



United States  
General Accounting Office  
Washington, D.C. 20548

Accounting and Information  
Management Division

B-261685

July 28, 1995

The Honorable Henry G. Cisneros  
The Secretary of Housing and Urban Development

Dear Mr. Secretary:

On May 31, 1995, we briefed your staff on our review, made pursuant to your request, of allegations by a former employee of the Department of Housing and Urban Development (HUD) Office of Inspector General (OIG). The former OIG employee, who was assigned to the OIG Fort Worth Regional Office, made allegations related to whether undue influence within HUD caused it to enter into a settlement agreement with the J&B Management Company (J&B) that was not in the best interest of the government.

The OIG Fort Worth Regional Office staff started an audit of J&B in January 1990 in response to a charge that J&B was commingling funds from various HUD projects. J&B had managed 86 projects with \$203 million of HUD insured mortgages. These projects included 10,758 rental units in 11 states. In a September 1990 interim report, the OIG disclosed serious deficiencies in J&B's management of the HUD projects. In October 1990, based on the findings of the interim report, HUD suspended J&B from further participation in federal programs.

HUD personnel, including attorneys in the Office of the General Counsel, then negotiated and subsequently executed a settlement agreement with J&B in April 1991. The settlement agreement was executed by HUD and J&B to avoid litigation and resolve matters relating to J&B's suspension and the OIG audit. As part of the settlement agreement, J&B agreed to assign its management contracts to another agent acceptable to HUD, be removed indefinitely from the management of any multifamily projects under any HUD program, post a letter of credit and a promissory note totaling \$1 million as security for completing the corrective actions stipulated in the agreement, and address various other matters related to the OIG audit.

GAO/AIMD-95-218R HUD OIG

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In March 1992, the OIG issued a final report on J&B activities that expanded on the disclosures in the interim report, contained additional findings, and made a number of recommendations. J&B attorneys and HUD personnel subsequently met numerous times. In January 1994, HUD and J&B representatives signed an agreement to resolve the outstanding audit findings. As a part of this agreement, J&B paid \$1.3 million. According to the OIG representative that was actively involved with resolving settlement agreement provisions and audit recommendations, the \$1.3 million recovery was one of the highest monetary settlements that HUD had obtained.

In conducting our review, we interviewed the former OIG employee who made the allegations. He did not provide corroborative evidence to support his allegations nor did he direct us to credible sources of information or avenues of inquiry to substantiate his allegations that HUD personnel were unduly influenced in regard to their J&B decisions.

We also interviewed senior OIG officials and audit personnel, senior officials in the HUD Offices of the Assistant Secretary for Housing and the General Counsel, and senior officials in the Office of the U.S. Attorney for the Southern District of Texas. In total, we interviewed 21 persons who were involved with the audit and investigation of J&B. We also reviewed relevant OIG policies and guidance, pertinent OIG audit working papers for the J&B audit, interim and final OIG audit reports on J&B, and the settlement agreement between HUD and J&B. Based on our work, we found no evidence to support the allegation that undue influence compromised decisions made by HUD employees in regard to the J&B audit and related activities.

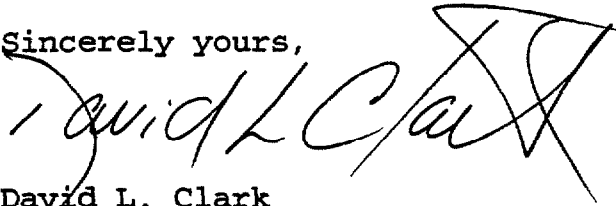
To assess the allegations made by the former OIG employee, the Deputy Inspector General also directed that a special inquiry be conducted into these allegations by personnel independent of the OIG units involved with the J&B audit. We reviewed pertinent OIG working papers for, and a report of, this inquiry. The OIG special inquiry reported instances of noncompliance with generally accepted government auditing standards and OIG policies and procedures such as, for example, undocumented revisions to the draft J&B audit report. The OIG special inquiry found, however, that these changes resulted from the normal supervisory review process and that there was no evidence of undue influence regarding the audit or investigative processes resulting from the OIG audit of J&B.



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We appreciate the cooperation of your staff. If you have any questions concerning our work, please contact me at (202) 512-9489.

Sincerely yours,

A handwritten signature in black ink, appearing to read "David L. Clark". The signature is written in a cursive style with a large, stylized initial "D". To the right of the signature is a large, hand-drawn checkmark or similar symbol.

David L. Clark  
Director, Legislative Reviews  
and Audit Oversight

(911709)



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