA, 06/05/2012. Better use: \$50,000.

2012-CF-1806 Final Civil Action - Alleged Violations of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pasadena, CA, 06/05/2012. Better use: \$50,000.

2012-CF-1807 Final Civil Action - Alleged Violations of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pasadena, CA, 06/05/2012. Better use: \$50,000.

2012-CF-1808 Final Civil Action: Occupancy Status Violation – FHA Streamline Finance, West Bend, WI, 06/05/2012. Questioned: \$6,250.

2012-CF-1809 Final Civil Action: Bank of America Settled Alleged Violations of the False Claims Act by Countrywide Home Loans, Inc., Charlotte, NC, 06/12/2012. Questioned: \$470,813,750.

2012-CF-1810 Final Civil Action: Flagstar Bank, FSB, Settled False Claims Act Allegations of Submitting False Certifications to HUD on FHA Loans, Troy, MI, 06/27/2012. Questioned: \$14,550,000.

2012-CF-1811 Final Civil Action: Deutsche Bank Settled Alleged Violations of the False Claims Act by MortgageIT, Inc., New York, NY, 07/23/2012. Questioned: \$196,231,000.

2012-CF-1812 Final Civil Action: Default Judgment Issued Against Section 8 Landlord for Fraudulently Claiming Housing Assistance Payments, Orlando, FL, 09/24/2012. Better use: \$137,936.

2012-CF-1813 Final Civil Action: Settlement of Alleged Violations of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Seal Beach, CA, 09/24/2012. Better use: \$5,000,000.

2012-CF-1814 Final Civil Action: CitiMortgage, Inc., Settled Allegations of Failing To Fully Comply With HUD-FHA Requirements and Submitting False Certifications to HUD on FHA Loans, O'Fallon, MO, 09/25/2012. Questioned: \$122,840,800.





2012-FW-1805 Final Civil Action: Bartlesville Health Care Center, Inc., Owners and Lender Settled Alleged Violations of the False Claims Act, Bartlesville, OK, 08/24/2012. Questioned: \$2,644,089.

Housing

2012-CH-1803 A Summary of the Foreclosure and Claims Process Reviews for Five Mortgage Servicers That Engaged in Improper Foreclosure Practices, Washington, DC, 09/28/2012. Questioned: \$315,250,829.

2012-LA-1801 Shea Mortgage, Inc., Allowed the Recording of Prohibited Restrictive Covenants, Aliso Viejo, CA, 09/26/2012. Questioned: \$4,034,448; Unsupported: \$2,566,837; Better use: \$5,092,201.

Public and Indian Housing

2012-NY-1801 New York City Housing Authority Hotline Complaint, Case Number HL-2011-0705, New York, NY, 05/17/2012.





Appendix 3

Tables



Table A

Audit reports issued before the start of period with no management decision as of September 30, 2012

**Significant audit reports described in previous semiannual reports*

Report number and title	Reason for lack of management decision	Issue date
* 2009-AT-0001 HUD Lacked Adequate Controls to Ensure the Timely Commitment and Expenditure of HOME funds	See chapter 9, page 36.	09/28/2009

Table B

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

Report number	Report title	Issue date	Decision date	Final action
2002-AT-1002	Housing Authority of the City of Tupelo, Housing Programs Operations, Tupelo, MS	07/03/2002	10/31/2002	07/01/2015
2002-KC-0002	Nationwide Survey of HUD's Office of Housing Section 232 Nursing Home Program	07/31/2002	11/22/2002	Note 1
2005-AT-1004	Housing Authority of the City of Durham, NC	11/19/2004	03/15/2005	03/15/2015
2005-AT-1013	Corporacion Para el Fomento Economico de la Ciudad Capital Did Not Administer Its Independent Capital Fund in Accordance With HUD Requirements, San Juan, PR	09/15/2005	01/11/2006	Note 1
2006-KC-1013	The Columbus Housing Authority Improperly Expended and Encumbered Its Public Housing Funds, Columbus, NE	06/30/2008	10/17/2006	11/30/2012





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
2006-DP-0802	Assessment of HUD’s Compliance With OMB Memorandum M-06-16, “Protection of Sensitive Agency Information”	09/21/2006	11/24/2006	09/30/2014
2007-KC-0002	HUD Can Improve Its Use of Residual Receipts To Reduce Housing Assistance Payments	01/29/2007	01/29/2007	Note 1
2007-KC-0003	HUD Did Not Recapture Excess Funds from Assigned Bond-Financed Projects	04/30/2007	08/27/2007	Note 1
2007-SE-0001	HUD's Oversight of the Section 8 Project-Based Contract	06/07/2007	10/05/2007	Note 1
2007-AT-1010	The Cathedral Foundation of Jacksonville Used More Than \$2.65 Million in Project Funds for Questioned Costs, Jacksonville, FL	08/14/2007	12/03/2007	05/10/2017
2007-KC-0801	Lenders Submitted Title II Manufactured Housing Loans for Endorsement Without the Required Foundation Certifications	09/24/2007	03/11/2008	Note 1
2008-LA-0001	The Los Angeles Multifamily Hub Did Not Properly Monitor Its Performance-Based Contract Administrator, Los Angeles LOMOD	11/05/2007	03/03/2008	Note 1
2008-LA-1003	Home for Life Foundation Did Not Properly Administer Its Supportive Housing Program Grants, Los Angeles, CA	12/18/2007	02/26/2008	04/01/2013





Table B

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

Report number	Report title	Issue date	Decision date	Final action
2008-AO-1002	State of Louisiana, Road Home Program, Funded 418 Grants Coded Ineligible or Lacking an Eligibility Determination, Baton Rouge, LA	01/30/2008	05/12/2008	Note 1
2008-AT-0003	HUD Lacked Adequate Controls Over the Physical Condition of Section 8 Voucher Program Housing Stock	05/14/2008	09/10/2008	Note 2
2008-DP-0004	Review of Selected FHA Major Applications' Information Security Controls	06/12/2008	10/08/2008	Note 2
2008-LA-1012	The Housing Authority of the City of Calexico Did Not Comply With Public Housing Program Rules and Regulations, Calexico, CA	07/01/2008	10/14/2008	12/31/2013
2009-AO-1001	State of Louisiana, Road Home Program, Did Not Ensure That Road Home Employees Were Eligible To Receive Additional Compensation Grants, Baton Rouge, LA	05/05/2009	09/16/2009	Note 1
2009-AO-1002	State of Louisiana, Road Home Program, Did Not Ensure That Multiple Disbursements to a Single Damaged Residence Address Were Eligible, Baton Rouge, LA	05/05/2009	09/16/2009	Note 1
2009-CH-1008	The City of East Cleveland Did Not Adequately Manage Its HOME Investment Partnerships and CDBG Programs, East Cleveland, OH	05/11/2009	09/08/2009	07/31/2014





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
2009-NY-1012	The City of Rome Did Not Administer Its Economic Development Activity in Accordance With HUD Requirements, Rome, NY	05/20/2009	09/23/2009	01/30/2032
2009-DP-0005	Review of Implementation of Security Controls Over HUD’s Business Partners	06/11/2009	11/17/2009	12/31/2014
2009-CH-1011	The Housing Authority of the City of Terre Haute Failed To Follow Federal Requirements and Its Employment Contract Regarding Nonprofit Development Activities, Terre Haute, IN	07/31/2009	11/24/2009	01/01/2030
2009-KC-0001	HUD Subsidized an Estimated 2,094 to 3,046 Households That Included Lifetime Registered Sex Offenders	08/14/2009	03/31/2011	Note 1
2009-CH-0002	The Office of Affordable Housing Programs’ Oversight of HOME Investment Partnerships Program Income Was Inadequate	08/28/2009	12/26/2009	Note 1
2009-LA-1019	The Owner of Park Lee Apartments Violated Its Regulatory Agreement With HUD, Phoenix, AZ	09/15/2009	01/13/2010	Note 2
2009-DE-1005	Adams County Did Not Have Adequate Controls Over Its Block Grant Funds, Westminster, CO	09/17/2009	01/15/2010	Note 1
2009-AT-0001	HUD Lacked Adequate Controls To Ensure the Timely Commitment and Expenditure of HOME funds	09/28/2009	03/18/2011	Note 3





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
2009-AT-1013	The City of Atlanta Entered Incorrect Commitments Into HUD's Integrated Disbursement and Information System for its HOME Program, Atlanta, GA	09/28/2009	11/05/2009	Note 1
2010-LA-0001	HUD's Performance-Based Contract Administration Contract Was Not Cost Effective	11/12/2009	03/12/2010	Note 1
2010-FO-0003	Additional Details To Supplement Our Report on HUD's Fiscal Years 2009 and 2008 Financial Statements	11/16/2009	04/02/2010	Note 1
2010-KC-1001	The State of Iowa Misspent CDBG Disaster Assistance Funds and Failed To Check for Duplicate Benefits, Des Moines, IA	03/10/2010	09/13/2010	10/31/2012
2010-KC-1003	The City of East St. Louis Did Not Properly Allocate Salary and Building Expenses or Properly Document Its Process To Secure a Consulting Services Contract, East St. Louis, IL	03/26/2010	07/22/2010	Note 1
2010-CH-0001	The Office of Block Grant Assistance Lacked Adequate Controls Over the Inclusion of Special Conditions in NSP Grant Agreements	03/29/2010	07/27/2010	Note 1
2010-AT-1003	The Housing Authority of Whitesburg Mismanaged Its Operations, Whitesburg, KY	04/28/2010	08/26/2010	11/29/2035
2010-PH-1008	Sasha Bruce Youthwork, Incorporated, Did Not Support More Than \$1.9 Million in Expenditures, Washington, DC	05/11/2010	11/03/2010	Note 2





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
2010-CH-1007	The Michigan State Housing Development Authority Needs To Improve Its Controls Over Section 8 Project-Based Housing Assistance Payments, Lansing, MI	05/14/2010	09/08/2010	03/01/2016
2010-AT-1006	The Puerto Rico Department of Housing Failed To Properly Manage Its HOME Investment Partnerships Program, San Juan, PR	06/11/2010	10/08/2010	Note 2
2010-CH-1008	The DuPage Housing Authority Inappropriately Administered Its Section 8 Project-Based Voucher Program, Wheaton, IL	06/15/2010	10/08/2010	12/31/2012
2010-FW-1005	The Texas Department of Housing and Community Affairs Did Not Fully Follow Requirements or Best Practices in the Acquisition of Its Disaster Recovery-Funded Program Management Firm, Austin, TX	07/20/2010	11/16/2010	Note 2
2010-AT-1007	The Housing Authority, City of Wilson, Lacked the Capacity To Effectively Administer Recovery Act Funds, Wilson, NC	07/27/2010	11/24/2010	11/27/2013
2010-LA-1014	The Retreat at Santa Rita Springs Did Not Comply With HUD Rules and Regulations and Other Federal Requirements, Green Valley, AZ	08/02/2010	11/29/2010	Note 2
2010-AT-1011	The Puerto Rico Department of Housing Did Not Ensure Compliance With HOME Program Objectives, San Juan, PR	08/25/2010	12/06/2010	Note 2



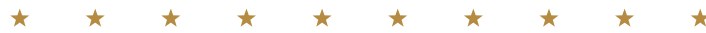


Table B

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
2010-FW-0003	HUD Was Not Tracking Almost 13,000 Defaulted HECM Loans With Maximum Claim Amounts of Potentially More Than \$2.5 Billion	08/25/2010	12/03/2010	12/31/2012
2010-LA-0002	HUD’s Office of Single Family Housing’s Management Controls Over Its Automated Underwriting Process	09/15/2010	01/13/2011	10/01/2012
2010-KC-1008	The City of East St. Louis Awarded Block Grant Program Funds to Recipients Without Adequately Verifying Their Eligibility, East St. Louis, IL	09/28/2010	01/26/2011	Note 2
2010-CF-1801	Final Civil Action, Anchor Mortgage Corporation, Loan Origination Fraud - Violations of the False Claims Act, Chicago, IL	09/30/2010	02/18/2011	02/17/2013
2010-HA-0003	HUD Needs To Improve Controls Over Its Administration of Completed and Expired Contracts	09/30/2010	01/27/2011	Note 2
2011-DP-0001	HUD Did Not Properly Manage HITS Contracts and Contractors To Fully Comply With Contract Requirements and Acquisition Regulations	10/06/2010	02/03/2011	11/30/2012
2011-CH-1001	The City of Flint Lacked Adequate Controls Over Its HOME Program Regarding Community Housing Development Organizations’ Home-Buyer Projects, Subrecipients’ Activities, and Reporting Accomplishments in HUD’s System, Flint, MI	10/13/2010	02/03/2011	04/30/2013





Table B

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

Report number	Report title	Issue date	Decision date	Final action
2011-PH-1002	The City of Scranton Did Not Administer Its CDBG Program in Accordance With HUD Requirements, Scranton, PA	11/08/2010	03/08/2011	Note 2
2011-PH-1003	The Pennsylvania Housing Finance Agency Generally Administered Its Tax Credit Assistance Program Funded Under the Recovery Act in Accordance With Applicable Requirements, Harrisburg, PA	11/08/2010	03/08/2011	Note 2
2011-NY-1002	The City of Bayonne Did Not Adequately Administer Its Economic Development Program, Bayonne, NJ	11/12/2010	03/11/2011	Note 2
2011-FO-0003	Additional Details To Supplement Our Report on HUD's Fiscal Years 2010 and 2009 Financial Statements	11/15/2010	08/08/2011	Note 2
2011-NY-1003	The Irvington Housing Authority Did Not Administer Its Capital Fund Programs in Accordance With HUD Regulations, Irvington, NJ	11/24/2010	03/23/2011	04/30/2013
2011-NY-1004	The City of Binghamton Did Not Always Administer Its Section 108 Loan Program in Accordance With HUD Requirements, Binghamton, NY	12/21/2010	04/20/2012	04/19/2013
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 2





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
2011-CH-1003	The City of Cleveland Lacked Adequate Controls Over Its HOME Investment Partnerships Program and American Dream Downpayment Initiative-Funded Afford-A-Home Program, Cleveland, OH	12/27/2010	04/26/2011	04/19/2013
2011-AT-1802	The Municipality of Arecibo Charged the HOME Program With Expenditures That Did Not Meet Program Objectives, Arecibo, PR	01/27/2011	05/26/2011	Note 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-KC-1001	The City of East St. Louis Did Not Properly Manage Housing Rehabilitation Contracts Funded by the CDBG Program, East St. Louis, IL	02/09/2011	06/09/2011	Note 2
2011-CF-1801	An Underwriting Review of 15 FHA Lenders Demonstrated That HUD Missed Critical Opportunities to Recover Losses to the FHA Insurance Fund, Washington, DC	03/02/2011	05/16/2012	Note 2
2011-PH-1008	The West Virginia Housing Development Fund Generally Administered Its Tax Credit Assistance Program Funded Under the Recovery Act in Accordance With Applicable Requirements, Charleston, WV	03/21/2011	07/19/2011	Note 2





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
2011-CH-1006	The DuPage Housing Authority Inappropriately Administered Its Section 8 Housing Choice Voucher Program, Wheaton, IL	03/23/2011	07/28/2011	12/31/2012
2011-KC-1003	The Missouri Housing Development Commission Did Not Always Disburse Its Tax Credit Assistance Program Funds in Accordance With Recovery Act Requirements, Kansas City, MO	04/01/2011	07/29/2011	Note 2
2011-FW-1007	Albuquerque Housing Services Mismanaged Its Recovery Act Funding, Albuquerque, NM	04/07/2011	08/03/2011	12/31/2012
2011-NY-1009	The East Orange Revitalization and Development Corporation Did Not Always Comply With HOME Program Requirements and Federal Regulations, East Orange, NJ	04/07/2011	08/03/2011	04/05/2013
2011-AO-1004	The New Orleans Redevelopment Authority Had Not Administered Its Recovery Act NSP2 in Accordance With Federal Regulations, New Orleans, LA	04/08/2011	08/06/2011	Note 2
2011-AT-1006	The Municipality of Mayaguez Did Not Ensure Compliance With HOME Program Objectives, Mayaguez, PR	04/08/2011	08/05/2011	Note 2
2011-FW-0001	The National Servicing Center Implemented the FHA-HAMP Loss Mitigation Option in Accordance With Rules and Regulations	04/08/2011	08/05/2011	Note 2





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
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	01/24/2013
2011-AO-1005	The State of Mississippi Generally Ensured That Disbursements to Program Participants Were Eligible and Supported, Jackson, MS	04/18/2011	08/16/2011	Note 2
2011-LA-0002	HUD Did Not Always Follow Its Requirements for the Preclosing and Postclosing Review of Mortgage Files Submitted by New Direct Endorsement Lenders	04/18/2011	08/02/2011	12/31/2012
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-CH-1008	The State of Michigan Lacked Adequate Controls Over Its NSP Regarding Awards, Obligations, Subgrantees' Administrative Expenses and Procurement, and Reporting Accomplishments, Lansing, MI	06/03/2011	11/30/2011	10/26/2012
2011-CH-0002	HUD's Oversight of Its Multifamily Housing Subsidy Payment Review Process Needs Improvement	06/06/2011	11/30/2011	Note 2
2011-KC-0001	FHA Has Improved Its Annual Lender Renewal Process, but Challenges Remain	06/14/2011	04/19/2012	Note 2
2011-FW-1012	The City of Tulsa Mismanaged Its Recovery Act Funding, Tulsa, OK	06/16/2011	10/13/2011	10/07/2012





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
2011-AO-0001	The Lafayette Parish Housing Authority Violated HUD Procurement Requirements and Executed Unreasonable and Unnecessary Contracts	06/22/2011	10/13/2011	10/31/2012
2011-AT-1010	Crossfire Financial Network Did Not Follow HUD Requirements in Approving FHA Loans and Implementing Its Quality Control Program, Miami, FL	06/24/2011	10/11/2011	Note 2
2011-FW-1013	The City of Beaumont Should Strengthen Its Controls Over Its Homelessness Prevention and Rapid Re-Housing Program, Beaumont, TX	06/30/2011	10/27/2011	10/05/2012
2011-PH-1012	The City of Reading Generally Complied With NSP2 Requirements, Reading, PA	06/30/2011	10/13/2011	10/13/2012
2011-LA-1012	The City of Las Vegas Did Not Always Ensure That Homelessness Prevention and Rapid Re-Housing Funds Were Used as Required, Las Vegas, NV	07/06/2011	10/28/2011	10/27/2012
2011-NY-1802	The City of Dunkirk Used CDBG Recovery Act Funding for an Ineligible Activity, Dunkirk, NY	07/14/2011	11/10/2011	11/09/2012
2011-LA-1015	Chicanos Por La Causa, Inc., Did Not Always Administer Its NSP2 Grant In Accordance With HUD Requirements, Phoenix, AZ	07/22/2011	11/09/2011	11/09/2012
2011-DP-0008	The Disaster Recovery Grant Reporting System That Maintained Recovery Act Information Had Application Security Control Deficiencies	07/28/2011	11/25/2011	11/21/2012



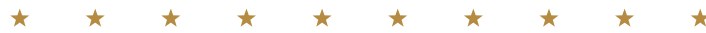


Table B

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
2011-NY-1011	The Housing Authority of the City of Elizabeth Had Weaknesses in Its Capital Fund Program's Financial Controls, Elizabeth, NJ	08/04/2011	11/30/2011	11/29/2012
2011-CH-1012	The Saginaw Housing Commission Did Not Fully Implement Prior Audit Recommendations and Continued To Use Its Public Housing Program Funds for Ineligible Purposes, Saginaw, MI	08/09/2011	11/10/2011	11/01/2012
2011-PH-1014	The Allegheny County Housing Authority Did Not Always Procure Goods and Services or Obligate Funds According to Recovery Act and Applicable HUD Requirements, Pittsburgh, PA	08/10/2011	12/22/2011	12/22/2012
2011-AO-1006	The Mississippi Regional Housing Authority VIII Generally Followed Requirements When Obligating and Expending Its Recovery Act Capital Funds but Did Not Accurately Report Recovery Act Grant Information, Gulfport, MS	08/16/2011	10/24/2011	10/24/2012
2011-CH-1013	The Youngstown Metropolitan Housing Authority Needs To Improve Its Procurement Process, Youngstown, OH	08/16/2011	12/13/2011	10/30/2012
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	11/30/2012





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
2011-AO-0002	The Lafayette Parish Housing Authority Generally Followed Requirements When Obligating and Expending Its Public Housing Capital Fund Stimulus Recovery Act Funds but Did Not Always Comply With Recovery Act Procurement and Reporting Requirements	08/26/2011	10/13/2011	10/13/2012
2011-BO-1009	Weymouth Housing Authority Did Not Always Administer Its Housing Choice Voucher Program and Public Housing Program in Accordance With HUD Regulations and Its Annual Contributions Contracts, Weymouth, MA	08/29/2011	12/22/2011	11/15/2012
2011-NY-1015	Weaknesses Existed in Essex County’s Administration of Its Homelessness Prevention and Rapid Re-Housing Program, Essex County, NJ	09/20/2011	01/11/2012	10/01/2012
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	01/24/2013
2011-PH-1015	Camden County Generally Administered Its CDBG-R Act Funds According to Applicable Requirements, Camden, NJ	09/22/2011	01/12/2012	12/31/2012
2011-FW-1016	AmericaHomeKey, Inc., Did Not Follow HUD-FHA Loan Requirements in Underwriting 13 of 20 Manufactured Home Loans, Dallas, TX	09/23/2011	01/20/2012	Note 2





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
2011-SE-1008	The Idaho Housing and Finance Association Did Not Always Comply With HOME Investment Partnerships Project and Cost Eligibility Regulations, Boise, ID	09/23/2011	01/18/2012	01/18/2013
2011-DE-1005	The State of Montana Generally Used Its CDBG-R Funds in Compliance With Requirements but Improperly Negotiated and Serviced Loans, Helena, MT	09/26/2011	01/12/2012	12/11/2012
2011-KC-0004	FHA Did Not Prevent Corporate Officers of Noncompliant Lenders From Returning to the FHA Program	09/26/2011	06/28/2012	Note 2
2011-AT-1018	The Municipality of San Juan Did Not Properly Manage Its HOME Investment Partnerships Program, San Juan, PR	09/28/2011	01/12/2012	11/30/2012
2011-AT-1019	The Alabama Department of Economic and Community Affairs Used Homelessness Prevention and Rapid Re-Housing Program Funds for Ineligible and Unsupported Purposes, Montgomery, AL	09/28/2011	01/10/2012	Note 2
2011-AO-1007	Jefferson Parish Housing Authority Did Not Always Comply With Public Housing Capital Fund Stimulus Recovery Act Obligation, Procurement, and Reporting Requirements, Marrero, LA	09/29/2011	01/26/2012	12/31/2012
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	01/05/2013





Table B

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

Report number	Report title	Issue date	Decision date	Final action
2011-CH-0003	The Office of Healthy Homes and Lead Hazard Control Needs To Improve Its Monitoring of American Recovery and Reinvestment Act Grant Recipients	09/30/2011	05/30/2012	Note 2
2011-CH-1015	The Springfield Metropolitan Housing Authority Did Not Administer Its Grant in Accordance With Recovery Act and HUD Requirements, Springfield, OH	09/30/2011	01/24/2012	01/24/2013
2011-CH-1017	Pioneer Civic Services, Inc., Did Not Properly Administer Its Supportive Housing Program and Housing Opportunities for Persons With AIDS Grants, Peoria, IL	09/30/2011	02/22/2012	12/31/2012
2011-FO-0006	American Recovery and Reinvestment Act of 2009 Grantees Met Initial Expenditure Requirements, but HUD Should Return Recaptured Funds to the U.S. Treasury and Ensure That Grant Closeout Procedures Comply With the Act	09/30/2011	02/15/2012	Note 2

Table 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 September 30, 2012

Report number	Report title	Issue date	Decision date	Final action
2012-FW-1001	TXL Mortgage Corporation Did Not Comply With HUD-FHA Loan Requirements in Underwriting 16 of 20 Home Loans, Houston, TX	10/06/2011	02/24/2012	10/06/2012





Table 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 September 30, 2012

Report number	Report title	Issue date	Decision date	Final action
2012-NY-1002	The City of New York Charged Questionable Expenditures to Its HPRP, New York, NY	10/18/2011	02/16/2012	02/15/2013
2012-NY-1003	The City of Syracuse Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Syracuse, NY	10/25/2011	02/22/2012	02/21/2013
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	12/31/2012
2012-FO-0001	Audit of Ginnie Mae's Financial Statement for Fiscal Years 2011 and 2010	11/07/2011	03/02/2012	Note 2
2012-PH-1002	The National Community Reinvestment Coalition Did Not Comply With Conflict-of-Interest Provisions in Its Fair Housing Initiative Program Agreement With HUD, Washington, DC	11/14/2011	03/06/2012	03/06/2013
2012-FO-0003	Additional Details To Supplement Our Report on HUD's Fiscal Years 2011 and 2010 Financial Statements	11/15/2011	05/10/2012	04/01/2014
2012-LA-0001	HUD Did Not Adequately Support the Reasonableness of the Fee-for-Service Amounts or Monitor the Amounts Charged	11/16/2011	03/27/2012	02/27/2015
2012-DE-1002	Trinidad Housing Authority Did Not Always Follow Requirements When Expending and Reporting Information About Its Recovery Act Capital Funds, Trinidad, CO	11/29/2011	11/30/2011	01/31/2014





Table 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 September 30, 2012

Report number	Report title	Issue date	Decision date	Final action
2012-LA-1001	Housing Our Communities Did Not Administer Its NSP in Accordance With HUD Requirements, Mesa, AZ	12/08/2011	03/13/2012	03/11/2013
2012-SE-1002	The Vancouver Housing Authority Did Not Always Manage or Report on Recovery Act Funds in Accordance With Requirements, Vancouver, WA	12/21/2011	04/13/2012	03/26/2013
2012-LA-1003	The City of Modesto Did Not Always Comply With NSP2 Requirements, Modesto, CA	12/22/2011	04/05/2012	03/06/2013
2012-BO-1001	The Housing Authority of the City of Hartford did not Properly Administer its \$2.5 Million Recovery Act Grant Construction Management Contract., Hartford, CT	01/06/2012	05/11/2012	05/01/2013
2012-AT-1005	The Housing Authority of the City of Fort Lauderdale Did Not Fully Comply With Federal Requirements When Administering Its Public Housing Capital Fund Recovery Grants, Fort Lauderdale, FL	01/09/2012	05/02/2012	10/30/2012
2012-PH-1004	Luzerne County Generally Administered Its CDBG-R Funds According to Applicable Requirements, Wilkes-Barre, PA	01/13/2012	05/10/2012	01/13/2013
2012-AT-1007	The Shelby County, TN, Housing Authority Mismanaged Its HUD-Funded Programs, Memphis, TN	01/26/2012	05/25/2012	06/01/2013



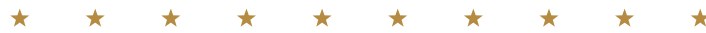


Table B

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 September 30, 2012

Report number	Report title	Issue date	Decision date	Final action
2012-CH-1001	The Gallia Metropolitan Housing Authority Did Not Always Administer Its Grant in Accordance with Recovery Act and HUD Requirements, Bidwell, OH	01/26/2012	04/26/2012	04/01/2013
2012-CH-1002	The Saginaw Housing Commission Did Not Administer Its Grant in Accordance With Recovery Act, HUD's, and Its Requirements, Saginaw, MI	01/26/2012	06/04/2012	07/01/2013
2012-LA-1004	MetLife Bank's Scottsdale, AZ, Branch Office Did Not Follow FHA-Insured Loan Underwriting and Quality Control Requirements	01/26/2012	05/18/2012	01/26/2013
2012-FO-0004	Information System Deficiencies Noted During FHA's Fiscal Year 2011 Financial Statement Audit	01/27/2012	05/21/2012	03/30/2013
2012-NY-1005	The City of Newark Had Weaknesses in the Administration of Its HPRP, Newark, NJ	01/27/2012	04/26/2012	01/25/2013
2012-NY-1006	MLD Mortgage, Inc., Did Not Always Comply With HUD-FHA Loan Origination and Quality Control Requirements, Florham Park, NJ	02/06/2012	05/18/2012	02/06/2013
2012-PH-0004	HUD Controls Did Not Always Ensure That Home Equity Conversion Mortgage Loan Borrowers Complied With Program Residency Requirements	02/09/2012	06/08/2012	02/01/2013





Table 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 September 30, 2012

Report number	Report title	Issue date	Decision date	Final action
2012-DP-0001	Audit Report on the Fiscal Year 2011 Review of Information Systems Controls in Support of the Financial Statements Audit	02/14/2012	07/02/2012	09/30/2013
2012-NY-1007	The City of Syracuse Did Not Always Administer Its Economic Development Initiative Program in Accordance With HUD Requirements, Syracuse, NY	02/21/2012	06/12/2012	11/30/2012
2012-AO-1001	Opelousas Housing Authority Did Not Always Comply With Recovery Act and Federal Obligation, Procurement, and Reporting Requirements, Opelousas, LA	02/23/2012	05/10/2012	05/10/2013
2012-CH-1003	The Springfield Housing Authority Needs To Improve Its ARRA Contract Administration Procedures, Springfield, IL	02/23/2012	06/04/2012	05/11/2013
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	01/31/2013
2012-KC-1002	The East St. Louis Housing Authority Did Not Properly Manage or Report on Recovery Act Capital Funds, East St. Louis, IL	03/02/2012	06/29/2012	05/31/2013
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	03/07/2013





Table 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 September 30, 2012

Report number	Report title	Issue date	Decision date	Final action
2012-FW-1802	Bank of America Corporation, Foreclosure and Claims Process Review, Charlotte, NC	03/12/2012	07/09/2012	06/28/2013
2012-LA-1005	The City of Los Angeles Did Not Expend Brownfields Economic Development Initiative and Section 108 Funds for the Goodyear Industrial Tract Project in Accordance With HUD Requirements, Los Angeles, CA	03/13/2012	09/19/2012	03/13/2014
2012-BO-1002	The Housing Authority of the City of Stamford Did Not Properly Administer and Oversee the Operations of Its Federal Programs, Stamford, CT	03/14/2012	08/27/2012	12/31/2013
2012-PH-1006	Gloucester Township Did Not Always Administer Its CDBG-R Act Funds According to Applicable Requirements, Blackwood, NJ	03/14/2012	05/30/2012	05/30/2013
2012-PH-1008	Mountain CAP of WV, Inc., Did Not Administer Its HPRP in Accordance With Applicable Recovery Act and HUD Requirements, Buckhannon, WV	03/15/2012	07/12/2012	10/31/2012
2012-BO-1003	The Medford Housing Authority Needs to Improve Rent Reasonableness Determinations, Procurement, and Enforcement of Housing Quality Standards, Medford, MA	03/21/2012	08/06/2012	12/31/2012
2012-CH-1006	Cuyahoga Metropolitan Housing Authority Did Not Operate Its Section 8 Housing Choice Voucher Program According to HUD's Requirements, Cleveland, OH	03/29/2012	07/18/2012	03/01/2013



Table 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 September 30, 2012

Report number	Report title	Issue date	Decision date	Final action
2012-CH-1007	The State of Michigan Lacked Adequate Controls Over Its Use of NSP Funds Under the HERA for a Project, Lansing, MI	03/30/2012	07/26/2012	12/28/2012

Audits Excluded:

85 audits under repayment plans
 38 audits under debt claims collection processing, formal judicial review, investigation, or legislative solution

Notes:

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



Table C

**Inspector General-issued reports with
questioned and unsupported costs as of September 30, 2012**

*(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	39	\$81,516	\$68,207
A2 For which litigation, legislation, or investigation was pending at the commencement of the reporting period	3	\$6,619	\$3,305
A3 For which additional costs were added to reports in beginning inventory	-	\$339	\$160
A4 For which costs were added to noncost reports	1	\$20	\$20
B1 Which were issued during the reporting period	54	\$1,201,555	\$64,440
B2 Which were reopened during the reporting period	0	0	0
Subtotals (A + B)	97	\$1,290,049	\$136,132
C For which a management decision was made during the reporting period	53 ¹	\$85,240	\$66,990
(1) Dollar value of disallowed costs:	28 ²	\$16,098	\$10,916
Due HUD	35	\$49,241	\$37,672
Due program participants			
(2) Dollar value of costs not disallowed	9 ³	\$19,901	\$18,402
D For which a management decision had been made not to determine costs until completion of litigation, legislation, or investigation	5	\$8,960	\$5,299
E For which no management decision had made by the end of the reporting period	39 <102> ⁴	\$1,195,849 <\$1,184,214> ⁴	\$63,843 <\$52,209> ⁴

¹ 22 audit reports also contain recommendations that funds be put to better use.

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

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

⁴ The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.



Table D

Inspector General-issued reports with recommendations that funds be put to better use as of September 30, 2012

*(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	20	\$2,523,872
A2 For which litigation, legislation, or investigation was pending at the commencement of the reporting period	2	\$15,521
A3 For which additional costs were added to reports in beginning inventory	-	\$2,332
A4 For which costs were added to noncost reports	0	\$0
B1 Which were issued during the reporting period	32	\$824,799
B2 Which were reopened during the reporting period	0	\$0
Subtotals (A + B)	54	\$3,366,524
C For which a management decision was made during the reporting period	29 ¹	\$2,465,184
(1) Dollar value of recommendations that were agreed to by management:	12	\$2,272,763
Due HUD	16	\$88,155
Due program participants		
(2) Dollar value of recommendations that were not agreed to by management	4 ²	\$104,266
D For which a management decision had been made not to determine costs until completion of litigation, legislation, or investigation	4	\$17,375
E For which no management decision had made by the end of the reporting period	21 <29> ³	\$883,965 <\$821,764> ³

¹ 22 audit reports also contain recommendations with questioned costs.

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

³ The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.

Explanations of Tables C and D

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

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





By the numbers production:
 1,065 external FHA audits
 32 internal FHA audits
 542 mgt. recommendations
 1,203 fraud convictions



Management results:
 1,071 administrative actions
 \$890 million funds put to better use
 \$1.5 billion recoveries
 \$353 million questioned audit costs

Financial health of the insurance fund issue

- Robosigning audits - \$900 million settlement for FHA and \$24.1 billion for other agencies
- National City Mortgage - \$4.6 million settlement
- DHI Mortgage Company - \$38 million indemnification
- RBC Mortgage Company - \$10.9 million civil settlement
- Somerset Investor Corp. - \$2.8 million indemnification
- Worldwide Financial Services - \$3.4 million false claims judgment
- DHI Mortgage Company - \$2.5 million indemnification
- Marathon Mortgage - \$21.4 million restitution
- Washington Mutual Home Loans - \$364,000 settlement
- Mortgage One Corporation - \$29.7 million restitution

HUD oversight and enforcement issues

- Controls over FHA appraiser rosters inadequate
- Partial claim process
- HUD's Quality Assurance Division
- HUD's REO contractor
- Short sales review advised HUD of weakness in program guidelines
- Reverse mortgage program
- FHA appraiser review process
- HUD's Quality Control Division
- FHA loans in flood plains
- Review of M&M contractors
- HUD needs to use system edits to identify HECM applicants who are not occupying the unit as required.
- Senate Committee on Appropriations
- House of Representatives Committee on Financial Services



*HECM-home equity conversion mortgage *REO - real estate owned *M&M - management and marketing





Risk management issues

- | | |
|---|--|
|  FHA internal controls need to be risk based |  FHA lender renewal process should issue violation notices promptly |
|  FHA's lender approval process should restrict principals who commit fraud |  Operation Watchdog \$945,000 settlement; recommended use of statistical sampling to do claims review |
|  Mortgagee Review Board inadequacy of enforcement actions |  Preclosing and postclosing loan reviews of new FHA lenders; needed improved controls |
|  HUD's automated underwriting process needs risk policies |  Senate Committee on Banking and Urban Affairs regarding risk-based premiums and zero downpayments |

By the numbers production:



106 external FHA audits

32 internal FHA audits

542 mgt. recommendations

1,203 fraud convictions

Mortgage fraud issues

- | | |
|---|--|
|  Six defendants in a HECM short sales fraud
-48 months incarceration, 5 years supervised release, \$9.2 million restitution |  Owner of realty group falsified FHA application data
-63 months incarceration, 5 years supervised release |
|  Financial group owner runs distressed homeowner scheme
-27 months incarceration, 5 years supervised release, \$545,000 restitution |  RBC mortgage processors
- \$1.1 million restitution; false documents for unqualified buyers |
|  Countrywide Homes
- \$740,000 indemnification |  First City Abstract
- \$4.6 million restitution property flipping |
|  V.P. Encore Mortgage et al
- 12.5 years incarceration, \$5.1 million restitution |  Beazer Homes
- \$5 million restitution, \$50 million fund for victims |
|  Anchor Mortgage Corporation
- \$2.9 million false claims judgment |  Great Stone Mortgage - 8+ years incarceration, \$77.9 million restitution |



Management results:

1,071 administrative actions

\$890 million funds put to better use

\$1.5 billion recoveries

\$353 million questioned audit costs

 Civil Fraud

 Settlement

 Audit

 Inspection and Evaluation

 Testimony

 Investigation



★ ★ ★ ★ ★ ★ ★ ★ ★ ★

OIG

Telephone Directory

Office of Audit

Headquarters Office of Audit, Washington, DC		202-708-0364
Region 1/2	Boston, MA	617-994-8380
	Hartford, CT	860-240-4800
	Manchester, NH	603-666-7988
	New York, NY	212-264-8062
	Buffalo, NY	716-551-5755
	Newark, NJ	973-776-7355
Region 3	Philadelphia, PA	215-430-6758
	Baltimore, MD	410-209-6533
	Pittsburgh, PA	412-644-6598
	Richmond, VA	804-822-4890
	Washington, DC	202-314-5451
Region 4	Atlanta, GA	404-331-5001
	Birmingham, AL	205-745-4314
	Columbia, SC	803-451-4318
	Greensboro, NC	336-547-4000
	Hattiesburg, MS	601-434-5848
	Jackson, MS	601-965-4700
	Memphis, TN	901-969-0344
	Miami, FL	305-536-3087
	Nashville, TN	615-736-2332
	San Juan, PR	787-766-5868
	Tampa, FL	813-228-2026
Region 5	Chicago, IL	312-353-4196
	Cleveland, OH	216-357-7800
	Columbus, OH	614-469-6677
	Detroit, MI	313-226-6280
	Grand Rapids, MI	616-309-2845
	Indianapolis, IN	317-226-5427
	Minneapolis-St. Paul, MN	612-370-3130
Region 6	Fort Worth, TX	817-978-5440
	Baton Rouge, LA	225-448-3941
	Houston, TX	713-718-3221
	Little Rock, AR	501-324-5931
	Albuquerque, NM	505-346-7270
	New Orleans, LA	504-671-3700
	Oklahoma City, OK	405-609-8603
	San Antonio, TX	210-475-6819



Region 7	Kansas City, KS	913-551-5866
	St. Louis, MO	314-539-6559
Region 9	Denver, CO	303-672-5350
	Billings, MT	406-247-4080
	Salt Lake City, UT	801-524-6090
	Seattle, WA	206-220-5380
Region 9	Los Angeles, CA	213-894-0219
	Las Vegas, NV	702-413-0531
	Phoenix, AZ	602-379-7252
	Sacramento, CA	916-930-5691
	San Francisco, CA	415-489-6683

Office of Investigation

Headquarters Office of Investigation, Washington, DC		202-708-0390
Region 1/2	Boston, MA	617-994-8450
	Hartford, CT	860-240-4800
	Manchester, NH	603-666-7988
	New York, NY	212-264-8062
	Buffalo, NY	716-551-5755
	Newark, NJ	973-776-7355
Region 3	Philadelphia, PA	215-430-6758
	Baltimore, MD	410-209-6533
	Pittsburgh, PA	412-644-6598
	Richmond, VA	804-822-4890
	Washington, DC	202-314-5451
Region 4	Atlanta, GA	404-331-5001
	Birmingham, AL	205-745-4314
	Columbia, SC	803-451-4318
	Greensboro, NC	336-547-4000
	Hattiesburg, MS	601-434-5848
	Jackson, MS	601-965-4700
	Memphis, TN	901-969-0344
	Miami, FL	305-536-3087
	Nashville, TN	615-736-2332
	San Juan, PR	787-766-5868
Tampa, FL	813-228-2026	
Region 5	Chicago, IL	312-353-4196
	Cleveland, OH	216-357-7800
	Columbus, OH	614-469-6677
	Detroit, MI	313-226-6280





	Grand Rapids, MI	616-309-2845
	Indianapolis, IN	317-226-5427
	Minneapolis-St. Paul, MN	612-370-3130
Region 6	Fort Worth, TX	817-978-5440
	Baton Rouge, LA	225-448-3941
	Houston, TX	713-718-3221
	Little Rock, AR	501-324-5931
	New Orleans, LA	504-671-3700
	Oklahoma City, OK	405-609-8603
	San Antonio, TX	210-475-6819
Region 7	Kansas City, KS	913-551-5866
	St. Louis, MO	314-539-6559
Region 8/10	Denver, CO	303-672-5350
	Billings, MT	406-247-4080
	Salt Lake City, UT	801-524-6090
	Seattle, WA	206-220-5380
Region 9	Los Angeles, CA	213-894-0219
	Las Vegas, NV	702-413-0531
	Phoenix, AZ	602-379-7252
	Sacramento, CA	916-930-5691
	San Francisco, CA	415-489-6683



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

Calling the OIG hotline: 1-800-347-3735
Monday through Friday, 10:00 a.m. – 6:00 p.m.,
Eastern Standard Time

Faxing the OIG hotline: 202-708-4829

Sending written information to
U.S. 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.



FORECLOSURE
Historic Settlement



Semiannual Report to Congress
www.hud.gov/offices/oig
No. 68

April 1, 2012, Through September 30, 2012



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT