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HOW GOVERNMENT WASTES YOUR MONEY: HOUSING HORROR STORIES

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Thanks to poor program design, questionable oversight, and insufficient accountability, many federal programs created with the best of intentions have fallen victim to dramatic levels of waste, fraud, and abuse. Few, however, can match the trail of misdeeds left by some of those who manage and participate in federal housing programs. Perhaps one reason for this legacy is that housing programs were designed in the 1930s as jobs programs, not as programs to house the poor. In a sense, they were intended to be inefficient, since their aim was to generate jobs, not to produce housing at the lowest cost. Thus, it should be no surprise that auditors at the U.S. General Accounting Office (GAO) and agency Offices of Inspectors General (OIG) report that government housing programs have wasted billions of dollars and that "middlemen" such as the personnel administering a program—not the tenants—are the biggest beneficiaries of those programs.

The following examples of waste, fraud, and abuse in federal housing programs are just a few of those to be found in recent government reports.[1]

PALACES FOR PARK RANGERS

Nineteen new single-family homes were built at taxpayer expense near Yosemite National Park for National Park Service employees. But with a price tag of $584,000 each, these were not just any homes. A real estate listing describing one of them could read:

> Nestled in the mountainous, tree-lined hills of Eastern California lies this charming 1,800-square-foot masterpiece. Elegant stucco walls and energy efficient solar panels make this house a naturalist's dream. A new soccer field, basketball court, tennis court, and toddlers' playground make it perfect for a family. Stunning views of the beautiful Yosemite Valley and nature's greatest

1. The latest available reports were released in March 1997.

wonders can be yours with only a National Park Service "Park Ranger" identification card.

The 19 homes cost $330 per square foot to build, compared with only $60 a square foot for the average American home. According to agency auditors, comparable private single-family homes near Yosemite range in value from $102,000 to $250,000.[2] The National Park Service attributes the much higher building costs for these homes to expenses incurred in designing them and in acquiring materials that provide greater energy efficiency, lower maintenance costs, and greater durability. Outside auditors, on the other hand, point to such factors as the site—a "landslide-prone hillside with a 16-degree grade"—which was chosen for development and the cost of shipping "supervisors" from Denver, Colorado.[3] Taxpayers may see fewer such endeavors in the future, however. The agency's Office of Inspector General has recommended that the Park Service "focus its efforts on meeting its housing needs in a more cost-effective manner."[4]

Who's in Charge: Bruce Babbitt, Secretary of the Interior, at (202) 208-7351.

MANSIONS FOR MANDARINS

Susan Gaffney, Inspector General of the Department of Housing and Urban Development (HUD), reports that "the Native American housing problem is reaching crisis proportions" and is not likely to improve despite the $485 million a year HUD will commit to the program through 2002.[5] A recent *Seattle Times* investigation of Indian housing programs shed light on why this money is not solving the crisis when it exposed 24 separate cases of fraud, waste, and abuse of taxpayer funds committed largely by local housing officials.

Times investigators and HUD auditors identified four basic infractions: (1) local officials misused scarce resources and abused their positions for personal gain; (2) local officials used HUD funds as leverage to build large and extravagant homes for their own use; (3) patronage, not need, often determined who benefited from the programs; and (4) contracting practices were so poor that millions of dollars were unaccounted for or simply squandered.[6] For example:

- When the Mashantucket Pequot Housing Authority in Ledyard, Connecticut, wanted to return $1.5 million in unused federal funds, HUD officials reportedly told the Authority to use the funds on unneeded housing rather than send the money back to the Treasury Department. The Housing Authority eventually used the funds to subsidize construction of $428,000 homes for "over-income tribal members."[7]

- When the Otoe Missouria Housing Authority of Red Rock, Oklahoma, learned of a loophole in HUD procedures which allowed it to "play favorites in deciding the people to be housed," it immediately removed nine homebuyers—who already had been selected for homes—from the program and "replaced them with other tribal members. All five Board members got houses for themselves or family members."[8]

- A HUD regional administrator failed to prevent a Marysville, Washington, Housing Authority executive director and her husband from developing a housing program "to personally obtain their 'dream home' and benefit other over-income families."[9] The couple, whose income exceeded $90,000, used the taxpayers' money intended to help the poor to construct a 5,300-square-foot house for themselves.

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2. U.S. Department of the Interior, Office of Inspector General, *Semiannual Report to Congress, October 1, 1996 to March 31, 1997*, p. 21.
3. Frank Greve, "Yosemite Housing as High as the Sierra," *The Washington Post*, August 27, 1997, p. A17.
4. Interior OIG, *Semiannual Report to Congress*, *op. cit.*
5. *Statement of Susan Gaffney, [HUD] Inspector General, Before the Committee on Indian Affairs and the Committee on Banking, Housing, and Urban Affairs*, U.S. Senate, March 12, 1997.
6. *Ibid.*
7. *Ibid.*
8. *Ibid.*
9. *Ibid.*

- One Office of Native American Programs administrator has attempted to justify such government ineptness by saying that his staff "was somewhat confused about what their responsibilities were, given cuts in travel funds and staffing levels."[10]

Who's in Charge: Kevin E. Marchman, Assistant Secretary for Public and Indian Housing, Department of Housing and Urban Development, at (202) 708-0950.

THE "DEPARTMENT OF HOUSING AND PERSONAL GAIN"

The stated goal of HUD's 203(k) Rehabilitation Home Mortgage Program is to promote the restoration and preservation of existing housing stock. Yet, according to a recent audit by HUD's own Office of Inspector General, this program is viewed by many investors and nonprofit borrowers "as merely a means to turn a quick profit."[11] The reason, says the OIG, is that "the program design encourages risky property deals, land sale and refinance schemes, overstated property appraisals, and phony or excessive fees."

Among the dozens of examples, auditors exposed one Massachusetts investor who pocketed $220,440 in loans to pay off outstanding debts—which did not exist—on two of his properties. Auditors also uncovered nearly 150 loans given to borrowers in Georgia and Florida who participated in "unnecessary land transactions for the sole purpose of generating immediate cash profits…netting the parties millions of dollars." As if that were not enough, auditors also unearthed loans for 107 properties owned by a Florida investor who failed to complete the rehabilitation work on 95 of the properties and then defaulted on the loans. Apparently, the investor lacked the managerial capability and financial capacity to carry the loans—a determination routinely made by private banks before lending money.

Overall, the OIG identified excessive profits and ineligible fees totaling more than $4.5 million, "a cost ultimately passed on to a homeowner or to HUD and the taxpayer in the case of a default."[12]

Who's in Charge: Nicholas P. Retsinas, Assistant Secretary for Housing—Federal Housing Commissioner, at (202) 708-3600.

RENTS FOR RELATIVES

The HUD-sponsored Single Family Property Disposition Homeless Initiative "is not an effective program for helping the homeless become self-sufficient," says Michael Beard of the agency's Office of Inspector General.[13] Although the program does not receive funds directly from HUD, the Department invests significant staff time in monitoring and assisting local grant recipients. According to the OIG, "audits and reviews [have] found recurring examples of unqualified providers, ineligible tenants, inadequate documentation of homelessness, overcharges in rent, and deteriorated properties."[14]

One of the most flagrant examples uncovered by the auditors was the case of Safety Net, a nonprofit organization in New Orleans, Louisiana. Auditors found that the organization misused hundreds of thousands of dollars in federal grant funds and leased properties intended for the homeless to relatives, employees, and individuals who earned more than the program's eligibility levels. Several such tenants "moved from their former houses for personal reasons other than homelessness, such as wanting a bigger home."[15]

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10. *Ibid.*
11. U.S. Department of Housing and Urban Development, Office of Inspector General, *Audit Report 97-AT-121-0001*, February 6, 1997.
12. *Ibid.*
13. U.S. Department of Housing and Urban Development, Memorandum for Henry G. Cisneros, 96-FW-151-0801, August 16, 1996.
14. *Ibid.*
15. *Ibid.*

Moreover, this was not Safety Net's first offense. Apparently, HUD ignored previous warnings[16] that this organization (1) had never defined the population it would serve, (2) had never showed how it would comply with pertinent laws and regulations, and (3) had not demonstrated that it had sufficient assets to carry out the Homeless Initiative. It was a formula for disaster, yet the program continued. Auditors discovered in 1993 that the provider operated with a negative cash flow and did not have sufficient financial resources to continue. Inspections in 1994 and 1996 revealed that affluent tenants—those with new expensive cars, expensive furniture, and big-screen television sets—were now residing in the "homeless" facilities. Auditors found that just one of the 43 tenants surveyed met the definition of homeless.

It should come as no surprise that HUD (that is, the taxpayers) eventually picked up the organization's unpaid tab for as much as $17,000 in taxes, interest, and penalties.

Who's in Charge: Andrew Cuomo, Secretary of the U.S. Department of Housing and Urban Development (formerly Assistant Secretary for Economic Planning and Development), at (202) 708-0417.

IF YOU BUILD IT, THEY MIGHT COME

The Pontiac, Michigan, Housing Commission recently spent $5.7 million to modernize approximately 285 elderly housing units even though it had no assurances that there were sufficient numbers of prospective tenants to fill the apartments.[17] In fact, HUD's Office of Inspector General found that in Pontiac there have been "excessive vacancies" for public and elderly housing since 1982. Auditors found that the Commission had spent an average of $20,000 to modernize each unit—two and one-half times the $8,000 per unit the auditors deemed reasonable. Assuming that the people currently waiting for housing will actually fill some of these vacant units, the Commission will still see a 33 percent vacancy rate for its housing projects. At $20,000 per unit, these empty but "modernized" units will have cost taxpayers $1.9 million.

Who's in Charge: Kevin E. Marchman, Assistant Secretary for Public and Indian Housing, Department of Housing and Urban Development, at (202) 708-0950.

16. The organization's 1990 application for funding required it to define the population it would serve, show how it would comply with pertinent laws and regulations, and demonstrate that it had sufficient assets to carry out the Homeless Initiative. However, these requirements were not fulfilled.

17. U.S. Department of Housing and Urban Development, Office of Inspector General, *Semiannual Report to the Congress as of March 31, 1997*, p. 45.