




U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410-4500

OFFICE OF THE INSPECTOR GENERAL

April 17, 1989

MEMORANDUM FOR: Secretary Kemp, S

FROM:   
Paul A. Adams, Inspector General, Z

SUBJECT: Allocation of Section 8 Moderate Rehabilitation Units

The enclosed completed Report of Investigation represents the second piece of our review of the allocation of Section 8 Moderate Rehabilitation units. Our earlier audit concluded that program was generally poorly managed and that there was little or no documentation or accountability for funding decisions. The audit made recommendations as to the action needed. Both you and the Office of the Assistant Secretary for Housing-Federal Housing Commissioner have responded to our recommendations and many of the recommended actions have already been initiated.

While we found no evidence of criminality, our investigation did reveal a growing public perception of favoritism. Factors contributing to this perception included:

- apparent allocation of units to specific projects or developers;
- certain developers/owners, including several former HUD employees, received a substantial number of the units in certain areas;
- consultants, including several former HUD employees, received substantial fees--up to \$1,500 per unit--from developers for assistance in obtaining allocation of units, with a former Special Assistant to the Secretary receiving \$1,300,000;
- apparent access to inside information and/or advance notification of allocations as well as other internal proceedings by former HUD employees and developers; and
- significant contributions by participants in the Mod Rehab and/or other HUD programs to F.O.O.D FOR AFRICA (FODD), a non-profit charity supported by the Assistant Secretary-Federal Housing Commissioner Thomas T. Demery. We were able to identify some \$290,554 or approximately 50 percent of the amount donated between January 1986 and December 1988 as being contributed by individuals or firms known to be involved in the various programs administered by Demery.

While resolution of the audit recommendations will address some of the issues, the investigation raises additional matters warranting consideration. These include the role of consultants in HUD programs; access by former HUD employees and others to inside or advance information regarding allocations and/or other internal proceedings; and the role of Thomas T. Demery, then Assistant Secretary-Federal Housing Commissioner, in the fundraising activities of F.O.O.D. All of these issues need to be considered as part of any overall program to eliminate the perception of favoritism.

As concerns consultants, some public housing authority officials and developers were led to believe the consultants enjoyed a special relationship with persons making recommendations and decisions and, therefore, could assure allocation of desired units. This was reinforced by events, such as notice by the consultant to the developer of an allocation prior to notification of the local HUD office by Washington. Some of the consultants acknowledge their services were limited to facilitating contacts and meetings with HUD officials; whereas, others claim to have provided substantive assistance in the development of projects and related applications. Consultants may be justified in some instances, however, I am concerned that developers and the public not be led to believe that employment of a consultant is required in order to obtain an allocation. There also should be some relationship between the fee charged and service rendered.

In some ways, the issue of consultants is similar to the problems recently experienced by the Defense Department involving procurement. In Defense, the contractors were paying consultants to obtain information to influence contract awards. At HUD, the developers were paying consultants to influence awards of moderate rehabilitation units to public housing authorities. The difference between the two situations is that the investigation at Defense was able to prove that the consultants paid government employees for information and for selecting a particular contractor. Our investigation at HUD was unable to substantiate that government employees received any financial consideration from the consultants. Nevertheless, the Government's response to the scandal at Defense may be instructive as to steps that HUD could take to address the issue. I have attached a copy of the new Law passed in November 1988 and my own analysis of how this approach might be adapted to the circumstances at HUD. I suggest that the General Counsel's office review this material and determine whether this approach, or some other method, will cure the problem at HUD.

The former General Counsel rendered an earlier opinion based on our preliminary investigation that Mr. Demery's participation in the F.O.O.D. fundraising activities did not represent a violation of the Standards of Conduct or the criminal statutes. Since the investigation has now been completed, I would recommend that the Office of General Counsel reassess the matter and provide you appropriate recommendations.

Pursuant to an earlier request, a copy of our Report of Investigation has also been provided to the Public Integrity Section, Criminal Division, Department of Justice, for review and consideration. Based on periodic briefings by our investigators, Public Integrity Section earlier found no

apparent violations of the criminal statutes but requested they be provided a copy of the completed Report of Investigation for the purpose of a more comprehensive evaluation.

Also enclosed are Disposition Report forms for your use in reporting the action taken in this matter. Please execute and return to me two copies of this form.

Enclosures