

OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO CONGRESS

\$26
Billion

FORECLOSURE

Historic Settlement



2012

Largest Mortgage Lender Settlement
in U.S. History

October 1, 2011, through March 31, 2012



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT



Profile of Performance

Audit profile of performance for the period October 1, 2011, to March 31, 2012

Results	This reporting period
Recommendations that funds be put to better use	\$2,463,922,094
Recommended questioned costs	\$132,889,264
Collections from audits	\$139,548,631
Administrative sanctions	3
Subpoenas	46

Investigation profile of performance for the period October 1, 2011, to March 31, 2012

Results	This reporting period
Recoveries and receivables	\$3,541,718,627
Arrests ¹	334
Indictments and informations	354
Convictions, pleas, and pretrial diversions	378
Civil actions ²	62
Total administrative sanctions	308
Suspensions	71
Debarments	99
Limited denial of participation	0
Removal from program participation	45
Systemic implication reports	0
Personnel actions ³	42
Search warrants	32
Subpoenas	639

Hotline profile of performance for the period October 1, 2011, to March 31, 2012

Results	This reporting period
Funds put to better use	\$856,344
Recoveries and receivables	\$143,405
Hotline complaints processed related to OIG mission	250

¹Included in the arrests is our focus on the nationwide Fugitive Felon Initiative.

²Civil actions no longer include contact letters.

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





A Message from Inspector General David A. Montoya

It is with honor that I submit my first U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG), Semiannual Report to Congress for the period ending March 31, 2012. This report is a collection of the fine work of auditors, investigators, evaluators, attorneys, and support staff of HUD OIG and shows the dedication they have to help the citizenry of this country.

As established in our mission statement, we strive to assist HUD and the American public by finding and eliminating or mitigating any form of waste, fraud, and mismanagement in HUD programs and operations. The impact of the audits and investigations has resulted in reducing the misuse of funds entrusted to HUD by the taxpayers. During this reporting cycle, we issued 78 audits, which resulted in more than \$2 billion in funds put to better use, nearly \$133 million in questioned costs, and nearly \$140 million in collections from audits. Our investigation offices achieved significant results including 354 indictments and informations, 378 convictions, and 334 arrests.

Importantly, during this period, our office completed decisive audits, which contributed to the largest mortgage lender settlement in United States history. Allegations surfaced in the fall of 2010 that mortgage servicers participated in a practice known as “robosigning.” Representatives or agents of Bank of America, Wells Fargo, CitiMortgage, JP Morgan Chase, and Ally Financial, Inc., were alleged to have signed foreclosure documents automatically without a due diligence review or verification of the facts. This led to the questionable foreclosures of thousands of homes within the United States and false claims that were paid by the Federal Housing Administration. After numerous reviews by our office, a civil settlement was reached with all five lending institutions totaling a record \$26 billion.

One of the leading investigations in this reporting period revealed a defendant at a former HUD Indian Housing Block Grant funded developer who was suspended from participation in HUD programs and the Executive Branch of the Federal Government.

I am deeply gratified at the fine work of this office in making an impact in areas of critical importance to so many in our Nation, and I want to take this opportunity to thank the members of Congress and the citizens of the United States for their trust in us as we continue to look for more innovative and efficient ways to reduce fraud, waste, and mismanagement in HUD and HUD programs.

David A. Montoya
Inspector General





Acronyms List

ARRA	American Recovery and Reinvestment Act of 2009
CDBG	Community Development Block Grant
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
HOME	HOME Investment Partnerships Program
HUD	U.S. Department of Housing and Urban Development
IDIS	Integrated Disbursement and Information System
IHBC	Indian Housing Block Grant
IRS	Internal Revenue Service
IRS-CI	Internal Revenue Service, Criminal Investigation
MIP	mortgage insurance premium
OIG	Office of Inspector General
PHA	public housing agency
PIH	Office of Public and Indian Housing
SBA	Small Business Administration
SSA	Social Security Administration
SSN	Social Security number
U.S.C.	United States Code
USDA	U.S. Department of Agriculture
USPS	U.S. Postal Service





Reporting Requirements

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

Source/Requirement	Pages
Section 4(a)(2)-review of existing and proposed legislation and regulations.	26
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	1-24
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	30
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.	1-24
Section 5(a)(5)-summary of reports made on instances in which 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 and the total dollar value of questioned and unsupported costs.	1-24





Section 5(a)(8)-statistical tables showing the total number of audit report and the total dollar value of questioned and unsupported costs.	<i>Appendix 3, table C</i>
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.	<i>Appendix 3, table D</i>
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.	<i>Appendix 3, table A</i>
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decision made during the reporting period.	40
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	44
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	44



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Chapter 1

*Single-Family
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.

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

Program results	Audit
	15 audits
Questioned costs	\$1.2 Million
Funds put to better use	\$9.7 Million

Review of Mortgage Loan Servicing and Foreclosure Abuses

As part of the U.S. Department of Housing and Urban Development, Office of Inspector General’s (HUD OIG) nationwide effort to review the foreclosure practices of the five largest FHA mortgage servicers (Bank of America - Charlotte, NC, Wells Fargo Bank - Fort Mill, SC, CitiMortgage - O’Fallon, MO, JP Morgan Chase - Columbus, OH, and Ally Financial, Incorporated - Fort Washington, PA), HUD OIG reviewed each servicer’s foreclosure and claims processes. Separate memorandums were issued for each of the five reviews. OIG performed these reviews due to reported allegations made in the fall of 2010 that national mortgage servicers were engaged in widespread questionable foreclosure practices involving the use of foreclosure “mills” and a practice known as “robo-signing” of sworn documents in thousands of foreclosures throughout the United States.

The U.S. Department of Justice (DOJ) used OIG’s review and analysis in negotiating a

settlement agreement with the five servicers. On March 12, 2012, the U.S. Federal District Court approved a settlement of \$25 billion with the five mortgage servicers for their reported violations of loan servicing and foreclosure requirements. This agreement – the largest joint Federal-State settlement ever obtained – is the result of unprecedented coordination among enforcement agencies throughout the government. The agreement provides substantial financial relief to homeowners and establishes significant new homeowner protections for the future. As part of the settlement agreement, each of the five servicers will pay a portion of the settlement to the United States and also must undertake certain consumer relief activities. The settlement agreement described tentative credits that each mortgage servicer will receive for modifying loans, including principal reduction and refinancing, and established a monitoring committee and a monitor to ensure compliance with agreed-upon servicing standards and the consumer relief provisions. In the next semiannual period, OIG will issue a separate summary memorandum detailing each of the five servicers’ allocated share of payment due as a result of the settlement agreement and recommendations to correct weaknesses discussed in the five memorandums. (Audit Memorandums: 2012-AT-1801, 2012-CH-1801, 2012-FW-1802, 2012-KC-1801, and 2012-PH-1801)

Review of HUD’s Oversight of the Home Equity Conversion Mortgage Program

HUD OIG audited HUD’s oversight of its Home Equity Conversion Mortgage (HECM) program to determine whether HUD’s controls effectively ensured that HECM loan borrowers complied with program residency requirements.

HUD controls did not always ensure that HECM loan borrowers complied with program residency requirements. Thirty-three borrowers had more than one HECM loan and falsely certified to principal residency for properties in which they





did not live. As a result, 33 loans insured under the HECM program were ineligible for insurance and should be declared in default and due and payable to reduce the potential risk of loss to HUD’s FHA insurance fund.

OIG recommended that HUD direct the servicing lenders to identify which property is the HECM loan borrower’s principal residence for each of the 33 cases, declare the loan for the other property in default, and declare it due and payable, thereby putting an estimated \$3.9 million to better use. OIG also recommended that HUD perform quality assurance tests at least annually to ensure that edits in its FHA Connection system are effective in preventing the approval and generation of FHA case numbers for borrowers with existing loans. (Audit Report: 2012-PH-0004)

Investigation

The HUD OIG, Office of Investigation, conducts criminal 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 from leads provided by HUD program staff and may be conducted jointly with Federal, State, and local law enforcement agencies.

Program results	Investigations
Administrative- civil actions	116
Convictions-pleas-pretrial	86
Financial recoveries	\$22,475,649
Cases closed	433

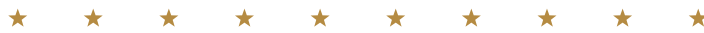
Six Sentenced in Reverse Mortgage Fraud Case

Six defendants were sentenced for their roles in a large-scale HECM and short sale fraud scheme. One of the purported “ring leaders” of the group was sentenced to 151 months incarceration, supervised probation for a period of 5 years, and 180 days home confinement after pleading guilty to charges of bank fraud and conspiracy to commit bank fraud. The defendant was ordered to pay restitution in the amount of more than \$1 million to HUD, \$119,095 to Old Republic, \$9,000 to Georgia Multiple Listing Service (GA MLS), and more than \$1.8 million to GE Capital. Another defendant and purported co-“ring leader,” who pled guilty to aggravated identity theft and conspiracy to commit bank fraud, was sentenced to 63 months and 24 months incarceration, to run concurrently, and 5 years supervised probation. The defendant also was ordered to pay \$271,522 in restitution to HUD and \$9,000 to GA MLS. Four other defendants, including an attorney and loan officer, were sentenced to prison terms, ranging from time served to 37 months, and ordered to pay restitution totaling more than \$6.2 million to HUD, seven banks and lenders, and others.

Appraiser Debarred After Guilty Plea in FHA Mortgage Fraud Case

An FHA-approved appraiser was debarred from procurement and nonprocurement transactions throughout the Executive Branch of the Federal Government for an indefinite period. On March 21, 2011, the appraiser pled guilty to one count of making a false statement in an FHA-insured mortgage transaction. The appraiser had been charged with creating fraudulently inflated appraisals by “photoshopping” pictures of appraised properties in exchange for payments, often in cash, of thousands of dollars per home. The payments were well beyond the basic appraisal fee of about \$375 that was disclosed in appraisals and on Federal mortgage documents. The Government alleged that this





mortgage fraud scheme involved approximately 35 properties and loans obtained in the amount of approximately \$10 million. Current losses from the scheme are estimated to be at least \$4.7 million. Twelve of the properties involved in this scheme involve FHA-insured mortgages totaling approximately \$2.8 million. To date, FHA has realized approximately \$300,000 in losses. This case is being investigated by HUD OIG and the Federal Bureau of Investigation (FBI).

to be qualified for at least 19 FHA-insured and 13 conventional mortgages. Fifteen of the FHA-insured mortgages are currently in default or foreclosure status. The defendant was ordered to pay restitution totaling more than \$1.9 million, with \$962,283 directed to HUD. HUD OIG and the FBI conducted this investigation.

Home Builder-Seller Pleads Guilty in FHA Mortgage Fraud Case

A manufactured home and modular home dealer pled guilty to charges of conspiracy and wire fraud, false statements to HUD, and aiding and abetting. From 2004 to 2008, the defendant and others conspired and created or provided false information and fraudulent documents to qualify borrowers for FHA-insured manufactured and modular home mortgages. To date, HUD has realized losses in excess of \$5.4 million on 81 claims. HUD OIG, the U.S. Postal Inspection Service, the North Carolina Bureau of Investigation, the North Carolina Office of the Commissioner of Banks, and the North Carolina Attorney General's Office conducted this investigation.

Former Loan Officer and Lender Branch Manager Sentenced

A former loan officer and branch manager was sentenced to 48 months of incarceration, followed by 5 years of supervised release, for her earlier guilty plea to a criminal information charging her with conspiracy to commit mail fraud and wire fraud. The defendant conspired with at least four other individuals to obtain mortgages for unqualified borrowers, using fraudulent pay stubs, Internal Revenue Service forms W-2, income tax returns, verifications of employment, and seller-provided downpayments to make the borrowers appear



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.

Audit

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

Program results	Audit
	22 audits ⁴
Questioned costs	\$36.7 million
Funds put to better use	\$2.1 million

Review of HUD's Oversight of the Housing Choice Voucher Program

HUD OIG audited HUD's oversight of the Housing Choice Voucher program's fee-for-service system to determine how HUD set fee-for-service management and bookkeeping fee limits and whether this method seemed reasonable and the fees were monitored.

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 (14 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.

HUD did not adequately support or reassess the reasonableness of the fee-for-service amounts or monitor the amounts charged. HUD data suggest that some housing agencies may have overcharged the Section 8 program by more than \$5 million in management fees and more than \$1 million in bookkeeping fees.

OIG recommended that HUD establish and implement procedures to reassess safe harbor percentage and rates periodically to ensure that they are reasonable and retain the documentation supporting its calculations. In addition, HUD should assess the feasibility of requiring housing agencies to periodically justify and retain documentation showing the reasonableness of using the maximum rates or lower them. OIG also recommended that HUD (1) develop and implement automated controls to ensure that housing agencies nationwide do not charge excessive management and bookkeeping fees and (2) follow up on the largest discrepancies identified and reassign excessive funds that are not authorized by the Federal Government to the program if the housing agencies cannot provide HUD with a reasonable explanation for the discrepancies. (Audit Report: 2012-LA-0001)

Review of the Housing Authority of the City of Stamford, CT's Administration of Federal Housing Programs

HUD OIG audited the Housing Authority of the City of Stamford, CT's administration of its Federal housing programs to determine whether the Authority followed HUD requirements and its own policies and procedures in the administration of its Federal housing programs.

The Authority did not properly administer its Federal programs in accordance with HUD requirements, Federal regulations and laws, its own policies and procedures, and its annual contributions contracts. Specifically, it failed to (1) fully reconcile its interprogram





transactions in its revolving fund account; (2) maintain adequate supporting documentation to demonstrate that it properly charged salaries and associated costs; (3) comply with HUD procurement regulations and its own procurement policies; and (4) pay only eligible, supported, and necessary program expenses. As a result, the Authority (1) improperly wrote off a \$2.6 million interprogram imbalance as a prior period adjustment and had more than \$7.5 million in unsupported transactions recorded in its interprogram accounts, (2) could not show that at least \$7.6 million in salaries and related costs was properly charged to Federal programs, (3) could not demonstrate that more than \$2.5 million in contract costs charged to Federal programs was for reasonable program expenses, and (4) paid more than \$95,000 in questioned costs charged to Federal programs that was not for eligible or supported program expenses. Further, the Authority may be in substantial default of its annual contributions contracts, and its lack of adequate internal controls put it at a higher risk for potential fraud, waste, and abuse.

OIG recommended that HUD require the Authority to (1) support more than \$17.7 million in unsupported costs related to interfund transactions, cost allocation, procurement, and questionable disbursements; (2) repay any amounts it cannot support; and (3) repay the more than \$49,000 in ineligible costs and support more than \$46,000 in unsupported disbursements. OIG also recommended that HUD provide technical assistance to the Authority to establish an effective procurement system and ensure that the Authority's management and staff are properly trained regarding Federal procurement requirements. OIG further recommended that HUD review the actions of the Authority's board of commissioners, executive director, former executive director, and consultants and take appropriate administrative actions if warranted. (Audit Report: 2012-BO-1002)

Investigation

Program results	Investigations
Administrative- civil actions	205
Convictions-pleas-pretrial	238
Financial recoveries	\$6,050,083
Cases closed	609

Housing Authority Executive Director Sentenced

A former housing authority executive director was sentenced to 1 year and 1 day incarceration and 3 years supervised probation. The defendant also was ordered to pay restitution to HUD in the amount of \$199,960. The defendant was charged with theft of government funds and money laundering. The former executive director wrote checks on the accounts of two housing authorities to various individuals and businesses that were supposed to perform maintenance work at the housing authorities. These checks were written for amounts greater than needed for the work performed. The defendant directed the payees to cash the checks and return to her the amount in excess of payment for the work performed. HUD OIG and Internal Revenue Service, Criminal Investigation, conducted this investigation.

Programmer Sentenced for Theft of Funds From Housing Authorities

The owner and president of a company that developed and maintained a program used by approximately 40 public housing authorities nationwide to organize payroll, personnel, and tenant accounting information pled guilty to one count of wire fraud and was sentenced to 9 months in prison, followed by 6 months of home detention as part of 2 years of supervised release. According to the indictment, between December 2010 and March 2011, the subject





illegally accessed the accounts of five different housing authorities, altered landlord accounts, and activated direct deposits into the personal accounts of him and his girlfriend. The subject was ordered to pay \$30,584 in restitution to HUD.

Developer Suspended Following Superseding Indictment

A principal at a former HUD Indian Housing Block Grant (IHBC)-funded developer was suspended from participation in procurement and nonprocurement transactions as a participant or principal throughout the Executive Branch of the Federal Government. The subject's suspension was based on a superseding criminal indictment charging him with conspiracy, bribery relating to Federal program funds, embezzlement and theft from Indian tribal organizations, and aiding and abetting. According to the indictment, between June 2002 and November 2006, the defendant misapplied and converted funds for his own use from a subrecipient of IHBC funds. The defendant purportedly did this by submitting grant payment requests for specific construction costs and then using the money for personal expenses, while paying bribes with approximately \$33,000 in casino gaming tokens. In total, the defendant has been charged with converting more than \$2.3 million in IHBC funds to his own use.



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.

a monitoring schedule based on the number and type of monitoring reviews it will perform for each lender. (Audit Report: 2012-PH-0003)

Audit

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

Program results	Audit
	5 audits
Questioned costs	\$315,000
Funds put to better use	\$35,000

Review of HUD’s Multifamily Accelerated Processing Program

HUD OIG audited HUD’s monitoring of its multifamily accelerated processing program lenders to determine whether HUD adequately approved and selected program lenders to monitor.

HUD generally approved program lenders as required but did not adequately select lenders to monitor. Five of fifty-one program lenders with loan originations totaling almost \$88 million had not been monitored as recommended by HUD’s written policy.

OIG recommended that HUD (1) complete and fully implement its new procedures for selecting lenders to monitor; (2) immediately classify its approved lenders as low-, moderate-, or high-volume lenders in keeping with its updated policy; and (3) prepare and implement

Investigation

Program results	Investigations
Administrative- civil actions	24
Convictions-pleas-pretrial	35
Financial recoveries	\$2,447,721
Cases closed	88

Property Manager and Administrative Assistant Sentenced

A former property manager and a former administrative assistant for a HUD-insured and -subsidized housing complex were sentenced following their guilty pleas to theft charges. The defendants fraudulently altered HUD forms to reflect zero income on behalf of multiple tenants without the tenants’ knowledge. HUD would then pay full assistance to the complex on the tenant’s behalf. Meanwhile, the tenant would pay his or her normal tenant payment in cash to the complex. The defendants caused a loss of \$70,400, which represents the overpayments by HUD from the excessive monthly subsidies, and \$50,000 in tenant payments the defendants diverted for their personal use. The property manager was sentenced to 5 months incarceration and 3 years supervised release, and the administrative assistant was sentenced to 3 years probation. The defendants were ordered to pay restitution of \$39,900 to HUD and \$30,400 to the housing complex.



Chapter 4

Community Planning and Development Programs



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

Audit

Strategic Initiative 3: Contribute to the strengthening of communities

Program results	Audit
	22 audits ⁵
Questioned costs	\$93.6 million
Funds put to better use	\$76.5 million

Review of Goodyear Industrial Tract Project

HUD OIG audited the City of Los Angeles, CA’s Community Development Department to determine whether the City expended Brownfields and Section 108 funds for the development of the Goodyear Industrial Tract project on eligible activities and within required deadlines in accordance with HUD requirements.

The City did not expend Brownfields and Section 108 funds awarded for the development of the project in accordance with HUD

⁵The total CPD audits, questioned costs, and funds put to better use amounts include any American Recovery and Reinvestment Act of 2009 (11 audits) and disaster recovery (1 audit) type audits conducted in the CPD area. The writeups for these audits are shown separately in chapters 5 and 6 of this semiannual report.

requirements. Specifically, the City used loan and grant funds for an ineligible project and expended grant funds after the grant deadline. As a result, it expended (1) \$3.8 million in loan funds on an ineligible project, (2) \$625,000 in grant funds on an ineligible project after the grant expenditure deadline, and (3) nearly \$898,000 in grant funds after the grant expenditure deadline. As a result, the City did not ensure that HUD funds were disbursed in accordance with HUD rules and regulations and used on approved projects intended to meet the programs’ national objectives.

OIG recommended that HUD require the City to (1) repay HUD’s Section 108 loan account from non-Federal funds for the use of Section 108 loan funds for an ineligible project, plus any interest due; (2) reimburse HUD’s Brownfields account from non-Federal funds for the use of Brownfields funds for an ineligible project after the grant agreement deadline, plus any interest due; (3) reimburse HUD’s Brownfields account from non-Federal funds for use of the funds after the grant agreement deadline, plus any interest due; and (4) establish and implement policies, procedures, and controls to ensure that grant and Section 108 loan funds are used for eligible project activities and expended within applicable deadlines in accordance with HUD rules and regulations. (Audit Report: 2012-LA-1005)

Review of HUD’s Integrated Disbursement and Information System To Provide Oversight of Its Community Development Block Grant Program

HUD OIG audited HUD’s use of its Integrated Disbursement and Information System (IDIS) to assess the adequacy of IDIS in providing oversight of activities under its Community Development Block Grant (CDBG) program.

HUD did not adequately use IDIS to provide oversight of activities under its CDBG program. HUD was unaware of how grantees used nearly



\$67 million that it provided them to fund more than 1,300 activities that grantees later canceled in IDIS. In addition, HUD lacked adequate oversight of nearly \$3 billion used to fund more than 20,000 long-standing open activities that grantees had reportedly not completed for up to 11 years.

OIG recommended that HUD implement policies and procedures requiring it to (1) periodically use the data contained in IDIS to provide oversight of canceled and long-standing open or revised activities and (2) evaluate the adequacy of actions grantees take regarding canceled and long-standing open or revised activities shown in IDIS. OIG further recommended that HUD direct responsible grantees to justify the use of nearly \$67 million that it disbursed for activities that they later canceled in IDIS or repay HUD from non-Federal funds. (Audit Report: 2012-PH-0001)

Investigation

Program results	Investigations
Administrative- civil actions	1
Convictions-pleas-pretrial	16
Financial recoveries	\$3,001,592
Cases closed	97

Former Housing Commissioner Pleads Guilty to Racketeering, Conspiracy, and Bribery

The former assistant commissioner of the New York City Department of Housing Preservation and Development pled guilty to charges of racketeering, conspiracy, and bribery. The defendant was responsible for overseeing affordable housing projects across the city. From January 2000 through October 2011, the defendant accepted cash payoffs totaling

more than \$2.5 million from developers. The defendant faces a maximum of 30 years in prison and \$5 million in fines, penalties, and restitution. This was a joint investigation with the Federal Bureau of Investigation (FBI), Internal Revenue Service, Criminal Investigation (IRS-CI), and the New York City Department of Investigation.

Business Consultant Sentenced for Theft of Grant Funds

A business consultant was sentenced to 12 months and 1 day incarceration and 3 years probation and ordered to pay HUD \$831,752 in restitution for her earlier guilty plea to false statements, conspiracy, and kickbacks involving Federal funds. Between 2001 and 2005, the defendant and other individuals conspired and assisted the former executive officer of an organization that received congressionally earmarked HUD Economic Development Initiative grant funds, embezzling more than \$1.2 million in HUD funding. HUD OIG, the FBI, and IRS-CI conducted this investigation.



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

HUD program areas. The following table shows the HUD program areas receiving funding and the amounts appropriated to each program.

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





Audit

The Office of Audit’s 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 prior semiannual reporting periods, HUD 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, our audits continue to focus on grantee expenditures and HUD’s oversight activities.

Strategic Initiative 3: Contribute to the strengthening of communities

Program results	Audit
	26 audits ⁶
Questioned costs	\$10.5 million
Funds put to better use	\$399,000

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.

Public Housing Capital Fund

HUD OIG audited the ARRA Public Housing Capital Fund program at the East St. Louis Housing Authority in East St. Louis, IL, to determine whether the Authority (1) complied with applicable procurement requirements and properly managed its ARRA contracts, (2) properly drew down and expended funds for eligible activities, and (3) properly reported its ARRA activities.

The Authority (1) improperly awarded ARRA-funded contracts, (2) improperly approved change orders, (3) did not enforce the fair labor standards prevailing wage rate requirements in its contracts, (4) paid for an ARRA contract before receiving HUD approval to obligate or expend the funds, (5) improperly drew down all of its administrative fees, and (6) reported incomplete and inconsistent information on the number of jobs created and the amounts expended on ARRA contracts. As a result, it used ARRA funds for unsupported and ineligible expenses and failed to ensure that all contractors paid the appropriate wages, and its reported use of ARRA capital funds was not accurate.

OIG recommended that HUD require the Authority to (1) support that nearly \$1.9 million in ARRA contracts and change orders was granted at a reasonable cost and repay any amount determined to be unreasonable, (2) collect nearly \$47,000 in overpaid funds from its contractor and return these funds to the U.S. Treasury, (3) ensure that contractors make any required wage restitution, and (4) provide documentation to support all administration expenses incurred or repay more than \$132,000 to the U.S. Treasury for the unsupported expenses. In addition, HUD should require the Authority to correct the amounts reported in FederalReporting.gov and verify that its data entries meet ARRA reporting requirements. (Audit Report: 2012-KC-1002)





Investigation

Housing Authority Executive Director Sentenced in Embezzlement Case

A former housing authority executive director was sentenced to 14 months incarceration and 36 months probation and ordered to pay Beaufort, NC, \$50,000 in restitution. The defendant pled guilty to charges of embezzlement and corporate malfeasance. From 2008 to 2010, the executive director embezzled and personally used between \$50,000 and \$80,000 in housing authority operating account funds that included comingled ARRA funds. HUD OIG, the Beaufort Police Department, the North Carolina State Bureau of Investigation, the Tennessee Bureau of Investigation, and the U.S. Government Accountability Office conducted this investigation.

HUD Employee Convicted

A HUD Office of Native American Programs employee and former community planner for a community housing department, an organization that receives HUD and ARRA-funded Indian Housing Block Grant funds, was convicted on charges of committing theft from a program receiving Federal funds. Between December 2009 and January 2010, the employee diverted and personally used \$13,000 in ARRA funds. HUD OIG conducted this investigation. The employee has been terminated from employment at HUD, and the Office of Investigation has received a proposed debarment from the Departmental Enforcement Center.



Chapter 6

Disaster Relief Programs





Introduction and Background

In response to disasters, Congress may appropriate additional funding as Disaster Recovery grants to rebuild the affected areas and provide crucial seed money to start the recovery process. Over the past several years, disaster funding for the U.S. Department of Housing and Urban Development (HUD) has exceeded \$29 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 \$26 billion in obligations and \$20 billion in disbursements. Of the total \$29 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, \$16.8 billion, or 85.7 percent of the funds, has been disbursed for the period ending March 31, 2012.

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

Audit

Strategic Initiative 3: Contribute to the strengthening of communities

Program results	Audit
	1 audit ⁷
Questioned costs	\$9.1 million
Funds put to better use	\$75 million

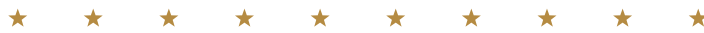
⁷The disaster grant program audit is a community planning and development audit. The questioned costs and funds put to better use amounts relate only to disaster-related costs.

HUD OIG audited HUD’s Community Development Block Grant (CDBG) 2008 Disaster Recovery assistance for Hurricane Ike and other disasters, administered by the Texas Department of Rural Affairs, to determine whether HUD’s Disaster Recovery funds used for infrastructure and revitalization contracts were administered in compliance with the supplemental appropriations requirements, HUD’s policies, and the State of Texas’ Disaster Recovery action plan.

The State did not follow Federal and State requirements and best practices for its infrastructure and revitalization professional services and project management services contracts. Specifically, it (1) improperly procured its professional services and project management services contracts, (2) improperly increased the project management services company’s contract, (3) included ineligible contract provisions, (4) failed to ensure that the contract payment type was consistent, (5) failed to prevent questionable charges, (6) did not ensure that its budgets clearly assigned costs according to HUD CDBG cost categories, and (7) did not ensure that its project management services contract contained specific and quantifiable performance measures. As a result, the State paid more than \$9 million in questioned costs. In addition, it failed to adequately monitor its professional and project management services contracts. Therefore, it did not review the contractor’s performance or its accounting for, allocation of, or support for the eligibility of its costs. The Texas General Land Office recognized that the project management services contract had problems and terminated it during the audit, which will prevent the State from improperly spending additional Disaster Recovery funds.

OIG recommended that HUD require the State to (1) repay nearly \$920,000 in ineligible markup costs, (2) support or repay nearly \$7.6 million in unsupported inflated costs, (3) repay more than \$542,000 in unreasonable and unnecessary inflated costs, and (4) document its termination of the professional services contract and its





deobligation of the funds, which will result in more than \$75 million in Disaster Recovery funding being put to better use. In addition, HUD should require the State to adopt and follow sound agency business procedures for its Disaster Recovery-funded procurements and payments to ensure that they comply with Federal and State policies. (Audit Report: 2012-FW-1005)

Investigation

The HUD OIG Office of Investigation continues to pursue HUD disaster assistance crimes along with the Federal Bureau of Investigation and other Federal, State, and local partners. While the majority of prosecutions during this reporting period involved individuals who obtained disaster assistance through fraud, OIG is vigorously pursuing public corruption, infrastructure, and procurement crimes. Working with the Louisiana Recovery and Mississippi Development Authorities, OIG is taking a proactive role to prevent fraudulent disaster-related claim payments and assist with the recovery of deceptive or fraudulent grants. In addition, HUD OIG continues to be a dedicated partner in the National Center for Disaster Fraud Task Force (previously known as the Hurricane Katrina Fraud Task Force). HUD OIG provides personnel to support the joint command center in Baton Rouge, LA, continues to support disaster-related investigative efforts throughout the country, and actively participates in the sharing of information and the receipt and referral of complaints with other law enforcement agencies.

Disaster “Victim” Sentenced

A purported disaster victim was sentenced to 18 months imprisonment, 3 years supervised release, and 100 hours of community service and ordered to pay restitution of \$349,517. The defendant was also required to pay an additional forfeiture amount of \$349,517, a fine of \$5,000,

and a \$100 special assessment. The defendant pled guilty in February 2011 to theft of government funds for fraudulently applying for and receiving Mississippi Development Authority (MDA) Homeowner Assistance Program (HAP) funds for a residence that was not her primary residence at the time Hurricane Katrina struck the Mississippi Gulf Coast. She received \$150,000 as a result of this application. She then applied for another MDA HAP grant as power of attorney for her mother’s property, receiving an additional \$150,000. The defendant also applied for and received a Louisiana Road Home grant of \$20,945, under another name, for another property that was not her primary residence at the time Hurricane Katrina struck Louisiana.

Former HUD Attorney Suspended by Bar Association in Disaster Fraud Case

A former HUD attorney, who was previously sentenced in U.S. District Court for her earlier guilty plea to committing theft of government funds, was suspended by the California Bar Association from practicing law for 3 years. The defendant and her husband, who also pled guilty, applied for and received \$150,000 in CDBG Disaster Recovery assistance funds through the MDA and \$50,000 in Small Business Administration (SBA) disaster assistance for hurricane-damaged residential property for a property that was not their primary residence during Hurricane Katrina. HUD OIG, SBA OIG, and the Mississippi State Auditor’s Office conducted this investigation.



Chapter 7

Other Significant Audits and Investigations and the OIG Hotline





Audit

**Strategic Initiative 4:
Contribute to improving HUD’s
execution of and accountability for fiscal
responsibilities as a relevant and
problem-solving advisor to the Department**

Program results	Audit
	14 audits ⁸
Questioned costs	\$203,000
Funds put to better use	\$2.4 billion

Review of HUD’s FY 2011 and 2010 Financial Statements

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), provided additional details to supplement the report on HUD’s fiscal years (FY) 2011 and 2010 financial statements, which are included in HUD’s Fiscal Year 2011 Agency Financial Report.

Based on the audit and the reports of other auditors, the financial statements were presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States. However, the audit identified the following 10 significant weaknesses. HUD needs to

- Have financial management systems that comply with Federal financial management system requirements;
- Continue improvement in the processes for reviewing obligation balances;
- Ensure that internal controls over Office of Community Planning and Development grantees’ compliance with program requirements are operating effectively;

⁸The total “other” audits’ questioned costs and funds put to better use amounts include any American Recovery and Reinvestment Act of 2009 (1 audit) type audits conducted in the “other” area. The writeups for these audits are shown separately in chapter 5 of this semiannual report.

- Improve the administrative control of funds;
- Continue improvements in the oversight and monitoring of subsidy calculations, intermediaries’ program performance, and the use of Housing Choice Voucher program funds;
- Further strengthen controls over HUD’s computing environment;
- Improve personnel security practices for access to HUD’s critical financial systems;
- Improve compliance controls to ensure the safety, completeness, and validity of collateral loan files;
- Strengthen internal controls over risk-based issuer and document custodian reviews to improve the effectiveness of counterparty monitoring and oversight; and
- Effectively analyze and resolve identified information technology security control deficiencies.

OIG’s findings include the following five instances of noncompliance with applicable laws and regulations:

- HUD did not substantially comply with the Federal Financial Management Improvement Act (FFMIA) regarding system requirements;
- HUD did not substantially comply with the Antideficiency Act;
- HUD did not substantially comply with laws and regulations governing claims of the United States Government;
- The Federal Housing Administration (FHA) Mutual Mortgage Insurance Fund capitalization was not maintained at a minimum capital ratio of 2 percent, which is required under the Cranston-Gonzalez National Affordable Housing Act of 1990; and
- FHA did not substantially comply with FFMIA regarding system limitations related to operational effectiveness and efficiency.





The audit identified \$80.7 million in excess obligations recorded in HUD’s records.

OIG recommended that HUD (1) request a congressional rescission of \$471.8 million in funding originally appropriated for the Emergency Homeowners’ Loan Program but not obligated by the required obligation date and (2) seek legislative authority to implement offsets of \$820 million against public housing agencies’ (PHA) excess Section 8 funding held in net restricted assets accounts at the PHAs and \$1 billion in the operating subsidy account. These amounts represent funds that HUD could put to better use. (Audit Report: 2012-FO-0003)

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 (GNMA). 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 (FBI) and other Federal, State, and local law enforcement partners.

Program results	Investigations
Administrative- civil actions	24
Convictions-pleas-pretrial	3
Financial recoveries	3,507,743,582
Cases closed	54

Guilty Plea in Government National Mortgage Association Fraud Case

The owner and president and the vice president of a GNMA-approved issuer each pled guilty to committing embezzlement and unlawful conversion of government property. From 2007 to October 2008, the defendants provided false information and caused fraudulent documents to be submitted to GNMA and fraudulently diverted and personally used \$1.3 million in GNMA funds obtained through FHA-insured defaulted mortgage loan claims. HUD OIG conducted this investigation.

Guilty Plea in Foreclosure Rescue

A foreclosure prevention housing counselor for a HUD-funded housing counseling agency pled guilty to committing theft of government funds and mail fraud. From March to October 2010, the defendant fraudulently solicited and received nearly \$300,000 from distressed homeowners, who were modifying their FHA-insured, Veterans Administration-guaranteed, and conventional mortgages. The defendant then applied for and received \$2,000 in HUD funds on behalf of the distressed homeowners but used the funds for personal expenses. HUD OIG, the U.S. Postal Inspection Service, the FBI, and the U.S. Secret Service conducted this investigation.

OIG Hotline

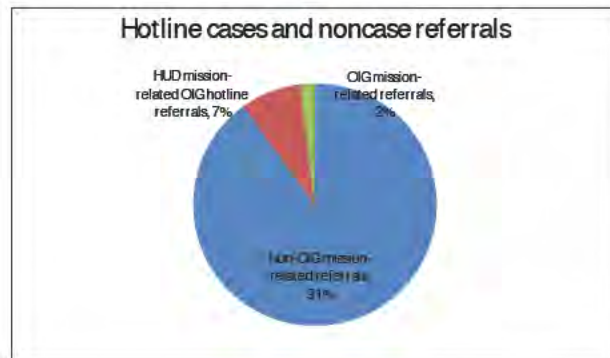
The HUD OIG hotline is operational 5 days a week, Monday through Friday, from 7:00 a.m. to 4:30 p.m., Eastern Standard Time. The hotline is staffed by seven full-time OIG employees, who take allegations of waste, fraud, abuse, or serious mismanagement in HUD or HUD-funded programs from HUD employees, contractors, and the public. The hotline also coordinates reviews with internal audit and investigative units or with HUD program offices.



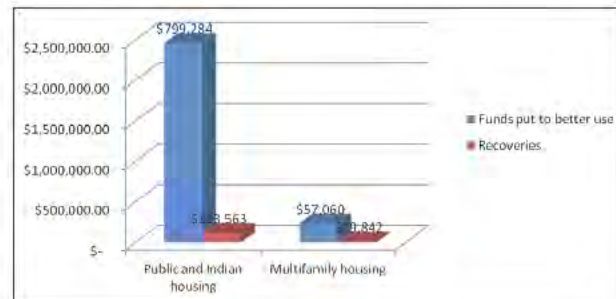


During this reporting period, the hotline received and processed 2,910 contacts—34 percent received by telephone, 3 percent by mail, and 63 percent by email. Every allegation determined to be related to the OIG mission is logged into a database and tracked.

Of the contacts received, only 250 (9 percent) were related to the mission of OIG and were addressed as hotline cases (150 by email, 2 by facsimile, 41 by mail, and 57 by telephone). Hotline cases are referred to OIG’s Offices of Audit and Investigation or to HUD program offices for action and response. All contacts not related to the OIG mission are forwarded to HUD program offices for their response. The following illustration shows the distribution of hotline cases and noncase referrals by percentage.



The hotline closed 145 cases this reporting period. The closed hotline cases included 50 substantiated allegations. The substantiated allegations resulted in 26 administrative sanctions, including action taken against a tenant for failing to report all income and allowing unauthorized live-ins to reside in her HUD-subsidized residence. The Department also took 24 corrective actions that resulted in \$143,405 in recoveries of losses and \$856,344 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 433 hours to reviewing 112 issuances. The draft directives consisted of 10 notices of funding availability, 62 mortgagee letters and notices, and 40 other directives. OIG provided comments on 29 percent of these draft directives. For example, OIG did not concur on one proposed rule to streamline the Federal Housing Administration's (FHA) reporting requirements regarding financial statements for small lenders and mortgagees, supervised by a Federal banking agency, which have consolidated assets that do not meet the threshold set by Federal banking agencies' individual regulations (currently set at \$500 million in consolidated assets).

Enacted Legislation

The Federal Housing Commissioner continued to propose a number of risk management initiatives related to U.S. Department of Housing and Urban Development (HUD) single-family programs and has started the process of updating its multifamily program requirements. As part of the issuances reviewed, OIG provided comments on the preliminary rules. Many of the proposed changes required rule making. On January 25, 2012, HUD issued a final rule in Docket No. FR 5156-F-02, which updates and enhances the lender insurance process and furthers HUD's efforts to improve and expand FHA's risk management activities. Based on comments received on the proposed rule, HUD has made the following changes: (1) HUD will review lender insurance mortgagee performance on an ongoing basis (as opposed to "continual" basis); (2) the automatic termination of a mortgagee's lender insurance authority under 24 CFR (Code of Federal Regulations) 203.4(d)(3) is limited to actions taken at the institution level of the mortgagee,

as opposed to its branches; (3) a mortgagee must indemnify HUD for an insurance claim if the mortgagee "knew or should have known" that fraud or misrepresentation was involved; and (4) mortgagees, the lender insurance authority of which has been terminated, may apply for reinstatement in accordance with procedures closely modeled on the existing procedures for a mortgagee seeking reinstatement following termination of its origination approval agreement or direct endorsement authority.

Notices and Policy Issuances

Single-Family Housing

On December 2, 2011, HUD issued Mortgagee Letter 2011-39, providing notice of the comprehensive update to FHA's single-family loan limits, issued under the authority of H.R. 2112, the Consolidated and Further Continuing Appropriations Act of 2012, Public Law 112-55. Specifically, the FHA national loan limit "floor" remains at 65 percent of the national conforming loan limit of \$417,000. For areas designated as high cost in 2008 under the Economic Stimulus Act, the FHA national loan limit "ceiling" is \$729,750 for a one-unit property.

On December 20, 2011, HUD sent for departmental review a notice (Docket No. FR-5595-F-01) implementing another risk management initiative. Specifically, FHA is providing more definitive underwriting standards for mortgage loan transactions that are manually underwritten. The notice provides a manual underwriting matrix, which addresses three items: (1) borrowers who exceed the 31 percent housing-to-income ratio yet carry little or no discretionary debt and, therefore, do not exceed the maximum 43 percent debt-to-income ratio, (2) the relationship between compensating factors and "stretch ratios" that permits borrowers to exceed the housing payment





and total debt-to-income ratios under certain FHA mortgage insurance programs, and (3) the establishment of additional compensating factors that can be used to qualify borrowers who exceed FHA housing and debt-to-income ratios established by this notice. Public comments have been received, and HUD is expected to issue a mortgagee letter to assist in the implementation of the new requirements.

On February 10, 2012, HUD issued Mortgagee Letter 2012-2, which clarified the requirements for the origination, closing, and submission for FHA insurance endorsement of loans via the sponsored third-party origination process.

On February 23, 2012, HUD submitted for review a request for comments on Docket No. FR 5572-N-01, regarding HUD changes to the proposed cap to seller concessions. The proposal entails reducing the amount of seller concessions permitted as offsets to actual closing costs to 3 percent or \$6,000, whichever is greater, but not allow offsets to exceed the borrower's actual costs. The last day for public comments was March 26, 2012. Therefore, this proposal has not been finalized.

On February 28, 2012, HUD issued Mortgagee Letter 2012-3, which modified documentation requirements for self-employed borrowers, provided new guidance on disputed accounts, and expanded the current definition of family members for identity-of-interest transactions.

On March 6, 2012, HUD issued Mortgagee Letter 2012-4, which announced changes to the FHA single-family annual mortgage insurance premium (MIP) and upfront mortgage insurance premium. For example, the President signed into law the Temporary Payroll Tax Cut Continuation Act of 2011, which requires FHA to increase the annual MIP it collects by 10 basis points. Also, HUD exercised its preexisting statutory authority to add an additional 25 basis points to mortgages with base loan amounts exceeding \$625,000. These changes affect case numbers assigned on or after April 9, 2012, and June 11, 2012, respectively.

Multifamily Housing

In response to our audit report 2010-LA-0001, issued November 12, 2009, HUD has revised the annual contributions contract which it executes with public housing agencies that act as performance-based contract administrators. In addition, in 2011, it issued a request for applications in awarding those contracts. This process was met with significant resistance from applicants. In response, HUD decided to issue a notice of funding availability. During this semiannual period, HUD drafted this notice and cleared all of OIG's concerns provided during the departmental clearance process. The revised notice and annual contributions contract are expected to provide a significantly positive impact on HUD's budget.

Public and Indian Housing

Demolition and Disposition Program - OIG participated with the Office of Public and Indian Housing (PIH) in the development of revised regulations for the Demolition and Disposition Program described in 24 CFR Part 970. Under the U.S. Government Accountability Office's Government Auditing Standards, OIG's participation was limited to a purely advisory capacity. OIG may provide advice in implementing its audit recommendations and establishing internal controls. OIG may also answer technical questions and provide information on best practices; however, it does not participate in decision making. Also, any decisions on whether to follow OIG's advice would remain with HUD management officials. These restrictions on OIG's participation are needed to maintain its independence in performing audits as specified in the Government Auditing Standards.

Capital Fund Financing Program - In 1996, the Quality Housing and Work Responsibility Act was passed with many changes to the Housing Act of 1937, including revisions to the Public Housing Capital Fund program and the establishment of a new Capital Fund Financing





Program. PIH has not published regulations to implement the changes to the Housing Act of 1937. Instead, HUD has used notices to provide operating instructions. The notices contribute to the inconsistent processing of transactions. One recent example is the statutory mandate that the Capital Fund program is precluded from funding energy systems and capital equipment unless they are obsolete. PIH did not provide a definition for the term “obsolete” and allows each housing agency to determine whether the energy systems and capital equipment are obsolete. OIG detected many transactions of premature replacement, but without a standard for obsolete energy systems and capital equipment, the statutory mandate cannot be enforced.

Rental Assistance Demonstration Program - HUD issued a notice for comments on the implementation of the Rental Assistance Demonstration Program in the Federal Register on March 8, 2012. This notice provides instructions for the program, including eligibility and selection criteria. OIG has the following concerns about the proposed notice:

- PIH issued the notice without conducting a front-end risk assessment. Without an inventory of all significant risks, PIH control measures in the draft notice may not mitigate all inherent risks. Another concern with the draft notice relates to Office of Management and Budget Circular A-4, which requires a cost-benefit study. HUD issued the draft notice without conducting this mandatory study. Without the cost-benefit study, HUD cannot ensure that the most cost-effective means and methods were selected to implement the demonstration program.
- For this demonstration program, PIH decided on the need to control the number of units awarded to each public housing agency (PHA) participating in the program to obtain diversity. PIH provided an exception to New York and authorized more than 6 percent of the units available

for the program. An effective control measure provides for an open competition among all participants. To establish an effective control measure to ensure an open competition, OIG strongly recommends that PIH establish a uniform limit on the number of units for all PHAs in the program.

Almost any PHA is eligible to participate in the demonstration program except troubled PHAs, and these PHAs may participate if they provide HUD with evidence of their capacity to implement the program.

Community Planning and Development

Public interest and concern, resulting in congressional hearings, resulted in HUD’s publishing significant changes to the Office of Community Planning and Development’s HOME Investment Partnerships Program regulations. We generally agreed with the proposed changes but included additional changes which we believe will strengthen the program. The proposed changes have not become final.



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 2, table B, “Significant Audit Reports Described in Previous Semiannual Reports in Which Final Action Had Not Been Completed as of March 31, 2012.”

Audit Reports Issued Before the Start of the Period With No Management Decision as of March 31, 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. 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 United States 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 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 HUD’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 for 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 that CPD's use of the FIFO method for recognizing commitments and expenditures that participating jurisdictions make against their HOME appropriations or CPD's cumulative accounting is consistent with the legislation under 42 U.S.C. § 12748, requiring recapture of funds not committed by statutory deadline dates. These methods of accounting also potentially violate the closure of accounts under 31 U.S.C. § 1552.

Another issue raised by CPD's accounting methods 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 appropriations 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 has made a request 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)

The City of Binghamton, NY, Did Not Always Administer Its Section 108 Loan Program in Accordance With HUD Requirements, Issue Date: December 21, 2010

HUD OIG audited the operations of the City of Binghamton, NY, pertaining to its administration of its Community Development Block Grant (CDBG) Section 108 Loan Guarantee program. The audit objectives were to determine whether the City (1) administered its Section 108 loan program effectively, efficiently, and economically in accordance with applicable rules and regulations; (2) used Section 108 loan proceeds on eligible activities that met a national objective of the program; and (3) expended additional CDBG funds for subsequent Section 108 loan repayments and other related costs that were necessary, reasonable, and in accordance with all applicable contracts, agreements, and Federal regulations.

The City did not ensure that its Section 108 loans and related activities were administered effectively, efficiently, and economically in accordance with applicable rules and regulations and that loan proceeds were expended on eligible activities that met a national objective of the program. In addition, the City did not ensure that additional expenditures of CDBG funds for subsequent Section 108 loan repayments and other related costs were necessary,





reasonable, and in accordance with all applicable contracts, agreements, and Federal regulations. Consequently, significant CDBG funds were disbursed for Section 108 debt repayments, and future CDBG funds will be required until the Section 108 debts have been fully paid. Therefore, the ability to provide program benefits to low- and moderate-income residents of Binghamton has been diminished.

OIG recommended that HUD instruct the City to repay from non-Federal funds more than \$1.5 million in hotel sale proceeds that were used for City expenses to the established Section 108 loan repayment account (recommendation 1D). Further, OIG recommended that the City use the funds from the Section 108 loan repayment account to make all future Section 108 payments that are due in accordance with the HUD-approved refinancing agreement. Should the account contain less than the \$4.5 million in required payments, the City should pay the balance from non-Federal funds (recommendation 1F).

Recommendation 1D: HUD proposed a management decision contending that payments made using hotel sale proceeds to satisfy the tax liens were acceptable and that the City will be advised to repay \$549,463 in hotel sale proceeds unless it can show that the use of funds to operate the hotel were necessary to preserve the collateral. Further, HUD contends that had the City initially sought permission to use the proceeds from the sale to operate the hotel for this purpose, permission would likely have been granted since failure to do so would have resulted in a loss in value of HUD's lien on the property.

Recommendation 1F: HUD proposed a management decision agreeing that the City should use all available amounts in the Section 108 loan repayment account to make payments on the guaranteed loan. However, HUD disagrees that the City should be required to make payments from non-Federal sources if the loan repayment account is insufficient.

OIG initially rejected the proposed management decision on April 28, 2011. However, based on a

legal opinion received on March 15, 2012, from OIG's General Counsel, it was concluded that HUD regulations permit CDBG funds to be used for the reasonable cost of temporarily managing the hotel pending its sale. Therefore, it appears to be a reasonable exercise of HUD's discretion to allow all of the sale proceeds to be used to pay the past-due hotel operating expenses. Further, there is no legal authority to prohibit the City's use of its CDBG funds for the payment of its Section 108 loan obligations. Since OIG had initially rejected the proposed management decision, it is waiting for HUD to reenter the decisions into HUD's Audit Resolution and Corrective Action Tracking System, so that OIG can enter its concurrence with recommendations 1D and 1F (allowing \$974,105 and disallowing \$549,105). (Audit Report: 2011-NY-1004)

An Underwriting Review of 15 FHA Lenders Demonstrated That HUD Missed Critical Opportunities To Recover Losses to the FHA Insurance Fund, Issue Date: March 2, 2011

HUD OIG conducted an initiative in 2010, known as Operation Watchdog, to review the underwriting of 15 Federal Housing Administration (FHA) direct endorsement lenders having default and claim rates indicating lender performance problems. The initiative took place because the FHA Commissioner had expressed concerns regarding the increasing default and claim rates against the FHA insurance fund for failed loans. OIG determined that the lenders did not properly underwrite 140 of 284 loans reviewed, or 49 percent, because their underwriters did not follow FHA's requirements. As a result, FHA's insurance fund suffered or could expect to suffer losses of more than \$11 million.

In a larger perspective, OIG determined that HUD did not have a formal process established to review all claims paid on defaulted mortgages or at least all claims paid that met high-risk





criteria, resulting in unrecovered losses to the insurance fund for loans that should not have been insured. Operation Watchdog indicated systemic problems in how lenders certified to loans' being properly underwritten and eligible for FHA insurance when the loans were not eligible. Therefore, when HUD paid claims on defaulted loans and then did not review the underlying loans for insurance eligibility, it was missing critical opportunities to recover unnecessary losses from the lenders on the loans that should not have been insured.

Not all defaults and resulting claims were caused by poor underwriting, as OIG pointed out in the report. However, poor underwriting played a major role in the 140 ineligible loans identified through Operation Watchdog. OIG concluded that reviewing loans that have had claims paid by using risk-based targeting or a statistically valid sample of quickly defaulting loans could provide HUD with an opportunity to recover unnecessary losses caused by these loans. OIG, therefore, recommended that HUD develop and implement procedures to review a statistical or risk-based selection of loans, for which FHA paid a claim on the mortgage insurance within the first 2 years of endorsement, to verify that the loans met FHA requirements and were qualified for insurance.

This was not the first time that OIG had expressed concerns about HUD's unnecessary exposure when paying FHA insurance claims on loans that did not qualify for insurance. For example, OIG reported in July 2006 (OIG Audit Report No. 2006-SE-0001) that HUD did not independently validate that mortgage loans insured under the FHA program met requirements after paying billions in insurance claims. HUD paid the claims, as required by law, but did not review the loan documentation for compliance with program requirements, fraud, or misrepresentations. HUD relied on lender certifications that the loans were eligible for insurance. In response to the audit, HUD generally disagreed with OIG's recommendation to establish procedures to review paid claims associated with early defaulted loans and related

costs and independently verify that loans met FHA requirements and were, therefore, eligible for insurance. HUD ultimately agreed to review loans that had gone to claim through its Quality Assurance Division targeting process when it performed lender reviews. It further agreed that if claim file reviews showed inadequate documentation by the lender, HUD would take appropriate corrective actions regarding the responsible lender.

In conjunction with Operation Watchdog, OIG reviewed HUD's annual risk-based targeting plan, which included claims, defaults, and compare ratios, among other factors. HUD also used a case-level tool to select loans for review. HUD asserted that the tool prepared a statistically valid sample of loans based upon various risk factors, which included claims. However, OIG concluded that this method did not ensure that all claims were reviewed and may not have targeted a sufficient number of loans with claims paid to reasonably protect the fund.

Further, OIG recognized that HUD had recently tightened FHA lending requirements but stated that those improvements would affect future loans and not the rapidly growing influx of claims from lenders that had originated loans in the past few years. OIG also commended HUD for taking important steps in recent years to implement risk-based techniques to identify lenders and loans that pose significant risk to the FHA insurance fund. OIG encouraged HUD to continue to strengthen its requirements and hold lenders accountable but pointed out that HUD also needed to quickly confront the problem of billions being paid for defaulted loans and not being recovered when many loans were not eligible for FHA insurance.

On February 4, 2011, HUD responded to OIG's draft report with a description of its multifaceted approach to minimizing losses to the FHA insurance fund, which it maintained would achieve the intent of OIG's recommendation. The majority of the multifaceted approach was proactive and did not indicate an increase in the review of loans for which claims had





already been paid. However, OIG agreed that HUD's targeting tools and other recent initiatives generally met the intent of OIG's recommendation, which was aimed at protecting the FHA insurance fund from unnecessary costs. Therefore, OIG committed to working with HUD, through the management decision process, to gain more insight into the risk-based factors used to select lenders and loans for review, the targeting enhancements that were under development, and the two new initiatives launched in fiscal year (FY) 2010.

However, no meaningful communication took place between report issuance on March 2, 2011, and June 16, 2011, when OIG received the proposed management decision memorandum from the Deputy Assistant Secretary for Single Family Housing, which disagreed with OIG's proposed actions. HUD acknowledged that some of the cases reviewed in the Operation Watchdog initiative were not underwritten in accordance with FHA requirements but mainly focused its response on HUD's proactive approach for identifying high-risk lenders and initiating counterparty risk initiatives to minimize losses to the FHA insurance fund.

As a result of providing what it deemed sufficient information to address OIG's concerns, HUD determined that no further action was required. OIG disagreed. On July 5, 2011, OIG notified the Acting Deputy Assistant Secretary for Single Family Housing that OIG was rejecting the proposed management decision for further action. OIG maintained that claims paid on loans that should not have been insured continued to have a significant, negative impact on the FHA insurance fund and HUD needed to do more to identify ineligible loans and pursue recoveries from the responsible parties. OIG further stated that despite multiple efforts by OIG to obtain sufficient information from HUD to determine whether its current and planned actions sufficiently met the recommendation, HUD had not provided sufficient information for OIG to make that determination. OIG's questions and concerns remained regarding what HUD was doing to look into a targeted,

meaningful portion of paid claims and to take appropriate actions against lenders that caused FHA to pay claims on ineligible loans.

By August 11, 2011, HUD had not responded; therefore, OIG referred the matter to the Acting Assistant Secretary for Housing – FHA Commissioner. On September 30, 2011, the last day of the semiannual reporting period, the FHA Commissioner responded with a proposed revised management decision that essentially repeated HUD's stance that it was in HUD's best interest to take a proactive prospective approach that focuses on reviewing risky loans as early as possible before claims are filed. The revised management decision did not respond to the recommendation in question or provide a target date when HUD believed it would complete the final action to address the issue of claims noted in the report. After September 30, 2011, HUD provided additional information related to its FHA transformation efforts and a response to specific questions OIG had posed months before; however, the information did not sufficiently address OIG's concerns. OIG also held discussions with HUD in recent months but had not received an acceptable management decision. On March 30, 2012, OIG referred the matter to the Acting Deputy Secretary for action.

OIG maintains that the FHA insurance fund has incurred billions in losses annually that HUD could have recovered if more had been done to target and review loans for which claims were paid and pursue the lenders that caused these losses. The FHA fund has sustained historical losses in recent years and is poised to continue a high level of losses in the near future, which will surely include loans that should not have been insured. Without appropriate focus on claims, OIG maintains that FHA is missing critical opportunities to recover unnecessary losses. (Audit Report: 2011-CF-1801)





FHA Has Improved Its Annual Lender Renewal Process, but Challenges Remain, Issue Date: June 14, 2011

HUD OIG audited FHA's Title II single-family lender renewal process. The objective was to determine whether the Lender Approval and Recertification Division's controls were adequate for determining whether lenders met FHA annual renewal requirements.

The Division had taken significant steps to strengthen its controls over the lender renewal process; however, additional improvements were needed. The process still had weaknesses related to Mortgagee Review Board (MRB) referrals, lender financial information review, and data and renewal fee calculations in the Division's lender recertification tracking system. These weaknesses resulted in an increased risk that noncompliant lenders were allowed to continue participating in the FHA program, the Division's inability to effectively monitor lenders, and lenders paying lower fees than required.

OIG recommended that HUD require the Division to improve controls over the lender recertification process (recommendation 1A), make changes to the Institutional Master File system to ensure data integrity (recommendation 2A), and collect underpaid lender fees (recommendation 2B).

Recommendation 1A: In its October 12, 2011, management decision memorandum, HUD stated that it was in agreement with all four parts of the recommendation and was in the process of implementing changes that would satisfy the recommendation. Planned changes in its procedures were evidenced by attachments to the memorandum that included a copy of the Draft Standard Operating Procedures for the Lender Recertification Branch and a draft Lender Assessment SubSystem (LASS) certification. Based upon this response, HUD considered the entire recommendation to be closed.

OIG disagreed with the proposed management decision and sent a referral memorandum to the Acting Assistant Secretary for Housing on November 14, 2011. In the memorandum, OIG acknowledged the efforts being made by HUD to improve procedures as evidenced by the Draft Standard Operating Procedures for the Lender Recertification Branch and the draft LASS certification. However, the recommendations should not have been considered "closed" because HUD did not provide implementation dates. In addition, the draft procedures and LASS certification did not include steps to ensure that high-risk lenders' financial statements are manually reviewed.

Recommendation 2A: In its October 12, 2011, management decision memorandum, HUD disagreed with the first item in recommendation 2A, stating "...the data in the IMF [Inside Mortgage Finance] is accurate; however the verbiage used by its staff to relate the numerical codes in the IMF to the OIG resulted in a misinterpretation of the information." HUD agreed to the second item in the recommendation and indicated that the recommendation was closed, stating that it had provided an attached memorandum regarding the recalculation change. HUD disagreed with the third item in the recommendation, stating that it considers a cutoff date for the deletion of branches unwarranted. HUD stated that it does not believe that lenders are attempting to skirt its controls but are simply updating the records. According to HUD, a review of the loan data provided by OIG in support of the finding revealed that these were loans that were closed by the deleted branches but provided no evidence of originating activities by these branches. HUD also contended that recent changes to the Lender Recertification Branch's business model make this recommendation obsolete. HUD also disagreed with OIG's determination of \$178,600 in funds to be put to better use, stating that due to the recent changes to the minimum adjusted net worth requirement, the exclusion of loan correspondents, and consideration of other factors, HUD is unable to rely on the accuracy of OIG's estimate.



In the referral memorandum to the Acting Assistant Secretary for Housing on November 14, 2011, OIG outlined its disagreement with HUD's position on recommendation 2A. Regarding the first item, OIG stated that the finding pointed out that the status codes within individual records were not consistent. This portion of the recommendation was designed to eliminate the conflicting data within each individual lender record in the IMF database. The management decision memorandum did not address the issue as reported. For the second item, the attachment referred to in HUD's memorandum did not provide documentation showing that the calculation had been changed in the system. The attachment only gave examples of how the calculation was performed in comparison to how OIG recommended that the calculation be performed.

HUD's response to the third item in recommendation 2A gave no indication that HUD had reviewed the lender branches referred by OIG to determine whether these deleted branches were performing origination activities, including the opening of FHA case numbers for new loans, after the yearend date. Further, there was no control in place to ensure that FHA case numbers were not generated by branches that were deleted after the yearend date. Unless HUD develops a procedure to verify that the deleted branches are not originating loans after the yearend date, a cutoff date should be built into the automated recertification process. HUD's statement that "recent changes to the Lender Recertification Branch's business model make this recommendation obsolete" was vague and did not offer sufficient detail as to how the "business model" renders the recommendation obsolete. In regard to the fourth item in recommendation 2A, the November 14, 2011, memorandum to the Acting Assistant Secretary for Housing noted that OIG would be willing to review and consider an alternative calculation from HUD.

Recommendation 2B: In its October 12, 2011, management decision memorandum, HUD disagreed with recommendation 2B. HUD

stated that the fees are not owed and that 66 percent of the lenders referenced in the report are no longer active, making the collection of the fees very difficult. HUD noted that its revision of the fee calculation for the branches added 7 months before recertification sufficiently addresses the recommendation. HUD further contended that the renewal fee is a payment which permits a lender to continue participation in FHA programs and should be based upon a lender's operations for the upcoming period.

In the referral memorandum to the Acting Assistant Secretary for Housing on November 14, 2011, OIG outlined its disagreement with HUD's position on recommendation 2B. Although HUD maintains that the fees are not owed, it does not provide a valid reason why. Until HUD can show why there should not be a cutoff date for deleting branches, it should go back to the lenders and collect the fees for any deleted branches that originated loans beyond the prior year's cutoff date. HUD agreed that the fee calculation for branches added in the seventh month before renewal was incorrect; therefore, there is no reason why HUD cannot collect the underpaid fees. OIG can accept that HUD may not be able to collect these fees from lenders that are no longer in business, but it should make an effort to do so for active FHA lenders.

After the November 14, 2011, referral memorandum was sent, OIG met with the Acting Assistant Secretary requesting a response. A formal response was not received, and OIG referred the management decision to HUD's Acting Deputy Secretary on March 30, 2012. (Audit Report: 2011-KC-0001)

Prospect Mortgage, LLC, Sherman Oaks, CA, Did Not Always Comply With Federal Housing Administration Underwriting and Quality Control Requirements, Issue Date: July 8, 2011

HUD OIG audited FHA-insured loans underwritten by Prospect Mortgage, LLC, within Region IV of HUD OIG to determine whether Prospect complied with HUD's requirements for (1) origination and underwriting relative to cash assets, income, and creditworthiness; (2) quality controls; and (3) branch office operations.

Prospect did not always follow HUD's underwriting and quality control requirements for FHA-insured loans. Specifically, Prospect did not properly underwrite 25 of the 33 loans, which placed the FHA insurance fund at risk for \$550,257 in questioned costs and nearly \$1.7 million in funds to be put to better use. It also did not properly implement quality controls over its underwriting process for a specific group of defaulted loans approved by high-default-rate underwriters at two of its branch offices.

OIG recommended that HUD take appropriate administrative action against Prospect for the underwriting and quality control deficiencies identified by the audit. Specifically, Prospect should be required to reimburse or hold HUD harmless against any losses for the 25 improperly underwritten loans in finding 1 that involve \$550,257 in questioned costs and nearly \$1.7 million in funds to be put to better use and for the improper management of its quality control function. The quality control deficiencies have placed the FHA insurance fund at a higher risk for losses on additional defaulted loans with mortgages totaling more than \$26.1 million that were underwritten by two high-default-rate branch offices. Therefore, OIG also recommended that HUD review Prospect's underwriting for any of the defaulted loans included in the \$26.1 million, which have already gone to claim or on which a claim is filed within

5 years of the loan endorsement dates. If HUD determines that the claim was filed for loans that did not meet requirements, Prospect should be required to reimburse HUD for the claim or the loss on the loans or indemnify HUD from losses.

HUD disagreed with our recommendations that it refer Prospect to the MRB. Instead, it proposed to conduct its own review of Prospect in 2012 and refer Prospect to the MRB if that review uncovers serious and material noncompliance with HUD-FHA requirements.

OIG disagreed with HUD's proposal to defer referral of Prospect to the MRB. The pattern of abuse presented in the audit warrants the recommended actions. HUD's proposal to base its decision for MRB consideration on a subsequent review by its office is an unnecessary and wasteful use of HUD's limited staff resources. Congress established the MRB to oversee performance of FHA lenders to ensure compliance with FHA requirements. Accordingly, OIG believes that HUD should refer Prospect to the MRB based on the results of the audit.

HUD disagreed with OIG's recommendation to conduct a full underwriting review of the 18 claim-terminated loans originated at the two high-default-rate branches to determine whether they met HUD requirements and if the loans did not meet the requirements, require Prospect to reimburse HUD for either the claim amounts paid or the actual loss HUD sustained. Instead, HUD proposed that it would be more effective to take a proactive, prospective approach that focuses on case-level reviews of mortgages just after the issuance of mortgage insurance certificates, or postendorsement reviews, to identify potential underwriting deficiencies at the earliest possible date.

HUD also disagreed with OIG's recommendation to conduct a full underwriting review of any of the remaining 166 defaulted loans (184 - 18 loans with filed claims) if a claim is filed against the FHA insurance fund within 5 years of the endorsement dates for the affected loans.



Prospect should be required to indemnify HUD if a claim is filed on a loan that did not meet HUD's requirement for approval. Instead, HUD proposed that it would be more effective to take a proactive, prospective approach that focuses on reviewing loan risk as early as possible before claims are filed.

OIG disagrees with the proposal by HUD to not conduct the requested full underwriting reviews for the 18 claim-terminated loans and 166 defaulted loans originated at the two high-default-rate branches to determine whether they met HUD requirements. OIG recognizes the benefits that can be derived from the approach proposed by HUD. However, the audit identified a pattern of loan origination abuses at the two branches that requires specific attention by HUD in addition to, rather than as an alternative to, the review process proposed by HUD to protect the insurance fund. OIG believes that HUD should implement the recommendations cited in the audit report. (Audit Report: 2011-AT-1011)

FHA Did Not Prevent Corporate Officers of Noncompliant Lenders From Returning to the FHA Program, Issue Date: September 26, 2011

HUD OIG audited FHA because it noted during previous audit work that FHA might not have a system in place to track lenders that voluntarily left the FHA program with outstanding indemnification agreements. The objective was to determine whether FHA prevented corporate officers from participating in FHA programs after those officers left other lenders that did not honor their FHA indemnification agreements.

FHA did not prevent lenders' corporate officers from participating in FHA programs after those officers left other lenders that did not honor their FHA indemnification agreements. OIG found 12 different corporate officers who were participating in the FHA program after leaving 7 lenders that did not honor their indemnification

agreements and had lost their FHA approval. However, FHA lacked the authority to prevent these corporate officers from reentering the FHA program.

OIG recommended that FHA seek legislative and program rule changes to prevent lenders and their corporate officers with unsatisfied indemnification agreements from reentering the FHA program as the same or a new lender.

In its February 2, 2012, management decision memorandum, FHA stated that it disagreed with OIG's finding and recommendation. FHA stated that it would seek a legal opinion from the Office of General Counsel on whether, as a matter of law, legislation can be enacted that confers upon HUD the authority to prohibit an individual from participating in the FHA program under the following circumstance:

The individual served as a corporate officer within an FHA-approved mortgagee at a time when that FHA-approved mortgagee was determined to have committed a knowing and material violation of FHA requirements.

FHA also stated that since this measure would not require HUD to prove any knowledge or culpability on the part of the individual being excluded from FHA participation, such a standard would impose strict liability on corporate officers for the acts of the mortgagee.

OIG disagreed with the proposed management decision and sent a referral memorandum to the Acting Assistant Secretary for Housing on March 16, 2012. In the memorandum, OIG acknowledged that FHA does not have the authority to prevent individual officers from participating in the FHA program solely based on the fact that their previous lending institution did not honor its indemnification agreements with HUD. Further, OIG understands FHA's concern about proving the knowledge or culpability of the individual being excluded from FHA participation. However, OIG's concern remains that individual principals of some lending institutions are able to disregard





the indemnification agreements with HUD and are allowed to continue FHA participation by hiding behind corporate law and forming a new corporation.

FHA's proposed management decision only goes as far as to seek a legal opinion from the Office of General Counsel. It does not provide any other efforts by HUD to seek legislative or program rule changes in an effort to prevent known bad players from reentering the FHA program. Such program rule changes might include FHA's conducting reviews of a mortgagee at the time FHA requests that mortgagee to enter into indemnification agreements. The review could include steps to determine the level of participation of the corporate officers in the day-to-day operations of the mortgagee to help establish the level of culpability the officers have within the corporation. (Audit Report: 2011-KC-0004)

The Office of Healthy Homes and Lead Hazard Control Needs To Improve Its Monitoring of American Recovery and Reinvestment Act Grant Recipients, Issue Date: September 30, 2011

HUD OIG audited the Office of Healthy Homes and Lead Hazard Control's monitoring of its American Recovery and Reinvestment Act of 2009 (ARRA) grant recipients to determine whether Healthy Homes monitored its recipients of ARRA grants in accordance with ARRA and HUD requirements.

Healthy Homes did not maintain documentation in accordance with its requirements to support payments to four recipients totaling more than \$4.2 million of the nearly \$5 million in grant awards. The payments were made to reimburse the recipients for their claimed grant expenses. Additionally, Healthy Homes did not review the voucher requests for payment in a

timely manner. Documentation to support the recipients' voucher requests for payment was either missing or not adequate. Healthy Homes accepted operating ledgers, billing summaries, email lists, a list of expenditures, budgets showing the current request by category, and copies of check stubs as support for the voucher requests for payment. It also did not ensure that recipients' working files included the required documents and reports such as annual and quarterly documents and reports.

OIG recommended that HUD (1) obtain adequate documentation to support the payment of more than \$4.2 million in ARRA funds as cited in this finding, (2) ensure that recipients' voucher requests for payment are reviewed in a timely manner, (3) implement adequate procedures and controls to correct voucher processing deficiencies, and (4) implement adequate policies and procedures to ensure that recipients' files contain the documentation and reports required by Healthy Homes' issued guidance.

During the reporting period, OIG rejected two management decisions proposed by Healthy Homes to address the audit recommendations. The proposed management decisions and corrective actions were not adequately supported; therefore, OIG was unable to agree. For instance, Healthy Homes stated that it was confident that ARRA recipients expended Federal funds in compliance with applicable regulations and documented those expenditures compliantly. Nevertheless, to ensure consistency and compliance with financial and record-keeping requirements, it had reinforced financial and record-keeping requirements with all staff and ARRA recipients. In addition, its Grant Desk Guide was modified to reflect changes made to the time line for reimbursement processing as outlined in the new policy guidance. However, Healthy Homes did not provide documentation to support the expenditures of the four grant recipients cited in the report and its revised policy. (Audit Report: 2011-CH-0003)



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 five audits.

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' CDBG program to determine whether the City properly expended CDBG 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 require the City to develop and implement acceptable written policies and procedures. OIG also recommended that HUD require the City to provide documentation supporting the building rent payments or reimburse its CDBG program more than \$58,000.

In its original management decision, HUD

agreed to require the City to develop and implement acceptable written policies and procedures. HUD recently 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 became a member of the St. Clair County Urban County and will not have a CDBG program to administer. In addition, HUD revised its management decision for the building rent to reflect that it had received acceptable documentation and would not require reimbursement. On March 30, 2012, OIG agreed with the revised significant management decision. (Audit Report: 2010-KC-1003)

The City of East St. Louis Awarded Block Grant Program Funds to Recipients Without Adequately Verifying Their Eligibility, Issue Date: September 28, 2010

HUD OIG audited the City of East St. Louis' CDBG program to determine whether the City properly verified the eligibility of CDBG-funded housing rehabilitation recipients.

The City awarded CDBG funds to 143 recipients without adequately verifying their eligibility to receive housing rehabilitation assistance. Specifically, it did not verify eligibility criteria such as evidence of flood insurance, homeowners' insurance, code compliance, and income eligibility.

Among other things, OIG recommended that HUD require the City to develop and implement a quality assurance plan to ensure that all program recipients meet program eligibility requirements and provide training to ensure future compliance.

In its original management decision, HUD agreed to require the City to implement a quality assurance plan and provide training

to staff members. HUD recently 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 became a member of the St. Clair County Urban County and will not have a CDBG program to administer. On March 30, 2012, OIG agreed with the revised significant management decision. (Audit Report: 2010-KC-1008)

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 CDBG 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 develop and implement adequate internal controls to ensure compliance with procurement regulations, update its inspection software, and provide training and technical assistance to ensure future compliance. In its original management decision, HUD agreed to require the City to implement

adequate internal controls and provide training to staff members. HUD recently 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 became a member of the St. Clair County Urban County and will not have a CDBG program to administer. On March 30, 2012, OIG agreed with the revised significant management decision. OIG also added 1 year's funding of more than \$1.6 million to the funds to be put to better use to recognize the benefit of this action. (Audit Report: 2011-KC-1001)

HUD Subsidized an Estimated 2,094 to 3,046 Households That Included Lifetime Registered Sex Offenders, Issue Date: August 14, 2009

HUD OIG audited HUD's requirement prohibiting lifetime registered sex offenders from admission to HUD-subsidized housing. Based upon a statistical sample, OIG determined that HUD subsidized an estimated 2,094 to 3,046 households that included lifetime registered sex offenders. As a result, it did not accomplish the objective of the statute to prevent admission of dangerous sex offenders, and the same offenders who were deemed too dangerous for admission were allowed to continue living in subsidized housing.

OIG recommended that HUD develop and implement controls to monitor housing authority use of the required application questions and retention of appropriate background check documentation (recommendation 1D).

In the original management decision, HUD agreed to change the monitoring questions used. HUD recently submitted a revised management decision for this recommendation, proposing to incorporate the required application questions into a next generation management system that



is being developed. This measure will allow HUD to streamline its monitoring of required application question use and monitor a greater number of housing authorities than would be possible through field office monitoring. HUD estimates that the application module will be launched and a related monitoring plan developed by December 31, 2016. On March 29, 2012, OIG agreed with the revised significant management decision. (Audit Report: 2009-KC-0001)

The Owner of Ebony Lake Healthcare Center, Brownsville, TX, Violated Its Regulatory Agreement With HUD-Brownsville, TX, Issue Date: November 25, 2008

HUD OIG issued an audit entitled “The Owner of Ebony Lake Healthcare Center, Brownsville, Texas, Violated Its Regulatory Agreement with HUD.” Among the issues reported was that the owner violated the regulatory agreement when its managers ignored HUD directives by making 96 transfers from the project that totaled more than \$4 million from January through December 31, 2007. OIG’s recommendation 1B of the report was that HUD required the owner to deposit \$497,000 from non-Federal funds into the project’s residual receipts account. HUD agreed to endeavor to incorporate into a management improvement and operating plan, developed with the owner, a requirement that the owner deposit \$497,000 from non-Federal funds into the project’s residual receipts account. OIG concurred with the management decision on March 26, 2009.

At the time of the original management decision, HUD stated that the project was a single-asset entity with no revenues other than those generated by the facility and that the owner was a nonprofit organization, which asserted that it had no funds available to make the required deposit. HUD further stated that it might decide to approve repayment of advances by the

affiliated entities that received those advances; however, its actions would be dictated by its responsibility to weigh the relative strengths of these organizations and the advantages and disadvantages to HUD and the residents served by these facilities.

Since agreement on the management decision, the property owner has sought to sell some or all of its properties. OIG and HUD had many discussions on how to resolve the recommendation in the event that the owner sold or transferred the property. Both OIG and HUD sought a solution that would most effectively meet the concerns of all parties. As a result of those conversations, on September 8, 2010, HUD proposed a revised management decision which provided that in the event of a transfer of physical assets of Ebony Lake, HUD approval would require that the Governmental and Educational Assistance Corporation (GEAC)-Ebony Lake ensure that, at a minimum, \$497,000 in funds would remain with the project in the residual receipts account. Alternatively, upon a sale by GEAC-Ebony Lake that would result in the payoff of the FHA mortgage, \$497,000 would be paid to the multifamily-FHA mortgage insurance fund (or be put toward payoff of the mortgage’s unpaid principal balance) from the residual receipts account. OIG concurred with the revised management decision on September 13, 2010.

On October 26, 2011, due to an upcoming sale of two of the owner’s properties, including Ebony Lake, HUD submitted another revised management decision. In the event of a transfer of physical assets of Ebony Lake, HUD approval would require that GEAC ensure that, at a minimum, \$497,000 in funds would remain with the remaining FHA-insured GEAC project(s), specifically Fort Stockton, in a residual receipts account. Alternatively, upon a sale of Ebony Lake that would result in the payoff of the FHA mortgages for all GEAC FHA-insured projects, \$497,000 would be paid to the multifamily-FHA mortgage insurance fund (or be put toward payoff of the mortgages’ unpaid principal balances) from the residual receipts account.





None of these conditions, however, is to be construed as solely sufficient to gain HUD approval of any proposed sales transaction(s) of the three remaining GEAC FHA-insured projects—Ebony Lake, Mission Oaks, and Fort Stockton. OIG concurred with this revised management decision on November 15, 2011. (Audit report: 2009-FW-1002)

Review of Selected FHA Major Applications' Information Security Controls, Issue Date: June 12, 2008

HUD OIG audited FHA's management of its information technology resources and compliance with HUD and other Federal information security requirements to determine whether FHA effectively managed security controls relating to its information technology resources. This audit supported OIG's annual financial statement audits of FHA and HUD as well as OIG's annual Federal Information Security Management Act (FISMA) review.

FHA did not develop or implement adequate information security controls for its business partners and outside entities that remotely access or develop, process, and maintain HUD data for the FHA Connection application. FHA depended on its business partners to generate, process, and store FHA mortgage data but had not established information security guidance or requirements. As a Federal entity, FHA is required by FISMA to ensure that its data are adequately protected from unauthorized access, use, destruction, disclosure, disruption, or modification even when the data are maintained on behalf of the agency. FHA program staff was not fully aware of its responsibility for the information collected, processed, and stored on its behalf. By not providing adequate security controls and safeguards over data maintained outside HUD's secured physical perimeter, FHA did not comply with HUD regulations or Federal guidelines. As a result, data that were critical to FHA's mission and its ability to operate efficiently and effectively were at risk of theft,

loss, or destruction.

OIG recommended that HUD (1) identify the information security controls needed to protect data uploads; (2) design and implement guidance, tools, and the communications necessary for FHA's business partners and their roles and responsibilities; (3) ensure that there is a requirement for an assessment of the business partners' information security controls that protect FHA data; and (4) coordinate the quality assurance plans with business partners to include security measures.

FHA concurred with our recommendations on June 4, 2008, and provided a corrective action plan on October 7, 2008. The original corrective action plan was designed to set up a certification process and possible memorandums of understanding with FHA lenders. However, after further review of the audit findings, FHA issued a revised management decision for recommendations 2A, 2B, 2C, and 2D on November 21, 2011. FHA determined that it would be able to issue a mortgagee letter that would mandate that FHA lenders comply with FISMA. By issuing the mortgagee letter, FHA would not be required to review and approve all lenders' security plans but would be assured of lenders' security measures through FISMA compliance. OIG concurred with the revised management decisions on December 5, 2011. FHA plans to issue the mortgagee letter on April 30, 2012. (Audit Report: 2008-DP-0004)



Significant Management Decision With Which OIG Disagrees

During the reporting period, there were no reports in which OIG disagreed with the significant management decision.

Federal Financial Management Improvement Act of 1996

In FY 2011, 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 2011, HUD made limited progress in bringing the 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 agencywide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

HUD's financial systems, many of which were developed and implemented before the issue date of current standards, were not designed to provide the range of financial and performance

data currently required. HUD is in the process of modernizing its financial management systems by developing an integrated financial management system. The modernization development, HUD's Integrated Financial Improvement Project (HIFMIP), was launched in FY 2003 but has been plagued by delays. Originally planned for implementation in 2006, the contract for HIFMIP 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 FY 2012 financial data within the new system. However, OIG remains concerned about the successful execution and completion of HIFMIP. Project requirements had not been updated, resulting in a 2-month schedule slip. Disagreements between HUD and the HIFMIP contractor with regard to interpretation of key contract provisions further threatened the project. Also, concerned about the successful execution of the project, HUD convened an independent government assessment team, composed of several subject-matter experts from multiple government agencies, to rapidly evaluate the status of HIFMIP. The government assessment team also assessed the "go live" target date as high risk. Based on recommendations made by the team, HUD has revised the target date to go live during the second quarter of FY 2013. OIG remains concerned that completion of the first phase of HIFMIP will not result in a truly integrated core financial system.

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 2011, HUD reported that 3 of the 41 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, HUD Integrated Acquisition



Management System (HIAMS), to replace the HPS and SPS on September 30, 2010. The HIAMS application went live on October 1, 2011. 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 38 individual systems as compliant with Federal financial management systems requirements, HUD did not perform independent reviews of all of its financial management systems in accordance with Office of Management and Budget Circular A-127. Collectively and in the aggregate, deficiencies continued to exist.



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 reviews is to ensure that the work completed by the respective organizations meets the applicable requirements and standards. The following is a summary and status of the latest round of peer reviews for the organization.

Peer Review Conducted on HUD OIG

The U.S. Department of Housing and Urban Development, Office of Inspector General (HUD OIG), received a grade of pass (the highest rating) on the peer review report issued by the U.S. Treasury Inspector General for Tax Administration on September 22, 2009. 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, 2009, 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-DP-0001 | Audit Report on the Fiscal Year 2011 Review of Information Systems Controls in Support of the Financial Statements Audit, 02/14/2012. |
| 2012-FO-0003 | Additional Details To Supplement Our Report on HUD's Fiscal Years 2011 and 2010 Financial Statements, 11/15/2011. Better Use: \$2,372,591,000. |
| 2012-FO-0005 | Annual Evaluation of HUD's Compliance With the Reporting Requirements of the Improper Payments Information Act of 2002, Executive Order 13520, and OMB Circular A-123 Implementing Guidance, 03/15/2012. |

Chief Information Officer

- | | |
|--------------|--|
| 2012-DP-0003 | Enterprisewide Improvements are Needed in HUD's Computer Security Environment, 03/23/2012. |
| 2012-FO-0004 | Information System Deficiencies Noted During FHA's Fiscal Year 2011 Financial Statement Audit, 01/27/2012. |

Community Planning and Development

- | | |
|--------------|---|
| 2012-PH-0001 | HUD Needed to Improve Its Use of Its Integrated Disbursement and Information System To Oversee Its CDBG Program, 10/31/2011. Questioned: \$66,849,658; Unsupported: \$66,849,658. |
|--------------|---|

Government National Mortgage Association

- | | |
|--------------|---|
| 2012-DP-0002 | Improvements Are Needed In Ginnie Mae's Controls Over Its Information Technology Resources, 03/16/2012. |
| 2012-FO-0001 | Audit of Ginnie Mae's Financial Statement for Fiscal Years 2011 and 2010, 11/07/2011. |

Housing

- | | |
|--------------|---|
| 2012-FO-0002 | Audit of the FHA's Financial Statement for Fiscal Years 2011 and 2010, 11/07/2011. |
| 2012-LA-0002 | HUD's Statement of Work for Appraisal Field Review Services Did Not Always Require Sufficient Confirmation of an Interior Review, 12/02/2011. |
| 2012-PH-0002 | HUD's Philadelphia, PA, Homeownership Center Generally Monitored Loan Originations in Compliance With Requirements, 12/15/2011. |



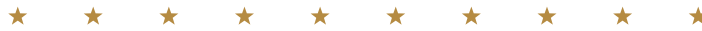
Internal Reports

Audit Reports

- 2012-PH-0003 HUD Approved MAP Program Lenders as Required but Did Not Adequately Select Lenders to Monitor, 01/12/2012.
- 2012-PH-0004 HUD Controls Did Not Always Ensure That Home Equity Conversion Mortgage Loan Borrowers Complied With Program Residency Requirements, 02/09/2012. Better Use: \$3,960,192.

Public and Indian Housing

- 2012-LA-0001 HUD Did Not Adequately Support the Reasonableness of the Fee-for-Service Amounts or Monitor the Amounts Charged, 11/16/2011.



External Reports

Audit Reports

Community Planning and Development

2012-AT-1001	The Municipality of San Juan Generally Complied With HPRP Requirements, San Juan, PR, 10/24/2011.
2012-AT-1004	DeKalb County Had Inadequate Controls Over the Support for Commitments Entered in HUD's Information System, Decatur, GA, 01/09/2012.
2012-AT-1008	The City of Orlando Had Inadequate Controls Over Commitments Entered Into HUD's Information System and Charges for a Terminated Activity, Orlando, FL, 03/29/2012. Questioned: \$18,248; Better Use: \$407,006.
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. Questioned: \$589,343; Unsupported: \$392,567; Better Use: \$405,876.
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. Questioned: \$3,300,000; Unsupported: \$3,300,000.
2012-DE-1003	A Hotline Complaint Against Colorado Coalition for the Homeless Regarding Weaknesses in Its Controls Over the HPRP Could Not Be Supported, Denver, CO, 03/22/2012.
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. Questioned: \$9,061,794; Unsupported: \$7,599,747; Better Use: \$75,009,910.
2012-LA-1001	Housing Our Communities Did Not Administer Its NSP in Accordance With HUD Requirements, Mesa, AZ, 12/08/2011. Questioned: \$787,004; Unsupported: \$714,152.
2012-LA-1002	The Women's Development Center Charged Unallowable Flat Fees and Miscalculated Resident Rents, Las Vegas, NV, 12/08/2011. Better Use: \$13,192.





External Reports

Audit Reports

- 2012-LA-1003 The City of Modesto Did Not Always Comply With NSP2 Requirements, Modesto, CA, 12/22/2011. Questioned: \$108,066; Unsupported: \$8,154; Better Use: \$62,500.
- 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. Questioned: \$5,339,821.
- 2012-NY-1001 Bergen County Generally Administered Its HPRP in Accordance With HUD Regulations, Bergen County, NJ, 10/04/2011.
- 2012-NY-1002 The City of New York Charged Questionable Expenditures to Its HPRP, New York, NY, 10/18/2011. Questioned: \$423,373; Unsupported: \$329,937.
- 2012-NY-1003 The City of Syracuse Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Syracuse, NY, 10/25/2011. Questioned: \$1,377,112; Unsupported: \$1,160,922; Better Use: \$408,282.
- 2012-NY-1004 The City of Buffalo Did Not Administer Its CDBG-R Program Funds in Accordance With HUD Requirements, Buffalo, NY, 12/13/2011. Questioned: \$1,791,297; Unsupported: \$1,791,297; Better Use: \$159,388.
- 2012-NY-1005 The City of Newark Had Weaknesses in the Administration of Its HPRP, Newark, NJ, 01/27/2012. Questioned: \$300,205; Unsupported: \$261,875.
- 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. Questioned: \$2,756,400; Unsupported: \$2,558,000.
- 2012-PH-1001 Healthy Neighborhoods, Inc., Generally Ensured That Its Consortium Members Met Recovery Act Requirements, Baltimore, MD, 10/24/2011.
- 2012-PH-1004 Luzerne County Generally Administered Its CDBG-R Funds According to Applicable Requirements, Wilkes-Barre, PA, 01/13/2012. Questioned: \$145,152; Unsupported: \$145,152.





External Reports

Audit Reports

- 2012-PH-1006 Gloucester Township Did Not Always Administer Its CDBG-R Act Funds According to Applicable Requirements, Blackwood, NJ, 03/14/2012. Questioned: \$28,850; Unsupported: \$28,850.
- 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. Questioned: \$711,676; Unsupported: \$711,676.

Fair Housing and Equal Opportunity

- 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. Questioned: \$59,800; Better Use: \$338,483.

Housing

- 2012-DE-1001 Five Star Services, Inc., Did Not Submit Monthly Accounting Reports and Section 236 Excess Income Reports to HUD, Fargo, ND, 11/02/2011.
- 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. Questioned: \$171,621; Unsupported: \$900; Better Use: \$713,341.
- 2012-FW-1004 PrimeLending Mortgage, LLP, Did Not Always Follow HUD-FHA Underwriting Requirements for 12 of 20 Loans Reviewed, Plano, TX, 02/28/2012. Questioned: \$213,356; Better Use: \$845,763.
- 2012-FW-1006 J&M Mortgage Brokers, Ltd., Did Not Comply With HUD-FHA Loan Requirements in Underwriting 6 of 20 Loans, Houston, TX, 03/14/2012. Questioned: \$65,559; Better Use: \$327,232.
- 2012-KC-1001 John Calvin Manor Violated Its Regulatory and Loan Agreements With HUD and Inappropriately Made Salary Payments to Its Board President, Lee's Summit, MO, 01/20/2012. Questioned: \$340,454.
- 2012-LA-1004 MetLife Bank's Scottsdale, AZ, Branch Office Did Not Follow FHA-Insured Loan Underwriting and Quality Control Requirements, 01/26/2012. Questioned: \$118,045; Unsupported: \$16,490; Better Use: \$1,096,774.





External Reports

Audit Reports

- 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. Questioned: \$607,193; Unsupported: \$430,205; Better Use: \$2,756,325.
- 2012-PH-1005 Second Northwest Cooperative Homes Association Did Not Identify and Remit Excess Income to HUD, Washington, DC, 01/26/2012. Questioned: \$172,977; Better Use: \$34,595.
- 2012-PH-1007 Four Freedoms House of Philadelphia, Inc., Generally Managed Its Section 202 Housing Project in Accordance With Applicable Requirements, Philadelphia, PA, 03/14/2012.

Lead Hazard Control

- 2012-CH-1005 The State of Wisconsin's Department of Commerce Needs To Improve Its Oversight of Its Lead-Based Paint Hazard Control Recovery Act Grant, Madison, WI, 03/01/2012. Questioned: \$53,919.

Public and Indian Housing

- 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. Questioned: \$303,633; Unsupported: \$115,595.
- 2012-AT-1002 The Sanford Housing Authority Lacked Adequate Management of and Controls Over Its Public Housing and Section 8 Programs, Sanford, FL, 10/28/2011. Questioned: \$1,291,232; Unsupported: \$13,950.
- 2012-AT-1003 The Lumbee Tribe of North Carolina Did Not Follow Some Requirements for Its Native American Housing Block Grants Received Under the ARRA, Pembroke, NC, 12/06/2011. Questioned: \$40,041.
- 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. Questioned: \$826,560; Unsupported: \$504,933; Better Use: \$170,136.
- 2012-AT-1006 The Housing Authority of the City of Sparta Did Not Maintain Adequate Control Over Its Federal Funds, Sparta, GA, 01/24/2012. Questioned: \$524,916; Unsupported: \$397,782.





External Reports

Audit Reports

2012-AT-1007	The Shelby County Housing Authority Mismanaged Its HUD-Funded Programs, Memphis, TN, 01/26/2012. Questioned: \$541,745; Unsupported: \$226,373; Better Use: \$450,955.
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. Questioned: \$415,692.
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. Questioned: \$17,775,730; Unsupported: \$17,726,635.
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. Questioned: \$9,279,455; Unsupported: \$9,242,681.
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. Questioned: \$11,397.
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. Questioned: \$736,351; Unsupported: \$530,536.
2012-CH-1003	The Springfield Housing Authority Needs To Improve Its ARRA Contract Administration Procedures, Springfield, IL, 02/23/2012. Questioned: \$222,318; Unsupported: \$135,454; Better Use: \$4,346.
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. Questioned: \$664,500; Unsupported: \$390,463; Better Use: \$1,433,893.
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. Questioned: \$355,701; Unsupported: \$353,341.





External Reports

Audit Reports

- 2012-FW-1002 The Housing Authority of the City of Corpus Christi Generally Administered Recovery Act Capital Funds in Compliance With the Recovery Act, Corpus Christi, TX, 10/12/2011. Questioned: \$6,475; Unsupported: \$4,302; Better Use: \$2,418.
- 2012-FW-1003 The Housing Authority of the City of Little Rock Generally Complied With Recovery Act Funding Requirements, Little Rock, AR, 11/21/2011. Questioned: \$31,725.
- 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. Questioned: \$2,422,023; Unsupported: \$2,374,276.
- 2012-PH-1003 The Housing Authority of the City of Camden Generally Calculated Housing Assistance Correctly, Properly Determined the Eligibility of Tenants, and Recertified Tenants in a Timely Manner, Camden, NJ, 01/10/2012.
- 2012-SE-1001 The Bellingham Whatcom County Housing Authorities Generally Complied With ARRA Capital Fund Grant Requirements, Bellingham, WA, 10/14/2011.
- 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. Questioned: \$1,262,033; Unsupported: \$830,198.





Audit-Related Memorandums⁹

General Counsel

2012-CF-1801	Settlement Agreement, U.S. Attorney's Office, Central District of California, Los Angeles, CA, 03/30/2012. Better Use: \$200,000.
2012-CF-1802	Settlement Agreement, U.S. Attorney's Office, Central District of California, Los Angeles, CA, 03/30/2012. Better Use: \$200,000.
2012-CF-1803	Settlement Agreement, U.S. Attorney's Office, Central District of California, Los Angeles, CA, 03/30/2012. Better Use: \$200,000.
2012-CF-1804	Final Civil Action, Diverting Operating Funds for Personal Use, Debra Waterman, former Executive Director, Superior Housing Authority, Superior, WI, 03/30/2012. Questioned: \$73,295.
2012-CH-1802	Final Civil Action, Landlord Fraud, Section 8 Housing Choice Voucher Program, Gary Walczak, Section 8 Landlord, Portage Metropolitan Housing Authority, Revenna, OH, 03/30/2012. Questioned: \$2,500.
2012-FW-1801	Actions Under Program Fraud Civil Remedies Act, Former Plano Housing Authority Employee, Plano, TX, 10/03/2011. Questioned: \$13,160.

Housing

2012-AT-1801	Wells Fargo Bank, Foreclosure and Claims Process Review, Fort Mill, SC, 03/12/2012.
2012-CH-1801	JPMorgan Chase Bank, N.A., Foreclosure and Claims Process Review, Columbus, OH, 03/12/2012.
2012-FW-1802	Bank of America Corporation, Foreclosure and Claims Process Review, Charlotte, NC, 03/12/2012.
2012-KC-1801	CitiMortgage, Inc., Foreclosure and Claims Process Review, O'Fallon, MO, 03/12/2012.
2012-PH-1801	Ally Financial, Incorporated, Foreclosure and Claims Process Review, Fort Washington, PA, 03/12/2012.

Public and Indian Housing

2012-BO-1801	Corrective Action Verification, Housing Authority of the City of Danbury, Procurement Practices, Audit Report 2004-BO-1004, Hartford, CT, 01/06/2012.
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⁹The 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.



Appendix 3

Tables





Table A

Audit reports issued before the start of period with no management decision as of March 31, 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 30.	09/28/2009
2011-NY-1004, The City of Binghamton, NY, Did Not Always Administer Its Section 108 Loan Program in Accordance With HUD Requirements	See chapter 9, page 31.	12/21/2010
2011-CF-1801, An Underwriting Review of 15 FHA Lenders Demonstrated That HUD Missed Critical Opportunities to Recover Losses to the FHA Insurance Fund	See chapter 9, page 32.	03/02/2011
2011-KC-0001, FHA Has Improved Its Annual Lender Renewal Process, but Challenges Remain	See chapter 9, page 35.	06/14/2011
* 2011-AT-1011, Prospect Mortgage, LLC, Sherman Oaks, CA, Did Not Always Comply With Federal Housing Administration Underwriting and Quality Control Requirements	See chapter 9, page 37.	07/08/2011
2011-KC-0004, FHA Did Not Prevent Corporate Officers of Noncompliant Lenders From Returning to the FHA Program	See chapter 9, page 38.	09/26/2011
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	See chapter 9, page 39.	09/30/2011





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 2
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-NY-1003	The Housing Authority of the City of Newark's Controls Over Bond Financing Activities, Obtaining Supporting Documentation, and Legal Settlements Require Improvement, Newark, NJ	02/14/2006	08/17/2006	09/30/2012
2006-KC-1013	The Columbus Housing Authority Improperly Expended and Encumbered Its Public Housing Funds, Columbus, NE	08/30/2006	10/17/2006	11/30/2012
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





Table B

Report number	Report title	Issue date	Decision date	Final action
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-FW-1011	Capmark Finance, Inc., Misrepresented Asbury Square Apartments' Financial and Physical Condition When Underwriting the \$9.098 Million Loan, Tulsa, OK	07/02/2007	10/23/2007	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	Note 1
2007-DP-0006	Review of HUD's Personal Identity Verification and Privacy Program	08/28/2007	12/20/2007	Note 1
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

Report number	Report title	Issue date	Decision date	Final action
2008-AT-1005	The City of Fort Lauderdale Did Not Properly Administer Its CDBG Program, Fort Lauderdale, FL	01/11/2008	05/05/2008	05/01/2012
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-AO-0801	Review of Duplication of Participants Benefits Under HUD's Katrina Disaster Housing Assistance Program and Disaster Voucher Program	03/28/2008	08/01/2008	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	09/30/2012
2008-CH-1010	The City of Cincinnati Lacked Adequate Controls Over Its System Reporting and Rental Rehabilitation Projects for Its HOME Investment Partnerships Program, Cincinnati, OH	06/11/2008	10/09/2008	06/02/2012
2008-DP-0004	Review of Selected FHA Major Applications' Information Security Controls	06/12/2008	10/08/2008	04/30/2012
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
2008-CH-1014	The City of Cincinnati Did Not Adequately Manage Its HOME Investment Partnerships Program, Cincinnati, OH	09/26/2008	01/22/2009	06/03/2012

Table B

Report number	Report title	Issue date	Decision date	Final action
2009-FW-1002	The Owner of Ebony Lake Healthcare Center Violated Its Regulatory Agreement With HUD, Brownsville, TX	11/25/2008	03/25/2009	05/31/2012
2009-DP-0003	Review of the Centralized HUD Account Management Process	01/09/2009	04/30/2009	Note 1
2009-NY-1008	The City of Newburgh Did Not Always Administer Its CDBG Program in Accordance With HUD Requirements, Newburgh, NY	02/24/2009	06/11/2009	Note 1
2009-AO-1001	State of Louisiana, Road Home Program, Did Not Ensure That Road Home Employees Were Eligible To Receive Additional Compensation Grants, Baton Rouge, LA	05/05/2009	09/16/2009	Note 1
2009-AO-1002	State of Louisiana, Road Home Program, Did Not Ensure That Multiple Disbursements to a Single Damaged Residence Address Were Eligible, Baton Rouge, LA	05/05/2009	09/16/2009	Note 1
2009-CH-1008	The City of East Cleveland Did Not Adequately Manage Its HOME Investment Partnerships and CDBG Programs, East Cleveland, OH	05/11/2009	09/08/2009	07/31/2014
2009-NY-1012	The City of Rome Did Not Administer Its Economic Development Activity in Accordance With HUD Requirements, Rome, NY	05/20/2009	09/23/2009	Note 1
2009-DP-0005	Review of Implementation of Security Controls Over HUD's Business Partners	06/11/2009	11/17/2009	12/31/2014



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Report number	Report title	Issue date	Decision date	Final action
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	04/30/2013
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 2
2009-LA-1019	The Owner of Park Lee Apartments Violated Its Regulatory Agreement With HUD, Phoenix, AZ	09/15/2009	01/13/2010	09/30/2012
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-DE-1801	Adams County Had Weaknesses That Could Significantly Affect Its Capacity To Administer Its Recovery Act Funding, Commerce City, CO	09/24/2009	01/14/2010	Note 1
2009-LA-1020	The Housing Authority of the City of Richmond Did Not Follow Procurement Requirements and Had Internal Control Weaknesses, Richmond, CA	09/24/2009	12/29/2009	10/01/2012
2009-AT-1012	The Municipality of Río Grande Needs To Improve Administration of Its CDBG Program and Its Recovery Act Funds, Rio Grande, PR	09/25/2009	01/22/2010	Note 1





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Report number	Report title	Issue date	Decision date	Final action
2009-AT-0001	HUD Lacked Adequate Controls To Ensure the Timely Commitment and Expenditure of HOME funds	09/28/2009	03/18/2011	Note 3
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
2009-CH-1017	The Housing Authority of the City of Terre Haute Failed To Follow Federal Requirements Regarding Its Turnkey III Homeownership Program Units' Sales Proceeds, Terre Haute, IN	09/29/2009	01/22/2010	04/06/2012
2009-CH-1020	The City of Flint Lacked Adequate Controls Over Its Commitment and Disbursement of HOME Investment Partnerships Program Funds, Flint, MI	09/30/2009	01/27/2010	Note 1
2010-PH-1001	The City of Altoona, Pennsylvania, Made Unsupported Community Development Block Grant Payments, Altoona, PA	10/02/2009	12/17/2009	05/31/2012
2010-NY-1002	Jersey Mortgage Company Did Not Always Comply With HUD/FHA Loan Underwriting Requirements, Cranford, NJ	10/09/2009	03/19/2010	Note 2
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 2





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Report number	Report title	Issue date	Decision date	Final action
2010-AO-0801	HUD Needs To Ensure That the Housing Authority of New Orleans Strengthens Its Capacity To Adequately Administer Recovery Funding	12/15/2009	04/19/2010	04/30/2012
2010-AO-1002	State of Louisiana Did Not Always Ensure Compliance Under Its Recovery Workforce Training Program, Baton Rouge, LA	01/04/2010	05/14/2010	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 2
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 2
2010-AT-1003	The Housing Authority of Whitesburg Mismanaged Its Operations, Whitesburg, KY	04/28/2010	08/26/2010	11/29/2035
2010-AO-1003	The State of Louisiana's Subrecipient Generally Ensured Costs Were Supported Under Its Tourism Marketing Program, Baton Rouge, LA	04/30/2010	08/27/2010	Note 1
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





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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	05/31/2012
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-NY-1012	The City of Jersey City's CDBG Funds Used for a Float Loan Did Not Comply With Applicable Regulations, Jersey City, NJ	07/01/2010	01/25/2011	Note 2
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-CH-1010	The Housing Authority of the City of Terre Haute Substantially Mismanaged Its Capital Fund Program and Lacked Capacity To Adequately Administer Its Recovery Act Funds, Terre Haute, IN	07/27/2010	12/07/2010	12/31/2012





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Report number	Report title	Issue date	Decision date	Final action
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-AO-1005	The State of Louisiana's Subrecipient Did Not Always Meet Agreement Requirements When Administering Projects Under the Orleans Parish Long Term Community Recovery Program, Baton Rouge, LA	08/04/2010	01/13/2011	Note 2
2010-AT-1009	The Puerto Rico Public Housing Administration Needs To Improve Its Procurement Procedures, San Juan, PR	08/13/2010	10/29/2010	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
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-KC-1007	The Missouri Housing Development Commission Did Not Always Obtain Required Documents and Properly Report on the Tax Credit Assistance Program Funded Under the Recovery Act, Kansas City, MO	09/10/2010	01/07/2011	Note 2
2010-LA-0002	HUD's Office of Single Family Housing's Management Controls Over Its Automated Underwriting Process	09/15/2010	01/13/2011	10/01/2012





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Report number	Report title	Issue date	Decision date	Final action
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	05/12/2012
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 1
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	Note 2
2011-FW-1001	The Housing Authority of the City of Shreveport Mismanaged Its Recovery Act Funds by Entering Into Imprudent Contracts To Meet the Obligation Deadline, Shreveport, LA	10/14/2010	03/29/2011	04/01/2012
2011-AO-1002	The State of Louisiana Did Not Always Ensure That Disbursements Under Its First Time Homebuyer Program Complied With Federal Regulations and Program Requirements, Baton Rouge, LA	10/29/2010	02/25/2011	Note 2



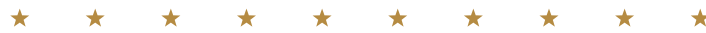


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Report number	Report title	Issue date	Decision date	Final action
2011-CH-1002	ACORN Associates, Inc., Materially Failed To Use Its Lead Elimination Action Program Grant Funds Appropriately, New Orleans, LA	11/08/2010	01/19/2011	Note 2
2011-PH-1002	The City of Scranton Did Not Administer Its CDBG Program in Accordance With HUD Requirements, Scranton, PA	11/08/2010	03/08/2011	06/08/2012
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	06/30/2012
2011-CH-0001	HUD Can Improve Its Oversight of Public Housing Agencies' Section 8 Project-Based Voucher Programs	11/16/2010	03/10/2011	10/31/2012
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-DP-0003	HUD Did Not Fully Comply With the Requirements of OMB Circular A-127	12/03/2010	05/05/2011	12/31/2013
2011-FO-0004	Annual Evaluation of HUD's Compliance With Presidential Executive Order 13520, Reducing Improper Payments	12/07/2010	08/01/2011	05/01/2012





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Report number	Report title	Issue date	Decision date	Final action
2011-LA-1005	The City and County of San Francisco Did Not Always Ensure That Homelessness Prevention and Rapid Re-Housing Funds Were Used as Required, San Francisco, CA	12/21/2010	04/20/2011	04/19/2012
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	04/22/2012
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	04/18/2012
2011-DP-0004	Fiscal Year 2010 Review of Information Systems Controls in Support of the Financial Statements Audit	01/14/2011	05/13/2011	05/13/2012
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	04/20/2012
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	04/30/2012
2011-NY-1005	The Lower Manhattan Development Corporation CDBG Disaster Recovery Assistance Funds, New York, NY	02/07/2011	06/20/2011	06/20/2012





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Report number	Report title	Issue date	Decision date	Final action
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	06/09/2012
2011-DP-0005	Although HUD Continued To Make Improvements to Its Entitywide Security Program, Challenges Remained in Its Efforts To Comply With Federal Information Security Requirements	02/10/2011	05/10/2011	05/09/2012
2011-PH-1007	The Philadelphia Housing Authority Did Not Comply With Several Significant HUD Requirements and Failed To Support Payments for Outside Legal Services, Philadelphia, PA	03/10/2011	06/07/2011	05/31/2012
2011-NY-1008	The Jersey City Housing Authority Did Not Always Obligate or Disburse Replacement Housing Factor Capital Fund Grants in a Timely Manner, Jersey City, NJ	03/18/2011	07/11/2011	07/09/2012
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
2011-PH-1009	Deutsche Bank Berkshire Mortgage, Inc., Acquired a \$45.6 Million Loan That Was Not Properly Underwritten in Accordance With HUD's Multifamily Accelerated Processing Program, Bethesda, MD	03/22/2011	07/20/2011	07/11/2012
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



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Report number	Report title	Issue date	Decision date	Final action
2011-DP-0006	HUD's Controls Over Selected Configuration Management Activities Need Improvement	03/24/2011	07/18/2011	06/30/2012
2011-LA-1008	The Hawthorne Housing Authority Failed To Maintain an Adequate Financial Management System, Hawthorne, CA	03/28/2011	07/20/2011	04/30/2012



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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 March 31, 2012

Report number	Report title	Issue date	Decision date	Final action
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-LA-1009	Special Services for Groups Approved Homelessness Prevention and Rapid Re-Housing Program Assistance for Unsupported and Ineligible Participants, Los Angeles, CA	04/06/2011	08/04/2011	08/04/2012
2011-FW-1007	Albuquerque Housing Services Mismanaged Its Recovery Act Funding, Albuquerque, NM	04/07/2011	08/03/2011	07/31/2012
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	08/05/2012
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	04/30/2012
2011-AT-1006	The Municipality of Mayaguez Did Not Ensure Compliance With HOME Program Objectives, Mayaguez, PR	04/08/2011	08/05/2011	07/08/2012





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Report number	Report title	Issue date	Decision date	Final action
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	08/03/2012
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	08/15/2012
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	04/28/2012
2011-AT-1008	Palm Beach County Did Not Fully Comply With Federal Requirements When Administering Its NSP, Palm Beach, FL	04/22/2011	08/16/2011	08/13/2012
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	08/17/2012
2011-LA-1802	The Housing Authority of the City of Los Angeles Charged Its Recovery Act Program Without Applying Cost Reductions or Credits Related to Insurance Reimbursements, Los Angeles, CA	05/05/2011	08/24/2011	08/24/2012





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Report number	Report title	Issue date	Decision date	Final action
2011-LA-1010	People Assisting the Homeless Did Not Always Ensure That Homelessness Prevention and Rapid Re-Housing Funds Were Used To Assist Eligible and Supported Participants, Los Angeles, CA	05/17/2011	09/14/2011	08/03/2012
2011-PH-1010	The Philadelphia Housing Authority Failed To Support Payments and Improperly Used Funds From the ARRA, Philadelphia, PA	05/17/2011	09/02/2011	07/31/2012
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	04/27/2012
2011-CH-0002	HUD's Oversight of Its Multifamily Housing Subsidy Payment Review Process Needs Improvement	06/06/2011	11/30/2011	09/30/2012
2011-AT-1009	The Georgia Department of Community Affairs Paid for Some Unsupported Program Participants, Atlanta, GA	06/07/2011	07/27/2011	06/06/2012
2011-BO-1008	The Housing Authority of the City of New Haven Could Not Show That It Always Complied With Environmental and Labor Standards Enforcement Requirements, New Haven, CT	06/10/2011	10/05/2011	09/17/2012
2011-FW-1012	The City of Tulsa Mismanaged Its Recovery Act Funding, Tulsa, OK	06/16/2011	10/13/2011	09/30/2012
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





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Report number	Report title	Issue date	Decision date	Final action
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	09/30/2012
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	08/06/2012
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	06/30/2012
2011-AT-1011	Prospect Mortgage, LLC, Did Not Always Comply With FHA Underwriting and Quality Control Requirements, Sherman Oaks, CA	07/08/2011	01/04/2012	Note 3
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	06/30/2012
2011-CH-1010	The Rockford Housing Authority Needs To Improve Its ARRA Contract Administration Procedures, Rockford, IL	07/25/2011	11/08/2011	04/30/2012



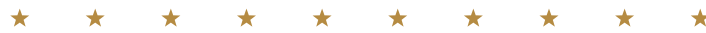


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Report number	Report title	Issue date	Decision date	Final action
2011-DP-0008	The Disaster Recovery Grant Reporting System That Maintained Recovery Act Information Had Application Security Control Deficiencies	07/28/2011	11/25/2011	09/01/2012
2011-NY-1011	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	08/01/2012
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	04/30/2012
2011-CH-1013	The Youngstown Metropolitan Housing Authority Needs To Improve Its Procurement Process, Youngstown, OH	08/16/2011	12/13/2011	09/30/2012
2011-NY-1012	Ameritrust Mortgage Bankers, Inc., Did Not Always Comply With HUD-FHA Loan Origination and Quality Control Requirements, Lake Success, NY	08/16/2011	12/09/2011	07/31/2012





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Report number	Report title	Issue date	Decision date	Final action
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
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	07/31/2012
2011-NY-1013	Long Branch Housing Authority Generally Complied With Capital Fund Program Regulations, Long Branch, NJ	09/01/2011	12/23/2011	08/31/2012
2011-NY-1014	All American Home Mortgage Corp. Did Not Always Comply With HUD-FHA Loan Underwriting Requirements, Brooklyn, NY	09/06/2011	01/05/2012	09/06/2012
2011-AT-1016	The City of Hialeah Did Not Accurately Report the Number of Jobs Created or Retained on the Recovery Act Web Site for Its Homelessness Prevention and Rapid Re-Housing Program, Hialeah, FL	09/14/2011	12/14/2011	09/13/2012
2011-FW-1015	The Housing Authority of the City of Las Cruces Complied With Recovery Act Capital Fund Obligation and Expenditure Requirements but Had Environmental and Reporting Exceptions, Las Cruces, NM	09/15/2011	01/05/2012	04/30/2012





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Report number	Report title	Issue date	Decision date	Final action
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-LA-1017	Universal American Mortgage Company Branch Did Not Comply With HUD Regulations in the Origination and Quality Control of FHA-Insured Loans, Las Vegas, NV	09/21/2011	01/19/2012	09/21/2012
2011-LA-1018	The Tule River Indian Housing Authority Did Not Administer the Procurement and Contracting of Its Recovery Act Native American Housing Block Grant in Accordance With HUD requirements, Porterville, CA	09/22/2011	12/15/2011	07/30/2012
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	09/23/2012
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	07/12/2012



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Report number	Report title	Issue date	Decision date	Final action
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	09/25/2012
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	05/31/2012
2011-PH-1016	The Philadelphia Housing Authority Did Not Have Conflicts of Interest Related to Recovery Act Rehabilitation but Failed To Comply With Financial Disclosure Requirements, Philadelphia, PA	09/28/2011	11/21/2011	05/31/2012
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
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	09/30/2012

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Report number	Report title	Issue date	Decision date	Final action
2011-CH-1016	Countrywide Bank, FSB, Did Not Comply With HUD Requirements for Underwriting FHA Loans and Fully Implement Its Quality Control Program in Accordance With HUD's Requirements, Calabasas, CA	09/30/2011	02/06/2012	09/30/2012
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-CH-1018	The Pontiac Housing Commission Did Not Adequately Administer Its American Recovery and Reinvestment Act Capital Fund Grant, Pontiac, MI	09/30/2011	01/10/2012	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
2011-KC-1005	CitiMortgage Did Not Properly Determine Borrower Eligibility for FHA's Preforeclosure Sale Program, O'Fallon, MO	09/30/2011	01/24/2012	09/30/2012

Audits Excluded:

84 audits under repayment plans

27 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 March 31, 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	55	\$ 89,033	\$ 70,082
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	-	\$ 698	\$ 347
A4	For which costs were added to noncost reports	0	\$ 0	\$ 0
B1	Which were issued during the reporting period	46	\$ 132,191	\$ 119,146
B2	Which were reopened during the reporting period	0	\$ 0	\$ 0
Subtotals (A + B)		104	\$ 228,541	\$ 192,880
C	For which a management decision was made during the reporting period	62 ¹	\$ 140,406	\$ 121,367
	(1) Dollar value of disallowed costs:	31 ²	\$ 81,547	\$ 73,009
	Due HUD	37	\$ 56,381	46,504
	Due program participants			
	(2) Dollar value of costs not disallowed	8 ³	\$ 2,478	\$ 1,854
D	For which a management decision had been made not to determine costs until completion of litigation, legislation, or investigation	3	\$ 6,619	\$ 3,305
E	For which no management decision had made by the end of the reporting period	39 < 109 > ⁴	\$ 81,516 \$ < 65,676 > ⁴	\$ 68,208 \$ < 53,137 > ⁴

¹ 25 audit reports also contain recommendations with funds be put to better use.

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

³ 7 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 March 31, 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	29	\$ 131,039
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	-	\$ 2,130
A4	For which costs were added to noncost reports	0	\$ 0
B1	Which were issued during the reporting period	24	\$ 2,461,792
B2	Which were reopened during the reporting period	0	\$ 0
Subtotals (A + B)		55	\$ 2,610,482
C	For which a management decision was made during the reporting period	33 ¹	\$ 71,089
	(1) Dollar value of recommendations that were agreed to by management:	9	\$ 32,779
	Due HUD	22	\$ 37,570
	Due program participants		
	(2) Dollar value of recommendations that were not agreed to by management	4 ²	\$ 740
D	For which a management decision had been made not to determine costs until completion of litigation, legislation, or investigation	2	\$ 15,521
E	For which no management decision had made by the end of the reporting period	20 < 19 > ³	\$ 2,523,872 \$ < 87,241 > ³

¹ 25 audit reports also contain recommendations with questioned costs.

² 2 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.

Appendix 4

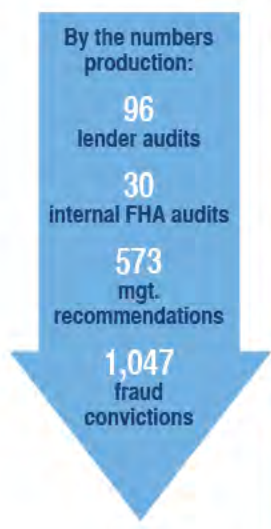
5-Year Recap: HUD OIG's Impact on the FHA Insurance Program





5-Year Recap: FY 2007-2011

HUD OIG's Impact on the FHA Insurance Program



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

50,000 FHA mfd. homes on substandard foundations	Partial claim process
Philadelphia HOC did not oversee REO contractors adequately	HUD's REO contractor
Controls over FHA appraiser rosters inadequate	Reverse mortgage program
HUD's Quality Assurance Division	HUD's Quality Control Division
Short sales review advised HUD of weakness in program guidelines	Review of M&M contractors
FHA appraiser review process	Senate Committee on Appropriations
FHA loans in flood plains	House of Representatives Committee on Financial Services



*mfd. - Manufactured Homes *HOC - Homeownership Centers *REO - Real Estate Owned *M&M - Management and Marketing Contractors





5-Year Recap: FY 2007-2011

HUD OIG's Impact on the FHA Insurance Program

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:

96 lender audits

30 internal FHA audits

573 mgt. recommendations

1,047 fraud convictions

Mortgage fraud issues

Dynasty Homes - \$7.5 million restitution, \$11 million forfeitures	Brucha Mortgage Bank Officers - \$2.6 million forfeiture; \$1.1 million restitution
Real estate investors - \$5.7 million civil penalties	ATLAS Home Loans - \$3.2 million restitution; false documents for unqualified buyers
Countrywide Homes - \$740,000 indemnification	RBC Mortgage Processors - \$1.1 million restitution; false documents for unqualified buyers
V.P. Encore Mortgage et al - 12.5 years incarceration, \$5.1 million restitution	First City Abstract - \$4.6 million restitution property flipping
Anchor Mortgage Corporation - \$2.9 million false claims judgment	Beazer Homes - \$5 million restitution, \$50 million fund for victims
Affordable Mortgage - \$1.4 million restitution	Great Stone Mortgage - 8+ years incarceration, \$77.9 million restitution



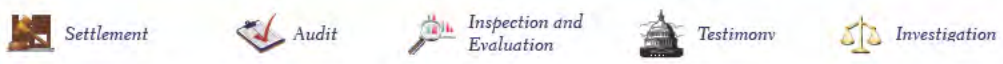
Management results:

1,087 administrative actions

\$134 million funds put to better use

\$1 billion recoveries

\$31 million sustained audit costs



*mfd. - Manufactured Homes *HOC - Homeownership Centers *REO - Real Estate Owned *M&M - Management and Marketing Contractors



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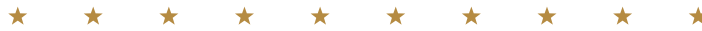




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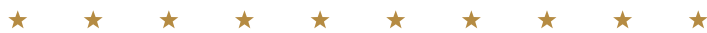
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No. 67

October 1, 2011, through March 31, 2012



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT