



*Office of Inspector General  
Semiannual Report to Congress*

*October 1, 2003 through March 31, 2004*

# PROFILE OF PERFORMANCE

FOR THE PERIOD

October 1, 2003 through March 31, 2004

<b>Audit and Investigation Results</b>	<b>Audit</b>	<b>Investigation</b>	<b>Combined</b>
Recommendations That Funds Be Put to Better Use	\$1,865,688,100		\$1,865,688,100
Management Decisions on Audits with Recommendations That Funds Be Put to Better Use	\$766,584,070		\$766,584,070
Questioned Costs	\$67,111,824		\$67,111,824
Management Decisions on Audits with Questioned Costs	\$39,796,808		\$39,796,808
Collections from Audits	\$13,206,677 <sup>1</sup>		\$13,206,677 <sup>1</sup>
Investigative Receivables/Recoveries		\$300,080,255	\$300,080,255
Funds Put to Better Use		\$266,005,577	\$266,005,577
Indictments/Informations		690	690
Convictions/Pleas/Pre-Trial Diversions		353	353
Administrative Actions	6	467	473
Civil Actions		29	29
Months in Prison		5,512	5,512
Months of Probation		11,837	11,837
Hours of Community Service		3,446	3,446
Personnel Actions	1	38	39
Arrests		1,137	1,137
Subpoenas Issued	24	335	359
Search Warrants		39	39
Weapons Seized		3	3
Value of Drugs Seized		\$7,457	\$7,457

<sup>1</sup> Collections reduced by \$209,470 which represents collections on report number 2003-NY-1801 which was claimed by the Office of Investigation.

## INSPECTOR GENERAL'S MESSAGE

It is with pride that I present the U.S. Department of Housing and Urban Development Office of Inspector General Semiannual Report on our activities for the half year beginning October 1, 2003.

Before highlighting all the OIG's recent activities, I want to acknowledge the excellence and competence of the auditors, investigators, and support personnel who form the core of the HUD OIG. During the last half year, scores of our employees have been selected for awards and commendations by the President, the President's Council on Integrity and Efficiency, U.S. Attorneys' Offices, the Department of Justice, elected officials, and editorial boards for the superior work they have performed.

The HUD OIG is serving the American taxpayer by our oversight of HUD program administration through our audits of the Department's financial statements and through internal control reviews. Further, the American taxpayer is served through our investigations of white collar crime and program abuse. Departmental employee misconduct is checked through our vigorous efforts in investigating and resolving reported abuses. We continue to assess information security efforts, report on Departmental compliance and accountability, and identify management and performance challenges.

During the past half year, we have seen the HUD OIG's "return on investment" increase fourfold to 51 to 1. This performance measure, which is more fully explained in the next section of this report, means that OIG is producing audits and investigations that have a potential monetary impact of 51 times more than we are spending.

The following highlights some of the areas detailed in this report.

A centerpiece to many of HUD OIG's investigations and audits is the effectiveness of our OIG Hotline. As an intake point for allegations of waste, fraud, abuse, or mismanagement in HUD or in HUD funded programs, the OIG Hotline has garnered a reputation for excellence that is acknowledged and copied throughout many other federal OIGs. Since October 1, 2003, the OIG Hotline has logged more than 9,000 phone calls and letters.

The Federal Housing Administration's Single Family Program continues to be a major management challenge for the Department, and the HUD OIG has been active on two fronts to preserve and improve this program. Our investigative efforts have targeted predatory lending activities and single family housing property flipping. These efforts have met with great success. In addition, our auditors have assessed the indemnification of claims on HUD single family insured loans, the HUD Philadelphia Homeownership Center's system of quality controls over its FHA single family mortgage insurance process, the Home Equity Conversion Mortgage Program, and the Officer/Teacher Next Door Programs, to name a few.

In addition, we reviewed HUD management of public housing agency (PHA) development activities, the portability features of the Section 8 Housing Choice Voucher Program, the Moving to Work Program, and other activities at various PHAs. Moreover, we are reporting on our audit work that resulted in a qui tam lawsuit involving over-billing by a security company. We also audited Community Development Block Grant Disaster Assistance Funds in the State of New York, the Section 108 Loan, the Community Development Block Grant, the HOME, and the Home Investment Partnership Programs, effecting over \$60 million in funds put to better use.



In our discussion of the audit resolution process, we are pleased to report that, for the sixth consecutive semiannual reporting period, we have no items to report on significant audits where a management decision had not been reached for audits that were more than six months old. We attribute this accomplishment to the ongoing support provided by the Department and their priority to resolve OIG audit report recommendations as expeditiously as possible.

It is clearly evident that the HUD OIG has had a positive impact on the Department's performance, thanks to the dedicated and talented men and women who truly believe in the mission of the Department: that of safe, decent, and sanitary housing for people and of the economic vitality of our communities. We will continue our work with Secretary Jackson to achieve a Department that administers the country's housing programs effectively and efficiently, free from waste, fraud, and abuse.

A handwritten signature in black ink, appearing to read "Kenneth M. Donohue". The signature is fluid and cursive, with a long horizontal stroke at the end.

Kenneth M. Donohue  
Inspector General

## **Information About the HUD Office of Inspector General**

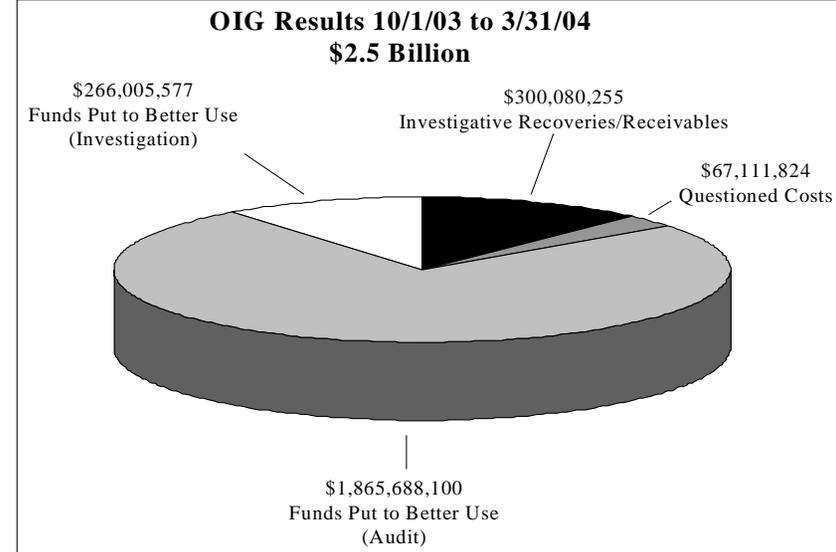
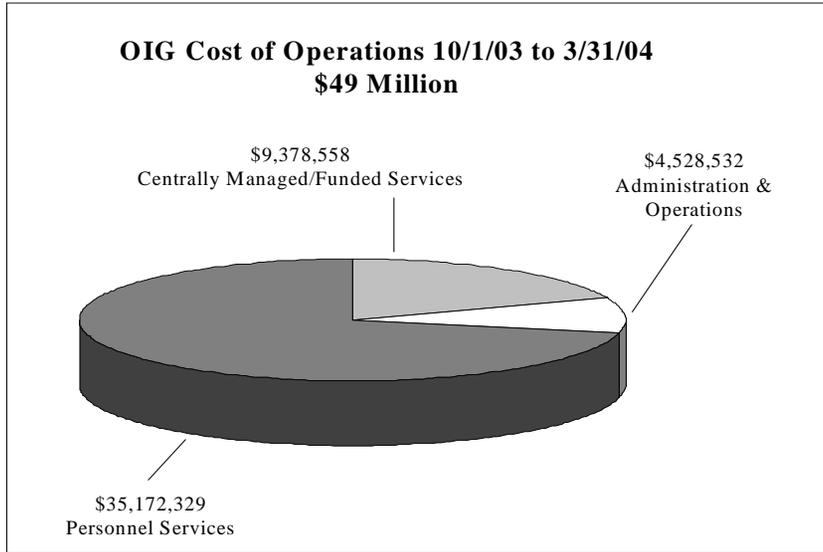
HUD's Office of Inspector General is one of the original 12 designated by the Inspector General Act of 1978. The OIG oversees HUD's programs and operations with its audit and investigative personnel. While organizationally located within the Department, the OIG has separate budgetary authority. The IG's mission is to provide independent and objective reporting to the Secretary and the Congress. OIG activities seek to:

- Promote efficiency and effectiveness in programs and operations;
- Detect and deter fraud and abuse;
- Investigate allegations of misconduct by HUD employees; and
- Review and make recommendations regarding existing and proposed legislation and regulations affecting HUD.

The Executive Office and the Offices of Audit, Investigation, Counsel, and Management and Policy are located in Headquarters. Also, the Offices of Audit and Investigation have field staff located in ten regions and many field offices. The following charts provide information on the OIG's return on investment for the six-month reporting period, along with audit and investigation reports/cases, recoveries, and funds put to better use by program area.

### **Return on Investment**

OIG developed a Return-On-Investment (ROI) computation as one method to measure its contribution to the Department's mission. This measure takes the total dollars of Recommended Funds To Be Put To Better Use<sup>1</sup> and Questioned Costs<sup>2</sup> together with Investigative Receivables and Recoveries<sup>3</sup> and divides that total by OIG's operating costs, including salaries, for the period. The resulting ratio represents the potential amounts that could be realized per dollar of OIG expenditures either during current or future periods. Many factors affect when and how much is actually returned, so OIG uses Recommended amounts in our ROI calculation, rather than Management Decision amounts, to better relate results to the work that was actually done during the period. Much of this period's ROI results from the annual financial audit finding regarding the need to deobligate more than \$1 billion in HUD funds. The majority of remaining contributing factors to the ROI are the results from reviews of external parties who administer or benefit from HUD funded programs. HUD refers many matters such as these to OIG for audit or investigation, as appropriate.



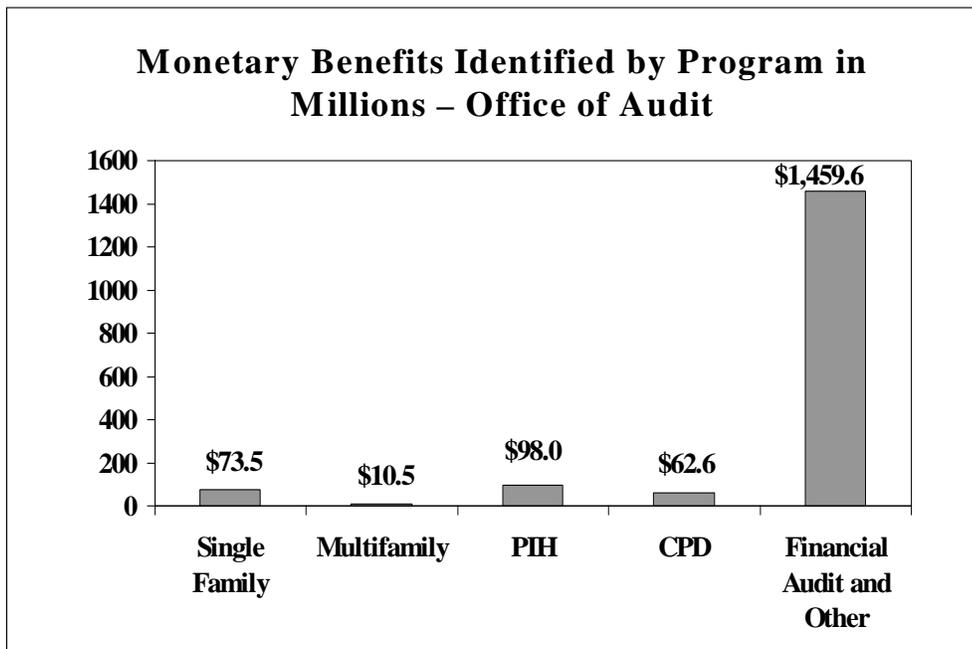
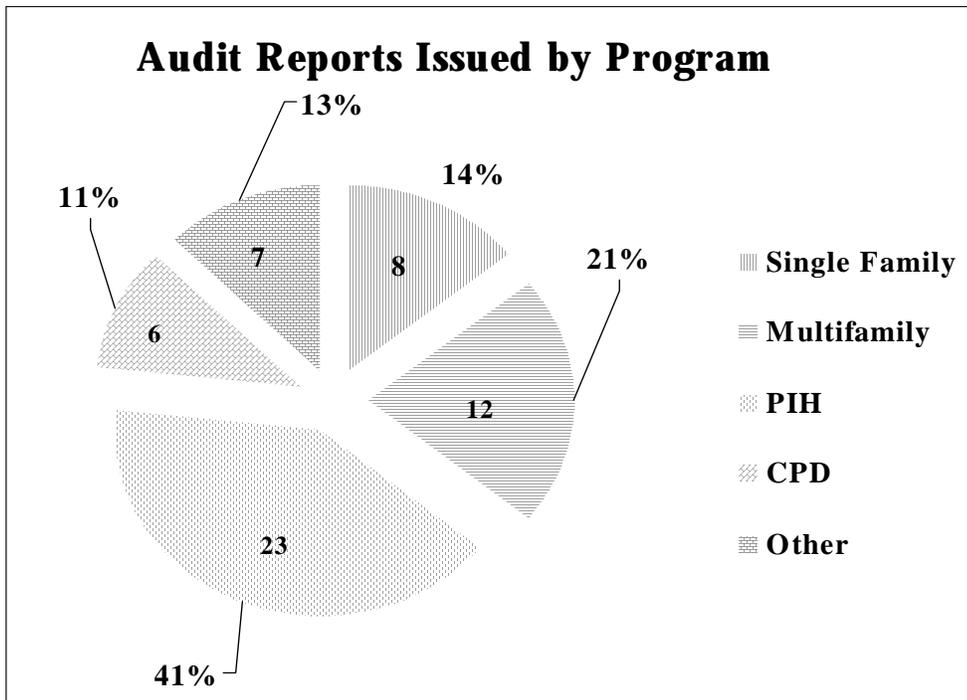
OIG Return on Investment: \$2.5 billion/\$49 million = 51 to 1 return

**Footnotes**

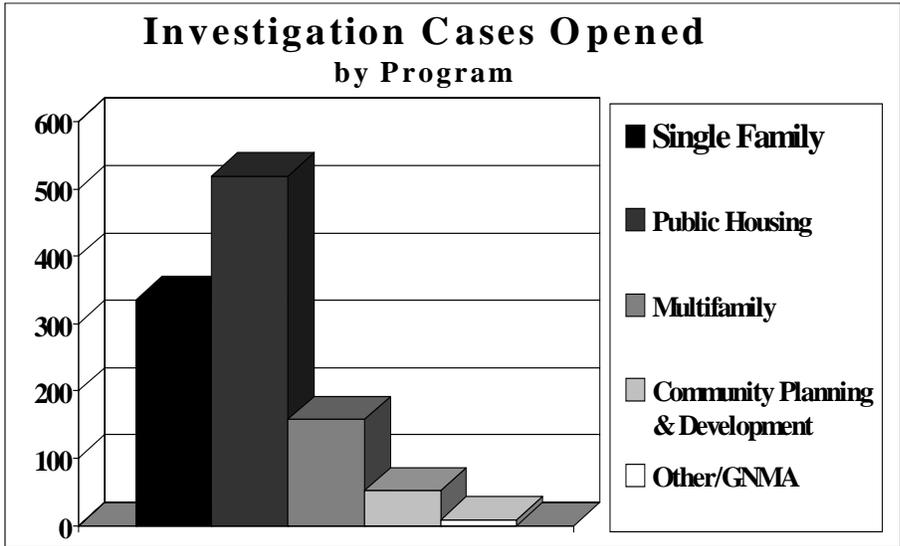
<sup>1</sup> Funds To Be Put To Better Use is an item required by Congress and is defined in the IG Act as “a recommendation by the Office that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including: (1) reductions in outlays; (2) deobligations of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee; (5) avoidance of unnecessary expenditures noted in pre-award reviews of contractor grant agreements; or (6) any other savings which are specifically identified.”

<sup>2</sup> Questioned Costs are “a cost that is questioned by the Office because of: (1) an alleged violation or provision of law, regulation, contract, grant, or cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.”

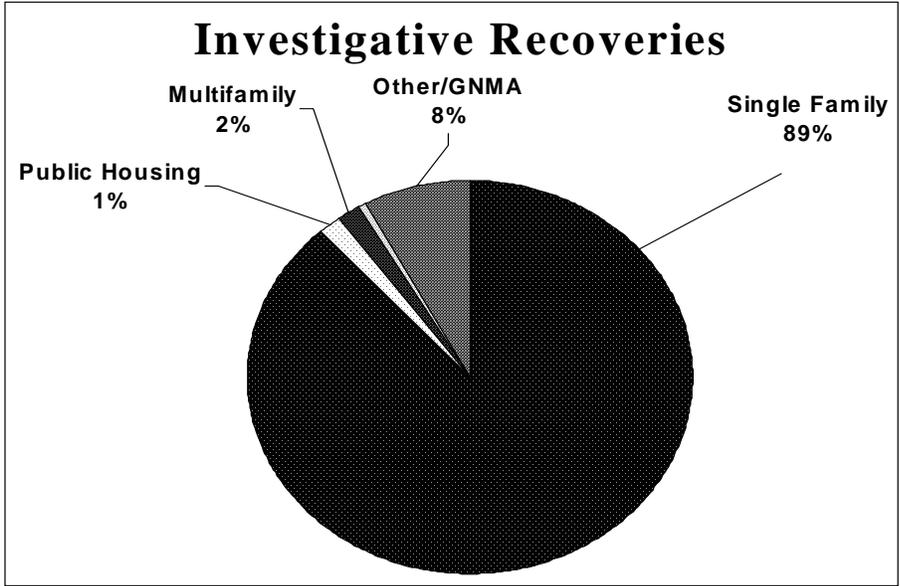
<sup>3</sup> Investigative Receivables and Recoveries are based on the total dollar value of: (1) Criminal cases—the amount of restitution, criminal fines, and/or special assessments based on a criminal judgment or established through a pretrial diversion agreement; (2) Civil cases—the amount of damages, penalties, and/or forfeitures resulting from judgments issued by any court (Federal, state, local, military, or foreign government) in favor of the U.S. government; or the amount of funds to be repaid to the U.S. government based on any negotiated settlements by a prosecuting authority; or the amount of any assessments and/or penalties imposed, based on actions brought under the PCFRA, civil money penalties, or other agency-specific civil litigation authority, or settlement agreements negotiated by the agency while proceeding under any of these authorities; (3) Voluntary repayments—the amount of funds repaid on a voluntary basis or funds repaid based on an agency’s administrative processes, by a subject of an OIG investigation, or the value of official property recovered by an OIG during an investigation, before prosecutive action is taken, any of which result from a case in which an OIG has an active investigative role.



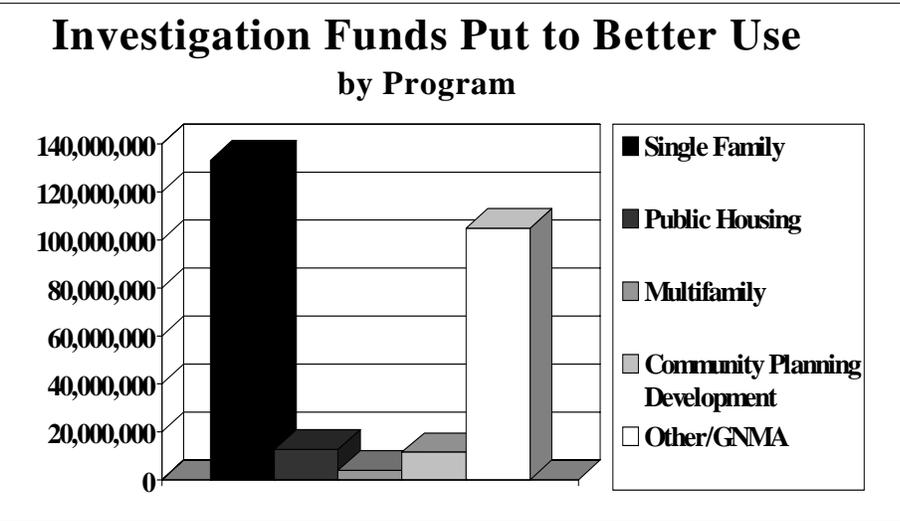
### Investigation Cases Opened by Program



### Investigative Recoveries



### Investigation Funds Put to Better Use by Program



## Reporting Requirements

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

Source/Requirement	Pages
Section 4(a)(2)-review of existing and proposed legislation and regulations.	99-100
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	1-89, 101-104
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	7-89
Section 5(a)(3)-identification of each significant recommendation described in previous Semi-annual Reports on which corrective action has not been completed.	Appendix 2, Table B
Section 5(a)(4)-summary of matters referred to prosecutive authorities and the prosecutions and convictions that have resulted.	7-89
Section 5(a)(5)-summary of reports made on instances where information or assistance was unreasonably refused or not provided, as required by Section 6(b)(2) of the Act.	No instances
Section 5(a)(6)-listing of each audit report completed during the reporting period, and for each report, where applicable, the total dollar value of questioned and unsupported costs and the dollar value of recommendations that funds be put to better use.	Appendix 1
Section 5(a)(7)-summary of each particularly significant report.	7-89
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Appendix 2, Table C
Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.	Appendix 2, Table D
Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.	Appendix 2, Table A
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	102-103
Section 5(a)(12)-information concerning any significant management decision with which the Inspector General is in disagreement.	No instances
Section 5(a)(13)-the information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.	104

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# Chapter 1 — HUD’s Management and Performance Challenges

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## The HUD Office of Inspector General

The HUD Inspector General is one of the original 12 Inspectors General authorized under the Inspector General Act of 1978. Over the years, our audit and investigative staff have forged a strong alliance with HUD personnel in recommending ways to improve Departmental operations or in prosecuting program abuse. We strongly believe that we have made a difference in HUD’s performance and accountability. We are committed to our statutory mission of detecting and preventing waste, fraud, and abuse, and promoting the effectiveness and efficiency of government operations. While organizationally we are located within the Department, we operate independently with separate budgetary authority. This independence allows for clear and objective reporting to the Secretary and the Congress. Our activities seek to:

- Promote efficiency and effectiveness in programs and operations.
- Detect and deter fraud and abuse.
- Investigate allegations of misconduct by HUD employees.
- Review and make recommendations regarding existing and proposed legislation and regulations affecting HUD.

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### *Major Issues Facing HUD*

The Department’s primary mission is to expand housing opportunities for American families seeking to better their quality of life. HUD seeks to accomplish this through a wide variety of housing and community development grant, subsidy, and loan

programs. HUD’s budget approximates \$31 billion annually. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single family and multifamily properties. FHA’s outstanding mortgage insurance portfolio exceeds one half trillion dollars. Ginnie Mae, through its Mortgage-Backed Securities Program, gives issuers access to capital markets through the pooling of federally insured loans.

While HUD may appear to be a small agency, with about 9,200 staff nationwide, numerous partners are relied upon for the performance and integrity of a large number of diverse programs. Among these partners are hundreds of cities that manage HUD’s Community Development Block Grant funds, hundreds of public housing agencies and thousands of nonprofit and for-profit housing sponsors that manage assisted housing funds, thousands of HUD approved lenders that originate and service FHA insured loans, and hundreds of Ginnie Mae mortgaged-backed securities issuers that provide mortgage capital.

Achieving HUD’s mission continues to be an ambitious challenge for its limited staff, given the agency’s many distinct programs. HUD’s management problems have for years kept HUD on GAO’s list of agencies with high-risk programs. HUD’s management team, the GAO, and the OIG share the view that improvements in human capital, acquisitions, and information systems are essential in removing HUD from its high-risk designation. More specifically, HUD must focus these improvements on Rental Housing Assistance Programs and Single Family Housing Mortgage Insurance Programs, two areas where financial and programmatic exposure is the greatest. That HUD’s reported management challenges are included as part of the President’s Management Agenda is indicative of HUD’s important role in the federal sector. HUD’s current Administration places a high priority on correcting those weaknesses that put HUD on GAO’s high-risk list.

Each year, in accordance with the Reports Consolidation Act of 2000, the HUD OIG is required to submit a statement to the Secretary with a summary assessment of the most serious challenges facing the

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Department. We submitted our last assessment on November 12, 2003. These reported challenges are the continued focus of our audit and investigative effort. HUD is working to address these challenges, and in some instances has made progress in correcting them. HUD's Executive Management Meeting focuses on the actions taken by each Assistant Secretary in meeting the President's Management Agenda (PMA). The PMA includes government-wide as well as HUD specific initiatives. The HUD specific initiatives are intended to formulate viable strategies and plans to address the major problems facing the Department.

The Department's management challenges and current efforts to address these challenges are as follows:

### *Department-wide Organizational Changes*

For more than a decade, the Department has struggled with organizational and management changes in an effort to streamline its operations. These changes were necessary as HUD tried to manage more programs and larger budgets with fewer staff. The former HUD Administration tried to realign the Department along functional lines, separating outreach from program administration. Also, they attempted to place greater reliance on automated tools, processing centers, and contracted services. As HUD implemented these realignments, many employees were assigned new duties and responsibilities and many new employees were hired. HUD also experienced a serious "brain drain" as many senior staff took buy-outs and left the Department. While these organizational changes were well intended, the disruptions caused by these sweeping changes further compounded problems in effectively managing HUD operations. Among the problems were unclear lines of authority, many staff in the wrong location, staff not trained in new duties, and difficulty in providing supervision to remote staff.

Our past Semiannual Reports noted that many organizational changes were slow to be put in place, and some of those in place were ineffective. For example, they lacked delegations of authority, written policies and procedures, and training support. HUD's current management team likewise found problems with the organizational and operational changes made

by the previous Administration. The current Administration made changes to include:

- Placing the Departmental Enforcement Center (DEC) under the direction of the General Counsel to consolidate legal resources in support of a strong program enforcement effort. HUD's program enforcement efforts were previously under the Office of General Counsel before the creation of a separate DEC.
- Placing the Real Estate Assessment Center (REAC) under the direction of the Assistant Secretary for Public and Indian Housing (PIH), in order to improve REAC's working relationships with program staff and program partners and strengthen accountability for resource use and results.
- Placing the Office of the Chief Procurement Officer (OCPO) and the Office of the Chief Information Officer (OCIO) under the direction of the Assistant Secretary for Administration/Chief Information Officer, to streamline HUD's organizational structure and improve service delivery to HUD's program and administrative components.
- Establishing the Office of Field Policy and Management as an independent office reporting to the Deputy Secretary, with responsibility for oversight of HUD's field management and assistance to program Assistant Secretaries in meeting program goals at the field office level.
- Redeploying staff in the outreach function to understaffed program delivery and oversight functions, where there was a critical need.
- Creating new regional management positions to give HUD's field operations greater operational control over the administrative budget resources they need to pursue their operating and program goals, and to strengthen the local focus on workload management to meet national performance goals.

These operational changes delegate additional authority to the field, and represent positive steps that bring HUD's operational activities and authority closer to the customers it serves. However, we continue to see the changes as a management challenge until Departmental realignments become fully functional. Our audits will evaluate the effectiveness of many of these changes. For example, we have recently com-

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pleted a review of the operations of the Enforcement Center and will issue a report in the next few weeks.

### *Financial Management Systems*

The lack of a HUD integrated financial management system that complies with federal financial system requirements has been reported in our financial audit as a material weakness since Fiscal Year (FY) 1991. To correct financial management deficiencies in a Department-wide manner, HUD initiated a project to design and implement an integrated financial management system consisting of both financial and mixed systems. Over the years, these plans have experienced significant changes and delays.

Because of the large volume of financial transactions, HUD relies heavily on automated information systems. For several years, our financial audits reported on security weaknesses in both HUD's general processing and specific applications such that HUD could not be reasonably assured that assets were adequately safeguarded against waste, loss, and unauthorized use or misappropriation. Progress in improving these controls has been slow. The weaknesses noted in our FY 2003 Consolidated Financial Audit relate to the need to improve:

- Controls over the computing environment; and
- Administration of personnel security operations.

We also noted the need for HUD to improve the process for reviewing outstanding obligations to ensure that unneeded amounts are timely deobligated. A lack of integration between accounting systems and the need for accurate databases has hampered HUD's ability to evaluate unexpended obligations.

One of the most significant financial management deficiencies exists in FHA, where FHA's ADP system environment needs enhancement to effectively support business and budget processes. A recent key improvement was the implementation of the FHA Subsidiary Ledger financial system, which automated several manual processes. Nevertheless, FHA continues its day-to-day business processes using many legacy-based systems.

### *Adequate and Sufficiently Trained Staff*

For many years, the Department has lacked a system for measuring work and reporting time, thereby making it a difficult task to determine staff resource needs. HUD worked with the National Academy of Public Administration (NAPA) to develop a methodology or approach for resource management that would allow the Department to identify and justify its resource requirements for effective and efficient program administration and management.

HUD's current Administration has embraced standards of management accountability. However, HUD needs to more effectively manage its limited staff resources. Many of the weaknesses facing HUD, particularly those concerning HUD's oversight of program recipients, are exacerbated by HUD's resource management shortcomings. Accordingly, we consider it critical for the Department to address these shortcomings through the successful completion of ongoing plans. To operate properly and hold individuals responsible for performance, HUD needs to know that it has the right number of staff with the proper skills.

To address staffing imbalances and other human capital challenges, the Department has implemented the Resource Estimation and Allocation Process (REAP). The last phase of REAP (a baseline for staffing requirements) was completed in January 2002. Also completed in 2002 was the development of the Department's resource management strategy in the implementation of the Total Estimation and Allocation Mechanism (TEAM). TEAM is the validation component of REAP and collects actual workload accomplishments and staff usage data for comparison against the REAP baseline. The REAP/TEAM process and data are being used to support the HUD budget justification, and discussions with OMB and Congress.

Last year, the Department began implementing its Strategic Human Capital Management Plan. The plan requires a comprehensive workforce analysis of core business program offices. These analyses will identify mission critical positions and assess present and future workload. They will be conducted in HUD's four core business areas: Housing; Public and Indian Housing; Fair Housing and Equal Opportunity; and Community Planning and Development. The plan, to be implemented over the next three to five years,

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requires a serious focus on human capital management.

In recent years, HUD's programmatic responsibilities have increased, given the reduction in HUD staffing and the growth in programs. Exacerbating this problem is the more than 50 percent of HUD's employees with vast amounts of historical knowledge that are retirement eligible. Most of these retirement eligible employees are in Grades 13 to 15, and have spent the majority of their federal career acquiring complex program and technical knowledge. Managing human capital effectively will require new ways of capturing knowledge, transferring the knowledge and experience from those who will retire, and attracting and developing a new cadre of employees. This will ensure that HUD continues to maintain a professional, customer focused, high quality, and diverse workforce.

### *FHA Single Family Insurance Program*

Procedures and practices in HUD's Single Family Mortgage Insurance Program have undergone considerable change, particularly in the last five years. The changes have been both programmatic and organizational. Among recent program changes, HUD introduced an automated underwriting scorecard that lenders can use to evaluate the overall credit worthiness of FHA mortgage loan applicants. HUD also issued new rules to reduce fraud committed through a predatory practice known as "property flipping." Organizationally, HUD continues to rely on contractors under the oversight of HUD's Homeownership Centers to perform monitoring of virtually all aspects of single family mortgage insurance production. As a consequence, staff responsibilities have changed, requiring greater emphasis on contract administration and oversight.

The Single Family Mortgage Insurance Program remains a high-risk area, as identified by GAO. However, HUD has committed to addressing the higher risks through the President's Management Agenda. More staff have been dedicated to lender monitoring. New technologies now allow for the quick identification of poor lenders and the withdrawal of their authority to originate FHA loans. This includes the "Credit Watch" and "Appraiser Watch" processes that play an important role in risk reduction. Moreover, stronger sanctions, including civil money

penalties, have become the norm in recent Mortgagee Review Board actions. Additionally, HUD has tackled and continues to strengthen important buyer protection concerns, especially property valuation (appraisal) and disclosure of loan closing costs.

The FHA financial audit reported a need to place more emphasis on monitoring lender underwriting and continuing to improve early warning and loss prevention for single family. In response, HUD is developing proposed rule changes that will require lenders to report 30- and 60-day delinquencies to the Default Monitoring System. Timely identifying lenders with unacceptable early default rates is a key element of FHA's efforts to target monitoring and enforcement resources toward lenders that represent the greatest financial risk to FHA. Potentially problem lenders must be identified before FHA can institute loss mitigation techniques and lender enforcement measures that can reduce eventual claims.

During this semiannual reporting period, we issued three internal audit reports on HUD's Single Family Programs. An audit of the insurance claims process disclosed that HUD was neither timely billing nor adequately collecting over \$44 million in FHA claims losses that lenders had agreed to reimburse. Another audit of FHA's quality controls over insurance endorsement processing and underwriting found deficiencies in HUD's oversight of its mortgage insurance contractors at the Philadelphia Homeownership Center. A regional review of HUD's Reverse Mortgage Program in New England found only minor technical deficiencies in the administration of this program for seniors. We recommended ways for HUD to ensure timely collection of obligations from lenders and also perform more effective monitoring of the endorsement and quality assurance contractors. We are currently expanding our review of HUD/FHA claims processing and expect to issue a report of our findings during the next semiannual reporting period. More details on the completed internal reviews can be found in Chapter 2 of this Report.

We currently have 27 lender audits in various stages of completion based on a targeting strategy that identified lenders with poor performing FHA portfolios. Results from two completed audits found significant lender loan origination irregularities, including document falsifications and misrepresentations, and

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prohibited contract loan originations by mortgage loan officers that were not FHA approved. We should complete the majority of these reviews during the next reporting period.

### *Public and Assisted Housing Program Administration*

HUD spent about \$24 billion in FY 2003 to provide rent and operating subsidies that benefited over 4.8 million households. HUD provides housing assistance funds through competitive awards, formulas, and fair share allocations to public housing agencies (PHAs) and multifamily project owners (both nonprofits and for-profits). These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. PHAs use the funding and subsidies to provide decent and affordable housing to qualified low-income tenants.

Multifamily project owners provide housing through a variety of Assisted Housing Programs, including parts of the Section 8 Program and the Section 202/811 Programs. This funding is called “project-based” because the subsidy is tied to a particular property. Therefore, tenants who move from “project-based” properties may lose their rental assistance.

Material weaknesses in the monitoring of PHAs and assisted multifamily projects were first reported in our financial audit in 1991 and continue to challenge HUD. Material monitoring weaknesses seriously impact HUD’s ability to ensure that its intermediaries are correctly calculating housing subsidies. A 2000 HUD study found that 60 percent of all rent and subsidy calculations performed by administrative intermediaries contained some type of error. The Secretary has rightly made the reduction of subsidy overpayments a top priority of his Administration. In 2002, HUD set a goal for a 50 percent reduction in the frequency of calculation processing errors and the amount of subsidy overpayments by 2005. As of 2003, HUD had attained a 32 percent reduction in the original \$2.3 billion estimate of erroneous payments. To achieve this goal over the next two years, HUD initiated the Rental Housing Integrity Improvement Project. The project is designed to reduce errors and improper payments by: (1) simplifying the payment process; (2) enhancing administrative capacity; and

(3) establishing better controls, incentives, and sanctions. Paralleling this effort, our investigative and audit focus is concentrating on fraudulent practices in the Section 8 Program. Public and Indian Housing staffs are conducting on-site reviews to ascertain the validity of family assertions about the sources and amount of income.

HUD continues to implement its performance-oriented, risk-based strategy for carrying out its PHA oversight responsibilities. However, as noted in previous financial audits, further improvements need to be made in the field office monitoring of PHAs in other key areas. The Public Housing Assessment System provides a condition status of the housing stock. It has been successful in identifying troubled PHAs and helping PIH management ensure corrective action. Likewise, a companion system, the Section 8 Management Assessment Program, has been able to identify problem providers of Section 8 assistance.

In prior years, we have also reported on long-standing weaknesses with the processing of subsidy payment requests under the project-based programs administered by the Office of Housing. Historically, this process has been hampered by the need for improved information systems to eliminate manually intensive review procedures that HUD has been unable to adequately perform.

Office of Housing staff or their Contract Administrators (CAs) are to perform management reviews to monitor tenant eligibility and ensure that accurate rents are charged at multifamily projects. The primary tool is to conduct on-site reviews that assess the owner’s compliance with HUD’s occupancy requirements. HUD’s continued implementation of the CA initiative resulted in a substantial increase in the total number of management reviews. However, a comprehensive plan needs to be developed that would result in an increase in on-site reviews that would assess and ensure that all owners of assisted multifamily projects comply with HUD’s occupancy requirements.

HUD’s plans include a variety of continuing efforts. Principle among these are: continued implementation of the CA initiative; increased enforcement efforts; implementation of more targeted property inspections; increased frequency of management/occupancy reviews for assisted projects; and develop-

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ment of an integrated risk reporting system. We support these efforts.

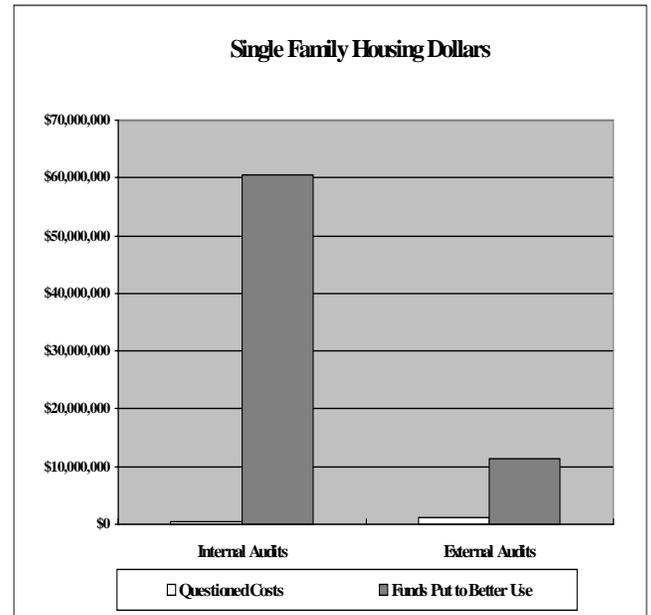
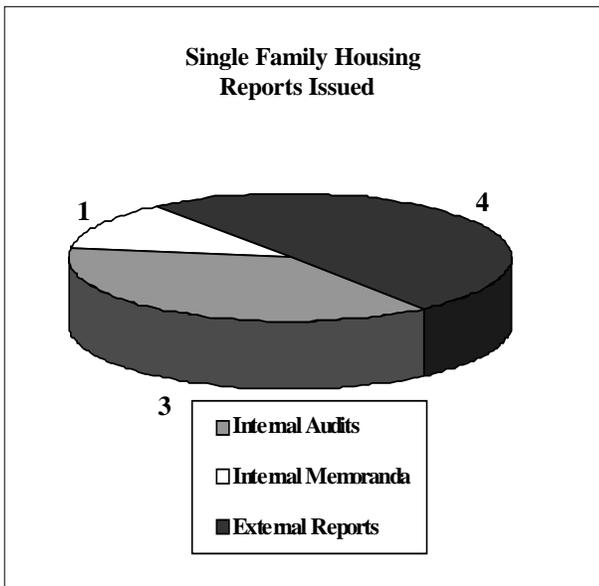


## Chapter 2 — HUD’s Single Family Housing Programs

Single Family Housing Programs are meant to provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home.

### Audits

During this reporting period, the OIG issued eight reports: three internal audits, one internal memorandum, and four external audits in the Single Family Housing Program area. These reports disclosed over \$1.6 million in questioned costs and about \$71.9 million in recommendations that funds be put to better use. We reviewed the indemnification of claims on HUD single family insured loans, the Philadelphia Homeownership Center’s system of quality controls over its FHA single family mortgage insurance process, the Home Equity Conversion Mortgage Program, the Congress of National Black Churches, Inc., the Officer/Teacher Next Door Programs, and three non-supervised loan correspondents.



### Indemnification of Claims on Single Family Insured Loans

The OIG audited the indemnification process for claims on single family insured mortgage loans. Our primary objective was to determine the adequacy of HUD’s internal controls over billing and collections of insurance losses from FHA mortgage lenders that had agreed to indemnify the Department. Loan indemnification information entered into HUD’s automated systems was generally complete and reliable for billing and collection purposes. However, HUD did not bill lenders for \$44.4 million in insurance losses owed the Department through indemnification agreements on 1,231 loans. When lenders were billed, HUD was also often late. HUD took an average of six months to send the first bill for 590 loans. Additionally, HUD’s collection process did not aggressively support the reduction of FHA indemnified loan debt, as required by the U.S. Treasury. Accrual of interest and penalties on delinquent debt was improperly suspended; debts delinquent more than 90 days were not properly reported; and debts totaling \$15.8 million that were delinquent 180 days or more were not transferred to the U.S. Treasury for collection.

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The Department took steps during our review to improve the tracking of indemnified loans, updated the language of the indemnification agreements, and disclosed indemnification information to the single family housing industry. However, more work is needed to correct the processes for billing and debt collection. Additional controls over data entry into HUD systems may further improve the integrity of indemnification agreement information.

We recommended that HUD: (1) initiate the billing process to collect \$44.4 million from the 1,231 indemnification cases not billed; (2) enhance systems to automate the billing process and accurately calculate the current profit and loss on sale amount; (3) implement policies to ensure that the Department is in compliance with debt collection requirements, including transferring debt delinquent 180 days or more to the Treasury; (4) actively pursue collection of delinquent debts; and (5) implement policies related to the processing of indemnification agreements used by the Homeownership and Enforcement Centers to ensure and maximize the quality, utility, objectivity, and integrity of indemnification information. (Report No. 2004-DE-0001)

### *Philadelphia Homeownership Center*

We audited the **Philadelphia, PA** Homeownership Center's (HOC) system of quality controls over its FHA single family loan insurance endorsement process. We identified two significant weaknesses in the HOC's monitoring of the endorsement and post-endorsement processes. Specifically, we found the HOC was not aware that its contractors performed fewer quality control reviews than required by their contracts. Further, the HOC staff did not accurately evaluate the post-endorsement contractor's performance in determining the level of payments for services that the contractor was entitled to receive. As a result of these monitoring deficiencies, the HOC overpaid the endorsement contractor by more than \$75,000; overpaid the post-endorsement contractor nearly \$327,000; and increased the risk that HUD will insure unacceptable loans. Management action to correct these deficiencies will put nearly \$145,000 to better use over a 12-month period.

We recommended that the HOC improve controls related to monitoring reviews of the endorsement and post-endorsement contractors. We also recommended

the recovery of over \$400,000 for reviews not performed or not performed at the acceptable performance level. (Report No. 2004-PH-0002)

### *Home Equity Conversion Mortgage Program*

We audited the Home Equity Conversion Mortgage (HECM) Program, which enables elderly homeowner families to stay in their home while using some of its accumulated equity. Our audit was limited to loans endorsed for insurance in **Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont**. The maximum dollar amount that HUD will pay on a claim for insurance benefits is based on a property's value. The New England Region is considered a higher priced housing market area than most of the rest of the country, which represents a potentially higher risk for HUD. Although our scope was limited to the New England Region, we generally found the HECM to be a sound and beneficial program for elderly homeowners and their families. We did, however, make four minor observations that, if properly addressed, should further strengthen the program.

- The calculation of the mortgage principal limit was not accurate in three of the 74 sample case files we reviewed. These three loans were overstated by nearly \$10,000. Based on our estimate of the actual error rate and our universe of 1,680 loans, we projected that four percent of the HECM loans were overstated by an average of \$3,300 per loan, or a total of over \$221,500 for all of the loans.
- Lenders did not complete the appropriate form to document that repairs were finished in accordance with appropriate agreements. In addition, lenders did not ensure that borrowers completed repairs in a timely manner, or follow proper procedures for granting extensions for completing repairs.
- Reverse mortgage housing counseling was provided by an agency that also held and serviced the mortgage on the client's property, an apparent conflict of interest.
- The data shared between various HUD information systems were not always compatible among the separate systems, and did not always coincide with data shared in HECM files.

We recommended that the Philadelphia Homeownership Center establish a quality control plan for the review of HECM loans that will avoid any overstatements; strengthen procedures to ensure that lenders adhere to the provisions of the repair agreements; determine if a conflict of interest exists with the mortgagee that provided HECM counseling services; and determine if lenders followed program requirements, and take appropriate action if required. (Report No. 2004-BO-0001)

### *The Congress of National Black Churches, Inc.*

In response to a Hotline complaint, we audited the Housing Counseling Program administered by the Congress of National Black Churches (CNBC) in **Washington, DC**. The complaint alleged that CNBC drew down funds from the housing counseling grant and then failed to reimburse its affiliates for services rendered. The complaint also noted that CNBC affiliates were performing services without sub-grant agreements, which is a violation of the grant agreement between HUD and CNBC.

We found CNBC did not administer its Housing Counseling Program according to the grant agreements with HUD and applicable HUD rules and regulations. Specifically, CNBC used over \$521,000 in grant funds to pay for ineligible payroll expenses, operating costs, and payments to several affiliates, and could not support another \$424,000 of grant funds it received from HUD. In addition, CNBC could not demonstrate that it provided the required leverage funding it agreed to under its grant agreement with HUD.

Description	Ineligible	Unsupported
Unauthorized Payroll Costs	\$394,933	
2000 Operating Costs	\$72,629	
Contracts with Affiliates	\$53,500	\$417,547
No Support Documentation		\$6,037
<b>TOTAL</b>	<b>\$521,062</b>	<b>\$423,584</b>

We attributed these deficiencies to CNBC’s board of directors not providing adequate oversight of the executive director and other key management officials’ administration of the program, or ensuring that adequate management controls were in place to enable them to detect and prevent these problems. Due to the severity of the deficiencies and abuses, CNBC’s affiliates were forced to curtail or suspend their housing counseling services. Further, CNBC itself was forced to suspend all program operations.

The audit recommended that HUD’s Assistant Secretary for Housing take appropriate administrative action against CNBC as a designated National Housing Counseling Intermediary, and take debarment action against the former executive director and chief financial officer. In addition, we recommended that CNBC reimburse its affiliates and HUD for ineligible expenditures and provide adequate support for the unsupported expenditures. (Report No. 2004-PH-1003)

### *Officer/Teacher Next Door Programs*

In following up on abuses identified in a June 2001 nationwide audit of the Officer Next Door and Teacher Next Door Programs (OND/TND), we identified a management control weakness that warranted corrective action. Recent OIG work with the U.S. Attorney’s Office, in preparation for possible civil or criminal cases involving violations of OND/TND Program requirements, disclosed that certification statements required of homebuyers were not adequate to support Assistant U.S. Attorneys’ efforts to prosecute civil and criminal cases. The language within the certifications was prospective of future actions and did not adequately address completed portions of the three-year occupancy term. Consequently, legal actions were unnecessarily difficult and prosecutors were reluctant to proceed with civil and criminal actions when occupancy violations occurred.

During the course of our work, we advised HUD’s National Servicing Center about the Assistant U.S. Attorneys’ suggestions to improve the language of certifications and require a final certification as a condition of releasing a second mortgage. The National Servicing Center made improvements in the standard recertification statements at that time, and forwarded the second suggestion to the Director of HUD’s Asset Management and Property Disposition

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Division for appropriate action. (Report No. 2004-AT-0801)

### *Non-Supervised Loan Correspondents*

Based on its high default and claim rates, we audited Treehouse Mortgage, LLC, a HUD approved non-supervised loan correspondent in **Denver, CO**. The review found that contrary to FHA requirements, Treehouse used contract loan officers that were not approved by HUD to originate FHA insured loans. Treehouse contracted with several independent loan officers, and paid these officers a commission on each FHA loan. Because these loan officers worked as independent contractors, Treehouse management was not able to oversee their performance with the same level of control as its own employees. HUD considers proper oversight and control of the loan origination process as key to reducing FHA mortgage insurance risks.

Treehouse did not have a formal written quality control plan and was deficient in its overall quality control activities. In addition, Treehouse did not perform the required quality control reviews on all defaulted loans or meet FHA's minimum sampling requirements. In addition, Treehouse failed to submit written reports to senior management that identified deficiencies noted in the files reviewed. Treehouse's non-compliance with HUD requirements prevented management from taking corrective actions on deficiencies noted or ensuring the completeness, accuracy, and validity of loan origination files.

While our audit was in process, we recommended that Treehouse Mortgage convert its contract loan officers to full time employees. Treehouse implemented this change and two of the remaining loan officers are now full time employees while the third is no longer allowed to originate FHA insured loans. We also recommended that Treehouse fully implement its quality control program and complete monthly or quarterly quality control reviews. Treehouse has already written a comprehensive quality control plan that, if followed as written, should provide adequate assurance to management that its operations comply with HUD directives. (Report No. 2004-DE-1002)

Because of their high default and claim rates, we audited Scheller Hess-Yoder and Associates (SHYA), a non-supervised loan correspondent in **Portland,**

**OR**, and found that SHYA disregarded HUD/FHA requirements and entered into agreements with outside contractors to originate FHA insured loans. The contractors acted as independent branches or leased employees. Further, SHYA did not adequately supervise the contractors' employees as required. Loan applications completed by the non-SHYA employees contained misleading certifications that full time SHYA employees processed the applications. HUD/FHA considers the practice of mortgagees using unauthorized branches and non-employees for the origination of insured loans a significant risk to the FHA insurance fund. We also found that SHYA disregarded its own approved Quality Control Plan and HUD's quality control requirements, and allowed the person responsible for conducting SHYA's quality control reviews to also process and originate FHA insured loans.

We recommended that SHYA reimburse HUD/FHA over \$266,000 for claims paid on three inappropriately originated loans and nearly \$7 million for any future losses on 52 other loans. Also, HUD/FHA should consider seeking civil monetary penalties against SHYA, its unapproved branch offices, and its "leased employees" for submitting false certifications to HUD/FHA. We further recommended that HUD/FHA determine whether SHYA's deficiencies in its loan origination activities warrant its removal from participation in HUD's Single Family Mortgage Insurance Programs. (Report No. 2004-SE-1002)

Based on identified risk factors and indications that it originated loans at an office that had its origination approval terminated under HUD's Credit Watch authority, we audited Keystone Mortgage and Investment Company, a non-supervised loan correspondent mortgagee in **Phoenix, AZ**. Forty-eight of the 65 loans we reviewed (74 percent) contained false or altered borrower credit and/or employment documents, including fabricated or altered W-2 forms, pay stubs, and verification of employment forms, fabricated or altered credit reference letters showing invalid accounts or inaccurate credit history information, and false credit reports listing invalid borrower credit history information. We identified a pattern of apparent mortgagee complicity in the loan origination process that allowed false documents to be used, and a serious lack of due professional care by mortgagee personnel. Based on information obtained during the

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audit, it appears that one Keystone employee was primarily responsible for the false and fabricated documents.

Keystone's failure to implement a quality control plan allowed the pervasive use of falsified loan origination documents to continue over a period of at least three years. As a result, loans were approved based on false information, causing FHA to assume over \$5 million in unnecessary insurance risk.

Keystone improperly originated FHA loans at its home office in Phoenix after HUD terminated that office's origination approval under the Credit Watch Program. We attribute this to Keystone's intentional disregard for the requirements of HUD's termination. As a result, FHA was exposed to unnecessary risk on loans originated by a terminated mortgagee office.

The audit recommended that HUD take appropriate action against Keystone for not adhering to HUD's program requirements, and require Keystone to indemnify HUD/FHA for \$4.3 million against past and future losses on the 48 loans containing false documents. (Report No. 2004-LA-1001)

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## Investigations

During this reporting period, the OIG opened 335 investigation cases and closed 159 cases in the Single Family Housing Program area. Judicial action taken on these cases during the period included \$256,422,064 in investigative recoveries, \$133,023,451 in funds put to better use, 244 indictments/informations, 106 convictions/pleas/pre-trial diversions, 154 administrative actions, 16 civil actions, and 228 arrests.

Some of the investigations discussed in this Report were conducted by the OIG, while others were conducted jointly with federal, state, and local law enforcement agencies. The results of our more significant investigations are described below.

### *Unfair Mortgage Servicing Practices*

The Federal Trade Commission and HUD announced a joint civil settlement with *Fairbanks Capital* and Thomas D. Basmajian, the former founder and CEO. The settlement was based on

*Fairbanks'* willingness to settle alleged charges that it engaged in illegal practices while servicing sub-prime loans. The settlement calls for *Fairbanks*, located in **Salt Lake City, UT**, and Basmajian to pay \$40 million and \$400,000, respectively, to compensate individual borrowers who paid improper amounts and suffered from improper servicing practices. Approximately 500,000 consumers are eligible to participate in the settlement. The average payout per consumer will be about \$88. The U.S. District Court for the District of Massachusetts must approve the proposed settlement.

This civil settlement also enjoins the defendants from future law violations and imposes new restrictions on their business practices. The settlement will require the defendants to accept partial payments from most consumers and to apply most consumers' mortgage payments first to interest and principal; prohibit the defendants from force placing insurance when they know the consumer has insurance or fail to take reasonable actions to determine whether the consumer has insurance; enjoin the defendants from charging unauthorized fees, and place limits on specific fees; require the defendants to acknowledge, investigate, and resolve consumer disputes in a timely manner; require the defendants to provide timely billing information, including an itemization of fees charged; prohibit the defendants from taking any action toward foreclosure unless they have reviewed consumer's loan records to verify that the consumers failed to make three full monthly payments, confirmed that the consumers have not been the subject of any illegal practices, and investigated and resolved any consumer disputes; prohibit the defendants from piling on late fees in certain situations; prohibit the defendants from enforcing certain waiver provisions in forbearance agreements that consumers had to sign to prevent foreclosure; and prohibit the defendants from violating the Fair Debt Collection Practices Act, the Fair Credit Reporting Act, and the Real Estate Settlement Procedures Act. To provide further remedial relief to consumers harmed by its practices, *Fairbanks* will correct certain open accounts that may have been classified wrongly as delinquent, reclassify these accounts as current, and report to any consumer reporting agency previously provided with information about the consumer's account that the account is current and that the prior record of delin-

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quency should be removed from the consumer's report.

### *Mortgagee Review Board Settlement*

HUD's Mortgagee Review Board reached a settlement with *Alliance Mortgage Banking Association (AMBA)*, **Rochester, NY**, whereby *AMBA* agreed to an administrative payment in the amount of \$500,000. The investigation disclosed that *AMBA* did not prudently underwrite loans and failed to sufficiently document the source of down payment funds and the adequacy of funds, accepted overestimated appraisals on properties, and did not properly check or verify the rehabilitation work done on the properties. *AMBA* underwrote approximately 80 FHA insured mortgages for defendant Helen Zapesochny. Zapesochny obtained Section 203(k) rehabilitation loans from *AMBA* to purchase and finance the rehabilitation of the properties. Zapesochny and others conspired to steal the rehabilitation funds by either not completing the specified work on the houses or doing the work with inexpensive materials in an unacceptable and unprofessional manner. Zapesochny was previously convicted and sentenced to six months home confinement and five years probation, and was ordered to pay \$871,000 in restitution.

### *Qui Tam Lawsuit*

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, the law firm of *Fisher & Fisher* and the U.S. Attorney's Office, Civil Division, reached a settlement regarding a qui tam lawsuit that was filed in 2000. As part of the settlement, *Fisher & Fisher* has paid \$676,852, to be divided among the original relator, the Department of Veteran Affairs (DVA), and HUD. The lion's share of this amount will go to HUD based on the volume of FHA insured loans involved. Specifically, the lawsuit alleged that *Fisher & Fisher* submitted fraudulent bills to various mortgage companies for publication of service on behalf of FHA insured and DVA guaranteed properties during the foreclosure process. In fact, no publications were completed. However, these costs were passed on to HUD and DVA by the lenders as normal costs in the completion of the foreclosure process. HUD and DVA regularly pay these costs upon payment of claim and conveyance of the property. *Fisher & Fisher* is one of

the three largest law firms in the Chicago metropolitan area handling HUD and DVA foreclosures.

### *Property Flipping/Loan Origination*

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendants Shirley DeSilva, an associate of *Allstate Mortgage Company*, and Alberto Jose Rivas and Louis Alberto Vallardes, loan officers at *Allstate*, were sentenced on mail fraud charges. DeSilva was sentenced to 24 months incarceration and was ordered to pay \$3,658,866 in restitution. Rivas was sentenced to 18 months incarceration and was ordered to pay \$37,742,023 in restitution. Vallardes was sentenced to 37 months incarceration and was ordered to pay \$37,742,023 in restitution. Defendant Douglas Alfonso Estrada, owner of *Allstate Mortgage Company*, was also sentenced to 51 months incarceration and was ordered to pay \$37,742,023 in restitution. Estrada previously pled guilty to five counts of mail fraud, ten counts of money laundering, and one count of tax evasion.

The defendants engaged in a single family loan origination fraud scheme by recruiting buyers to purchase over-valued properties. The sales were inflated by approximately \$150,000 per property. DeSilva, Estrada, Noval, and others then prepared fraudulent loan applications in the names of fictitious purchasers and submitted the documents to HUD. The mortgage insurance applications in the names of the fictitious purchasers contained false employment documents, verifications that the down payments were made from either the buyers' personal funds or were gifts when in fact Noval and associates made the down payments, and inflated real estate appraisals. Their actions caused approximately \$100,000,000 in fraudulent loans to be funded. Of this amount, approximately \$35,000,000 were funded with FHA insured mortgages.

In **Baltimore, MD**, in Federal Court for the District of Maryland, defendant Pamela Cummings, a former employee at *Schmidbauer Realty*, was sentenced to six months incarceration and ordered to pay \$2.4 million in restitution to HUD for her role in a property flipping scam. From 1994 through 2003, Cummings was employed as a secretary and assistant to William Otto Schmidbauer. At Schmidbauer's

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request, she prepared and submitted false and fraudulent documents to various lenders in connection with applications for FHA insured loans. Among these documents were verifications of employment and rent, drivers' licenses, Social Security cards, pay stubs, W-2 forms, and letters evidencing credit accounts of the purchasers with various companies. Based on these fraudulent documents, numerous loans were insured by FHA that subsequently went into default and foreclosure. FHA suffered a loss of approximately \$3.9 million.

In the same case, defendants Edward and Andrea Rybczynski, owners of *Liberty Title Company* who pled guilty to defrauding HUD out of nearly \$600,000 in a property flipping scheme, were sentenced in **Baltimore, MD**, in U.S. District Court for the District of Maryland. Edward Rybczynski was sentenced to ten months incarceration and three years probation, and was ordered to pay \$594,433 in restitution to HUD. Andrea Rybczynski was sentenced to six months incarceration and three years probation, and was ordered to help pay the restitution. The Rybczynskis were among 18 defendants charged with fraudulent property transactions linked to William Otto Schmidbauer, who pled guilty earlier this year and is currently incarcerated.

Defendant Dale Schulz, a real estate appraiser, was sentenced in **Baltimore, MD**, in U.S. District Court for the District of Maryland, to three years probation, which includes eight months of home detention with an electronic monitor, for his role in a property flipping scheme involving FHA insured mortgages. Schulz was also ordered to pay \$500,000 in restitution to HUD, which represents the losses to the FHA fund from mortgages involving false appraisals. Beginning in early 1996, real estate speculator William Otto Schmidbauer, who was previously convicted and sentenced, engaged the services of Schulz, a certified appraiser, to prepare and file appraisals for properties that Schmidbauer purchased at very low cost and intended to resell at inflated prices. Schulz falsely represented that he personally conducted the inspections and the appraisals when in fact, on many occasions, the appraisals were prepared by another person and only signed by Schulz. In addition, numerous appraisals were false and greatly inflated the value of the properties. The appraisals were then used to obtain inflated mortgages on

Schmidbauer property flips. To date, 18 defendants have pled guilty and been sentenced in this case.

In **East St. Louis, IL**, in U.S. District Court for the Southern District of Illinois, Marvis "Swamp Dog" Bownes was ordered to pay \$2.4 million in restitution to victims of his property flipping scheme. Bownes previously pled guilty to one count of mail fraud and one count of money laundering and was sentenced to 17-1/2 years in prison and five years supervised release, and was fined \$200,000. Bownes was sentenced to the higher end of the sentencing guidelines in part due to his predatory real estate practices on poor and vulnerable individuals in an economically depressed area of East St. Louis.

Between 1997 and 2002, Bownes, owner of *The Property Management Company, Inc.*, purchased dilapidated homes and sold them to unqualified buyers after obtaining falsely inflated appraisals. Bownes admitted to defrauding numerous mortgage companies by providing false gift letters, appraisals, W-2s, verifications of employment and rent, and backdated bonds for deeds. The government was able to show relevant fraudulent conduct in 85 properties sold by Bownes, which generated approximately \$4.2 million in revenue for him and caused approximately \$2.3 million in losses. Bownes has been ordered to forfeit to the government \$939,000 in cashiers' checks previously seized, 21 investment properties, and his property management office building. During the restitution hearing, the judge ordered restitution to the victims/homebuyers as well as the mortgage companies. Bownes was a former East St. Louis precinct committeeman and a former East St. Louis police and fire commissioner.

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendant Alejandro Morales was sentenced to 21 months in prison and two years supervised release, and was ordered to pay \$436,802 in restitution for his participation in an FHA loan fraud scheme. As part of the scheme, Morales and others located residential properties and purchased them with FHA insured mortgages for the purpose of reselling them. Potential buyers were recruited who often failed to qualify for FHA insured loans due to inadequate income or insufficient assets for a down payment. Recruiters received a commission for every purchaser they located. The buyers

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were then assisted in finding co-signers for the loans. As a result, fraudulent mortgage applications were completed and submitted in the names of the buyers and co-signers. These applications contained false employment documents, down payment verifications, explanation letters, and notarizations of the signatures of the buyers and co-signers. Morales assisted the buyers in completing fraudulent loan applications.

Also in this case, defendant David Garcia Ramos was sentenced to five months in prison and five months home detention, was ordered to pay \$686,975 in restitution, and was fined \$200. Ramos was indicted in March 2002 on charges of conspiracy, mail fraud, and aiding and abetting.

Defendant Marilyn Trujillo, a real estate investor, was sentenced in **Los Angeles, CA**, in Federal Court for the Central District of California, to 36 months probation and ordered to pay \$10,000 in fines and assessments for conspiracy, false statements, and aiding and abetting. Trujillo purchased foreclosed homes from HUD and later sold them to unqualified individuals whom she and her co-conspirators, defendants Morteza Eghbal, Arturo Aranda and Carla Piza, owner of *Quality Home Investments*, recruited. Eghbal was sentenced to five months incarceration, five months home detention, and 36 months supervised release, and was ordered to pay special fines and assessments totaling \$7,600 and restitution of \$1,346,220, which he paid at sentencing. Aranda was also sentenced in State Court to 27 months incarceration and 36 months supervised release, and was ordered to pay \$419,946 in restitution. Piza pled guilty to three counts of wire fraud and one count of false statements.

The defendants purchased several cashiers' checks that were used to provide funds for the individuals' down payments and falsely certified that they did not pay or reimburse any part of the down payments. In total, the defendants paid, or caused to be paid, the down payments for approximately 62 loans, causing \$5,542,000 of FHA insured loans to be funded and an approximate loss of \$2,056,482 to HUD.

Also in this case, defendants Joe Zamorano, a real estate agent, and his son Mario, a real estate investor, pled guilty to one count of wire fraud and conspiracy. The Zamoranos were part of a scheme in which they used strawbuyers and recruited non-

qualifying buyers to purchase residential properties using FHA insured mortgages. In furtherance of the scheme, they purchased cashiers' checks used for the buyers' down payments and obtained fraudulent documents, including W-2 forms, pay stubs, and credit letters, that were submitted as part of the loan applications. In total, the loan origination scheme caused \$7,666,405 in fraudulent loans to be funded and caused a loss of \$3,352,400 to HUD.

In the same case, defendant Art Tapia, a loan officer, was sentenced to 33 months incarceration and 36 months supervised release for false statements, wire fraud, and aiding and abetting. Tapia was ordered to pay \$725,526 in restitution. Tapia recruited non-qualified buyers to purchase FHA insured properties. To facilitate the scheme, he purchased, or caused to be purchased, cashiers' checks that were used to provide the funds for the buyers' down payments. Tapia also caused mortgage loan applications containing false documents to be submitted to HUD for insurance. These false submissions resulted in an approximate loss of \$1,700,000 to HUD.

Defendant William Dunn was sentenced in **Baltimore, MD**, in U.S. District Court for the District of Maryland, to four months incarceration and three years probation, and was ordered to pay \$211,899 in restitution to HUD for his role in a property flipping scam. Dunn previously pled guilty to conspiracy to make false statements, admitting that he used fraudulent documents to obtain government backed mortgages for buyers of houses sold by his company. On at least seven occasions, Dunn and co-defendant Michael Dronet bought houses, refurbished them, and sold them at inflated prices to individuals who were not qualified for FHA mortgages. Dunn also assisted in the creation of fraudulent gift letters, tax returns, and W-2's to qualify individuals to purchase his properties.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, defendants Victor Agama and Andy Quiroz, real estate agents, Rachel Ladesma, a loan officer, and Alex Carrera, an insurance broker, were sentenced following their December 2003 guilty pleas. Agama was sentenced to five months prison, five months home confinement, and three years probation. Quiroz and Ladesma were each sentenced to six months home confinement and three years

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probation. The defendants were also ordered to pay \$118,275 in restitution, joint but severally, to HUD. Carrera was sentenced to two years probation and 100 hours of community service, and was fined \$2,000. The four defendants were charged in October 2003 with participating in a conspiracy to falsify FHA insured loan applications for mortgagors who would otherwise not have qualified. In particular, they falsified W-2's, tax documents, verifications of employment, pay stubs, verifications of landlord, and credit letters from an insurance company which indicated that the mortgagors had been paying on policies which in reality did not exist. The total amount of the loans was over \$800,000.

Defendant Tanya Stephenson-First was sentenced in **St. Louis, MO**, in Federal Court for the Eastern District of Missouri, to three years probation and was ordered to pay \$53,517 in restitution for conspiracy to commit bank fraud. Stephenson-First, a former mortgage broker for *Prism Mortgage*, *Paradigm Mortgage*, and *Accent Mortgage*, admitted to engaging in an illegal property flipping scheme between October 1999 and January 2002. She used false documentation and Social Security numbers to qualify herself and other individuals for conventional and FHA insured loans. She also filed bankruptcy under her real Social Security number and three days later, purchased real estate under a different Social Security number. Stephenson-First was involved in over \$415,000 in fraudulent loans, causing over \$53,000 in losses.

In **Baltimore, MD**, in Federal Court for the District of Maryland, defendant Waldo Andia, a property speculator, was sentenced to 18 months incarceration and five years probation, and was ordered to pay \$77,489 in restitution to HUD for his role in submitting false statements on loan applications in a property flipping scheme. Andia flipped approximately 40 single family homes. He typically sold the homes to first time homebuyers, who purchased the properties with both FHA insured and conventional mortgage loans. Andia created false employment documents for the homebuyers, including W-2's, pay stubs, and verifications of employment, to help them qualify for the mortgage loans.

In **Norfolk, VA**, in U.S. District Court for the Eastern District of Virginia, an Administrative Law

Judge levied a default judgment against defendant Matthew Davis, a real estate developer, in the amount of \$82,500. This action was the result of a Program Fraud Civil Remedies Act referral made to HUD's Office of General Counsel. In September 2001, Davis pled guilty to loan origination fraud involving the sale of 15 FHA insured properties. Davis purchased numerous HUD owned properties, made minor repairs, and then resold them at inflated prices. He admitted providing prospective buyers, who otherwise would not have qualified for the mortgages, with funds for the down payments. Davis also paid off prospective buyers' personal debts, which he secured with second mortgages that were never disclosed. One property had gone into foreclosure at the time of sentencing, for which Davis paid \$61,033 in restitution to HUD. As a condition of his probation, Davis was ordered to indemnify the government for any future losses that may incur relative to the 14 other FHA insured properties. Davis was debarred by HUD's Enforcement Center in March 2002.

Defendants Beth Lanza, Gary Stephens, Michael Cartron, and Zina Sagona, all loan officers, pled guilty in **Las Vegas, NV**, in Federal Court for the District of Nevada. Lanza and Cartron pled guilty to a second superseding indictment charging them with wire fraud in furtherance of loan fraud. Stephens pled guilty to making false statements to HUD. Sagona pled guilty to conspiracy to commit loan fraud and making false statements to HUD. The three defendants originated fraudulent FHA insured loans while employed at *Mortgage Capital Resources (MCR)* and originated fraudulent conventional loans at *National City Mortgage (NCM)* after leaving *MCR*. They falsified income and employment information for borrowers, including tax returns, pay stubs, W-2's, gift letters, and credit documents. Thirty-two fraudulent FHA insured loans originated by the defendants were identified. Eighteen of those loans, valued at \$1.9 million, have defaulted with a loss to HUD of \$533,294. While employed at *NCM*, the defendants originated another 18 fraudulent conventional loans using strawbuyers. These loans were valued at \$3.1 million with a loss to *NCM* of \$185,126.

In the same case, defendant Horace Smith, a former *MCR* loan officer, was sentenced in Federal Court for the District of Nevada to 37 months incarceration and three years supervised release, and was

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ordered to pay \$349,103 in restitution. Smith was sentenced on counts one and six of an indictment that charged him with conspiracy to commit mortgage fraud, making false statements to HUD, and aiding and abetting in the fraud. Smith helped provide false income and employment information to borrowers to obtain FHA insured loans to purchase single family properties.

In **Washington, DC**, in U.S. District Court for the District of Columbia, defendants Vernando and Shauna Everett were sentenced to 72 months probation and two months home detention and ordered to pay \$392,781 in restitution. The Everetts previously pled guilty to a two-count criminal information charging them with conspiracy to defraud HUD and equity skimming for their participation in an illegal property flipping scheme with co-defendant Modou Camara. Camara, owner of *SAFF Unlimited Services*, was previously found guilty of nine felony counts, including conspiracy (one count), interstate transportation of money and securities obtained by fraud (one count), wire fraud (five counts), and money laundering (two counts). Acting as a real estate speculator, Camara recruited the Everetts to purchase FHA insured properties and arranged for them to submit fraudulent loan applications to lenders. To ensure that they qualified for the loans, Camara instructed the Everetts how to complete false gift letters, secretly provided them with cash down payments, and created false separation agreements to mislead the lending institutions. He also provided Vernando Everett with false W-2's and pay stubs, and instructed the Everetts to falsify their intent to live declarations on their loan applications. In an effort to keep the mortgages from going into default, Camara made initial mortgage payments for the Everetts and encouraged them to rent their properties as part of the District of Columbia Housing Authority's Section 8 Program. The Everetts rented all of their properties to Section 8 tenants, collected the rental assistance payments, and failed to make the mortgage payments. In total, the Everetts contracted to purchase six properties from Camara, five of which eventually went into foreclosure. HUD sustained \$329,781 in losses.

In a related case, defendant Baboucarr Lowe was sentenced to 36 months probation and one month of home detention and was ordered to pay \$90,224 in restitution. Lowe previously pled guilty to a one-count

indictment charging him with conspiracy to defraud HUD for his participation in an illegal property flipping scheme with co-defendant Modou Camara. Camara recruited Lowe, his cousin, to purchase an FHA insured property and instructed Lowe how to complete a false gift letter. He also provided Lowe with the cash down payment. Camara also informed Lowe that his credit was poor and needed to be repaired, and offered to "clean up" Lowe's credit report by paying his debts. He provided Lowe with several thousand dollars in order to pay these debts. HUD sustained \$90,224 in losses in this case.

Defendants Nicholas Pistolas, a settlement attorney, and Norman "Reggie" Anderson, Jr., a property speculator, pled guilty in **Baltimore, MD**, in U.S. District Court for the District of Maryland, to mail fraud for their role in a scheme to defraud the FHA and conventional lenders. An investigation disclosed that, from January 1997 through December 2000, Pistolas, along with co-defendants Anderson and Steven Jernigan, purchased and then flipped numerous homes at inflated prices to individuals whom they qualified by using false verifications of income and assets and in some cases false Social Security numbers. In many cases, defendant Jernigan purchased and then resold properties on the same day, using mortgage proceeds from the second transaction to fund the first transaction, aided and abetted by Pistolas and his company, *All City Title*. In at least one instance, Pistolas used loan funds from a financial institution to conduct illegal and fraudulent real estate settlements.

Anderson admitted that, from 1999 through early 2001, he purchased 13 homes from defendant Steven Jernigan with the intention that they would become income producing by being rented out. Anderson received approximately \$5,000 to \$7,000 per transaction from the seller as an inducement to buy the homes.

In the same case, defendant Barbara Ann Prichard, a settlement agent, pled guilty to mail fraud for her role in the scheme. Prichard assisted Pistolas in the fraudulent preparation of title insurance commitments and HUD settlement statements. She also conducted fraudulent real estate settlements for numerous flipped properties. Anticipated losses to the lending institutions and FHA may exceed \$1 million.

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Defendant Jocelyne Martinez, a former investigator for the State Attorney General's Office, pled guilty in **Central Islip, NY**, in Federal Court for the Eastern District of New York, to loan origination fraud and obstruction of justice. Martinez defrauded the HUD Single Family Insurance Program by illegally obtaining \$1.7 million in federally insured mortgages in 2002 to purchase four multifamily buildings in the Bronx, and then coached a witness to lie to investigators about the transactions.

In **Spokane, WA**, in U.S. District Court for the Eastern District of Washington, defendant Ronald Burger pled guilty to conspiracy to commit wire fraud. Burger was charged in August 2003, along with fellow mortgage broker and speculator Sage Gibbons, doing business as *Century Mortgage*; real estate appraiser John Hansen, doing business as *J. Hansen Appraisals, Inc.*; real estate agent Sally Gibson; and escrow officer Cathy Patrick, for their roles in a scheme to defraud lenders and flip numerous homes, including HUD real estate owned homes, at inflated prices. Hansen, who has already pled guilty in this case, provided inflated and fraudulent appraisals on numerous homes. The homes were subsequently sold at inflated prices to individuals whom other defendants in the scheme made appear qualified by using a variety of falsified documents. The fraudulent loans were then sold on the secondary market. Buyers of the loans included Ginnie Mae and Freddie Mac. Since the homes were sold at inflated prices, and the loans were at high interest rates, many buyers were forced into foreclosure because they were unable to make the payments, refinance the loans, or sell the properties.

Defendant Allen J. Meyer pled guilty in **Seagirt, NJ**, in Federal Court for the District of New Jersey, to one count of conspiracy to commit offense or to defraud the United States. Meyer participated in a scheme to falsify mortgage loan applications and related documents in order to obtain FHA insured loans for unqualified borrowers. The false documents included uniform settlement statements, which falsely represented required down payments from the borrowers. The fraud was committed by Meyer as a closing attorney for Mortgage Acceptance Corporation. Losses to HUD total \$1.1 million.

In **Baltimore, MD**, in Federal Court for the District of Maryland, defendant Deborah Kolodner, a property speculator, pled guilty to three counts of mail fraud in connection to her role in a fraudulent loan origination scheme. Kolodner was indicted in April 2003 in a nine-count superseding indictment for mail fraud, money laundering, aiding and abetting, and obstruction of justice in connection with her involvement in a loan origination fraud scheme. The superseding indictment charged Kolodner with using straw purchasers in an effort to conceal the real estate transactions, using an investment scheme to obtain monies from unsuspecting parties, laundering money from real estate and investment transactions to purchase personal items, and attempting to threaten a federal grand jury witness.

Defendant Angel L. Serrano, Jr., a former self-employed real estate broker, was found guilty in **Springfield, MA**, in Federal Court for the District of Massachusetts, of one count of conspiracy to commit wire fraud, one count of wire fraud, and one count of false statements. As part of his fraudulent scheme, Serrano obtained contracts to purchase properties and then persuaded unsophisticated first-time homebuyers to pay inflated prices for the properties. Many of the homeowners paid double the original price. In order to get the homebuyers qualified, Serrano falsified the mortgage applications. All of the charges related to Serrano's property flipping scheme in Westfield, MA. As a result of Serrano's scheme, FHA suffered losses in excess of \$200,000.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, eight individuals were charged in a 30-property loan fraud/property flipping scheme. Defendants James Rucker, an FHA mortgage/loan officer, Virgil Griffin, Gregory Jacobs, Stephen Lawhorn, Patricia Mays, and Carmen Perry, all loan officers, Tina Hoard, a mortgage/seller, and William Scott, an investor/seller, were charged in an 11-count indictment with mail and wire fraud. The defendants allegedly participated in a scheme to buy and sell real estate using false documents, including Social Security numbers, employment, credit, and banking history, and land contracts. In some cases, the loan officers originated loans for their own mortgages by using aliases, which disguised the fact that they were interested parties in the transactions.

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In other cases, after the original purchases, the properties were resold at higher than normal values to unwitting buyers, whose loan packages the defendants falsified. This investigation was originated by the U.S. Trustee's Office for the Northern District of Illinois as a referral on FHA insured mortgages with serial bankruptcy filings. Although the total amount of losses is undetermined, the estimated value of the loans in question is \$4.7 million.

In **Salt Lake City, UT**, in the 3rd District Court, defendants Jose Alejandro Pedraza Martinez, Claudia Cardenas Cruz, Claudia Abud, Joel Resendiz Ruiz, and Gabino Resendiz Ruiz were indicted for recording false or forged instruments, forgery, and/or identity fraud. The defendants allegedly used the Social Security number of another individual to obtain a single family home with an FHA insured mortgage. The property was part of a flipping scheme involving a limited liability company (LLC) that enticed undocumented/unqualified buyers into purchasing homes at inflated values. The owners of the LLC often conducted simultaneous closings on the same day, netting large profits. In many cases, the buyers stopped making mortgage payments and subsequently defaulted on the loans. The defaults were reflected on the credit reports of the actual owners of the Social Security numbers, which made future financial transactions very difficult. The total loss to the FHA insurance fund is expected to exceed \$1.7 million for all investigations associated with the investigations of the LLC.

In the same case, defendants Maria Rodriguez Herrera, Anasatcia Preciado Rolon, Gabino Resendiz Ruiz, Jose Alejandro Pedraza Martinez, and Claudia Cardenas Cruz were arrested as a result of their indictment for allegedly recording false or forged instruments and/or identity fraud.

Defendant Nancy Jacobs was arrested based on a post indictment warrant for submitting false statements. Jacobs was indicted in **San Bernardino, CA**, in Federal Court for the Central District of California, in November 2003 following an investigation which disclosed that between 1996 and 1998, she allegedly flipped \$4.4 million in FHA insured properties. She carried out her scheme by using six fictitious identities, purchasing 46 properties (19 of which are

in claims), and arranging the escrows by which the properties were bought and sold on the same day.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, defendants Gordon Nelson, owner of a construction company, Jae Rank and Lynn Martz, employees of Nelson's, and Alfredo Busano, a loan officer, were charged in a 14-count indictment for their role in an FHA single family loan fraud scheme. The charges included making false statements to HUD and mail fraud. In total, 28 FHA insured loans totaling \$3.2 million were involved in the case. While HUD's losses exceeded \$650,000, Nelson's profits were \$680,000.

According to the indictment, Nelson and his employees allegedly found unqualified buyers with poor credit, low income, and little or no savings and directed them to properties in the Candlewick Lakes subdivision, Poplar Grove, IL, by pretending that Nelson or one of his companies owned the properties. In reality, the houses were either owned by HUD or a private investor. Unknown to the buyers, Nelson planned to purchase the properties either shortly before or on the same day as his sale to the unqualified buyers with an increase in price of \$15,000 to \$40,000. Nelson and his employees then referred the buyers to Busano at *Anchor Mortgage* in order to receive financing. At this point, Nelson, his employees, and Busano purportedly conspired to create fictitious gift donors and gift letters by making it appear that relatives provided funds, when in fact the monies were provided by Nelson.

In the same case, defendant Marco Reyes, a real estate agent, was charged with one count of making false statements to HUD. Reyes allegedly used *Anna Corporation*, his realty company, to mirror Nelson's activities by supplying gift money to one buyer in Candlewick Lakes who could not otherwise qualify for financing. This buyer had his mother pass the money through her bank account and return the money to the buyer for closing to make it appear she was providing him with a legitimate gift for the purchase of the property.

Defendant Julie Kumarsingh, an outside contractor working with *American International Mortgage Bankers Corporation (AIMB)* in **Lake Success, NY**, was sentenced to 12 months confinement and 36

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months probation, and was ordered to pay \$995,153 in restitution and \$30,000 in fines. Kumarsingh has already been imprisoned for over 12 months, which will represent time served. She previously pled guilty to conspiracy to commit offense against or defraud the United States and mail fraud for her role in a fraud scheme. As part of the scheme, co-conspirators assisted in creating false documentation for FHA insured loans for questionable homebuyers located in the New York metropolitan area, including Nassau and Suffolk Counties. Over 90 percent of the loans originated by *AIMB* contained one or more altered documents, including false pay stubs, bank statements, W-2's, rent verifications, verifications of employment and deposit, credit worthiness letters, gift letters, and credit reports. The Section 203(b) loans were subsequently endorsed.

Also in this case, defendants Donna Martin, a senior underwriter, and Emerick Martin and Valerie Vineyard, loan processors, all formerly from *AIMB*, pled guilty to charges including false statements, conspiracy to commit offense or defraud the United States, and mail fraud. The defendants assisted in obtaining FHA insured loans for questionable homebuyers.

Defendant Arlene Lacey, a closing attorney working with *AIMB*, was charged with conspiracy and false statements. Lacey allegedly helped *AIMB* in ensuring that questionable homebuyers would qualify for FHA insured loans. Defendant Nicholas Graham, another outside contractor working with *AIMB*, was arrested for the second time for continuing to perform the same fraudulent activities for which he was initially indicted in November 2002. Graham allegedly assisted in obtaining FHA insured loans for questionable homebuyers.

Defendants Paul Calcasola and Elisabel Rivas were charged in **Springfield, MA**, in Federal Court for the District of Massachusetts, with conspiracy, bank fraud, false statements, and obstruction of justice. The indictment also contained a forfeiture count for a property valued at \$97,000. An investigation of the City of Springfield Economic and Community Development (ECD) Program examined HOME funds in conjunction with the Business Improvement Program. The indictment alleges that Calcasola, Rivas, and an unnamed business owner conspired to

falsify employment records and income in order for Rivas to qualify for a mortgage through Springfield Neighborhood Housing Services, a nonprofit organization that assists first time low- to moderate-income homebuyers. Rivas then used the same false documentation to obtain the down payment furnished by the HOME Program through the City of Springfield ECD. Calcasola prepared false rental documents claiming that Rivas was his renter at a property that was determined to belong to Calcasola's parents. Rivas and Calcasola have resided together since 1996. Calcasola was previously convicted as part of the investigation involving illegal gambling activities and organized crime.

### *Conspiracy/False Statements/Fraud*

In **Detroit, MI**, in Federal Court for the Eastern District of Michigan, defendant Patrick D. Quinlan entered guilty pleas to conspiracy and making false and fraudulent statements in corporate financial reports to the Securities and Exchange Commission (SEC). Quinlan had been the chairman and chief executive officer of *MCA Financial Corporation* of Southfield, MI. *MCA* had been Michigan's largest FHA approved direct endorsement lender. For a number of years, Quinlan and the financial management committee of *MCA* created false financial statements that did not reflect the financial condition of the company. *MCA* did not list millions of dollars of debt within the company's mortgage/land contract investment pools, or millions of dollars of inter-company receivable mortgages on the annual statements. On the contrary, *MCA* altered its financial statements to give the appearance of a positive cash flow. These misrepresentations allowed the company to gain access to a line of credit, sell its mortgage and investment products, and operate as a direct endorsement lender. The false financial statements were mailed to HUD and the SEC.

*MCA* further defrauded investors in its land contract/mortgage investment pools by operating a scheme similar to a "ponzi." *MCA* depleted the real assets of the pool and substituted basically worthless inter-company mortgages or other non-performing paper. Investors were sent annual interest payments by *MCA* based on fraudulent accounting statements, which resulted in interest disbursements that were unrelated to the pools' actual performance.

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Defendant Kevin Lasky previously pled guilty in this case and was sentenced to 24 months incarceration and 36 months supervised release. The restitution amount of \$256 million was ordered previously in this case and is to be paid jointly with the other members involved in the scheme.

Defendant Brian Eden, former president of *United Pathway Foundation, Inc.*, pled guilty and was sentenced in **Miami, FL**, in Federal Court for the Southern District of Florida, to 37 months incarceration and three years probation, and was ordered to pay \$7,835,002 in restitution, \$1,279,653 of which was payable to HUD/FHA. Eden was previously charged with conspiracy related to over 100 Section 203(k) loans. Eden submitted false documents to HUD representing that required property improvements were completed as specified on numerous Section 203(k) work orders. The monies not utilized for the required improvements were diverted to Eden and his co-conspirators. *United Pathway* eventually defaulted on over 100 loans. After resale, these failed loans caused losses to HUD of more than \$1.2 million.

In **San Diego, CA**, in Federal Court for the Southern District of California, defendant Kim A. Larsen, an officer of *Copyfax, Inc.*, pled guilty to making false statements to a federal agent. Larsen participated in a conspiracy to provide funds to *PinnFund*, a HUD approved direct endorsement lender, through fraudulent equipment leases. He obtained information about a potential equipment leasing transaction involving *PinnFund* from his father, Tommy Larsen. Kim Larsen used this information to generate a *Copyfax* invoice showing a purported sale of the equipment to *PinnFund*. The *Copyfax* invoice fraudulently inflated the value of equipment and failed to reveal that the proposed transaction was not an arms-length sale of equipment from *Copyfax* to *PinnFund*. On the basis of the *Copyfax* invoice and other information, a creditor financed the equipment lease by paying *Copyfax* its invoice amount. Larsen forwarded a portion of this money to Michael Fanghella, the chief executive officer of *PinnFund*. Creditors who performed checks of the equipment purportedly serving as collateral for a lease were given false representations and shown other equipment. Kim Larsen was interviewed by federal agents regarding these matters and made

false statements about the equipment leasing transactions.

In December 2003, Tommy Larsen, former president of *PinnLease, Inc.*, a *PinnFund* subsidiary, pled guilty to his involvement in a scheme to obtain funds for *PinnFund* through fraudulent equipment leases and laundering kickbacks of those funds to *PinnFund* and himself through sham transactions and false invoices. In April 2002, Michael Fanghella pled guilty to conspiracy to commit wire fraud, conspiracy to commit money laundering, tax evasion, and filing a false entry with HUD. Fanghella has already been sentenced to 10 years in prison and ordered to pay \$234,251,066 restitution.

Defendant Sharon Surlles Johnson, a loan officer for *Creative Mortgage Lending*, pled guilty in **Dallas, TX**, in U.S. District Court for the Northern District of Texas, to one count of misuse of a Social Security number (SSN). Johnson, who was previously indicted on one count of wire fraud and two counts of misuse of an SSN, used an SSN that did not belong to her in order to obtain an FHA insured loan and a conventional loan. These loans were used to purchase two separate properties. Johnson's loan files contained fraudulent W-2's, pay stubs, and other documentation containing the false SSN. In addition to the two residential properties, Johnson used the same SSN to purchase a vehicle. Finally, as a loan officer, Johnson was involved in additional loans that contained false information. The loss to the government is approximately \$281,000.

In **Phoenix, AZ**, in Federal Court for the District of Arizona, defendant Eva Martinez pled guilty to one count of submitting false statements to HUD. Martinez, a former loan officer at *American Financial Resources, Inc. (AFR)*, was previously indicted on charges of conspiracy to defraud HUD and submitting of false statements. An investigation disclosed that Martinez prepared three FHA insured home loan packages that contained falsified wage documents for the borrowers. She either prepared these falsified wage documents or obtained the documents from other individuals. The total insured mortgage amount of the three loans is \$252,564.

In **Anchorage, AK**, in U.S. District Court for the District of Alaska, defendant Samuel H. Schurig, a

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doctor in Eagle River Alaska, pled guilty to one count of HUD fraud. Schurig was convicted for his part in originating a fraudulent \$119,000 FHA insured mortgage. He convinced a patient to participate in the fraudulent sale of her home to him and to provide him with a portion of the net proceeds from the sale, approximately \$52,000. He then provided HUD with falsified paperwork for the sale, informing HUD that he was going to use the Eagle River home as his primary residence. He never did reside in the house; the patient continued to reside there. The loan subsequently went into default.

In **St. Louis, MO**, in U.S. District Court for the Eastern District of Missouri, defendants Judy Hallock and Todd Coffman pled guilty to false use of a Social Security number. Hallock was previously charged with making false statements to HUD on a loan application for an FHA insured loan. In addition to using a false Social Security number, Hallock overstated her income and failed to report her liabilities on the loan application. The mortgage went into foreclosure, resulting in a \$40,000 loss to FHA. In Coffman's case, which is independent of Hallock's, he used a false Social Security number and false employment and rental verification information on his loan application for an FHA insured mortgage. The property, which was one of the properties flipped by *New Alliance Enterprises* and purchased through fraudulent means, went into default and subsequent foreclosure, resulting in a \$40,000 loss to the FHA insurance fund.

In **Lancaster, PA**, in U.S. District Court for the Eastern District of Pennsylvania, defendants Philip Garland, a prominent land developer and builder in the Lancaster and York areas, Rich Myford, Judy Gemmill, and James Ballantyne, loan officers, and David Gregory Herb, a real estate agent, were indicted on 34 counts of conspiracy and false statements. Allegedly, the defendants sold newly built *Garland Construction Company (GCC)* homes from 1996 to 2001 and made it appear by their false certifications of HUD documents that prospective *GCC* buyers qualified for FHA insured mortgage loans. This fraud scheme caused about 100 *GCC* homebuyers to lose their homes and/or default on their mortgages. Garland and his co-defendants also had many unwitting *GCC* homebuyers execute illegal promissory

notes, which bound families to economically burdensome debts that were never disclosed on HUD loan origination documents. According to the indictment, the defendants targeted unsophisticated customers, particularly first time homebuyers with low incomes and poor credit histories. One hundred transactions were identified in which undisclosed advances were made to appear to be from family members, friends, and employers. To date, this widespread and complex FHA single family fraud scheme has resulted in HUD's paying up to \$10 million in FHA claims and the foreclosure of approximately 50 homes.

Defendant Harold V. Fields, a real estate agent at *Valley Home Experts*, Glendale, AZ, was indicted in **Phoenix, AZ**, in Arizona State Court, for a second time on separate charges. This indictment included one count of fraudulent schemes, one count of unlicensed real estate activity, and five counts of theft. Fields was arrested following the indictment. Fields' real estate license was previously suspended by the Arizona Department of Real Estate and in November 2003, he was indicted on two counts of fraudulent schemes and 22 counts of theft.

*Valley Home Experts* had been the number one seller of HUD real estate owned (REO) properties in Arizona for several years. An investigation disclosed that Fields allegedly recruited investors through advertisements in the newspaper and requested that each investor give him \$25,000 to \$100,000 to buy HUD REO properties. Fields told the investors that the funds would be held in an escrow account to be used for down payments and closing costs for up to 12 investment properties. Often, because of financing issues, many of the loans did not close and the properties were recycled back into the HUD inventory. Many of the investors began to demand that Fields return their money after he failed to provide closing costs for several homes. The first indictment included interviews with 22 investors who lost \$1,436,416. This second indictment includes four new victims with a loss of \$65,750. These funds were taken by Fields after his license had been suspended and after the first indictment.

In **Atlanta, GA**, in Federal Court for the Northern District of Georgia, defendant Omar Turrall was charged with conspiracy, identity theft, wire fraud, and bank fraud. While he was a pharmacy student at

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Florida A&M University, Turrall allegedly obtained other students' names and Social Security numbers and sold that information to co-conspirators Renee Meeks and Lupita McCarty, both previously convicted. The false identities were used to obtain 16 mortgage loans from eight different lenders totaling \$4 million. A majority of the mortgages have gone into default and foreclosure with an expected loss of \$2 million.

In **Denver, CO**, in Federal Court for the District of Colorado, a 48-count indictment was returned against 28 defendants. This matter was brought to the OIG's attention by HUD program staff, who were conducting routine reviews of mortgage companies when they discovered a number of borrowers who appeared to be using false Social Security numbers (SSN) and false income information. Three employers, *Neighborstat*, *W & W Enterprise*, and *Comp System*, appeared in all of the loan packages. Verifications of employment were sent to all three of the companies at two different addresses. An investigation disclosed that the addresses were actually post office boxes rented by defendant Roderick Wesson. Telephone numbers listed on the loan applications and verifications of employment for the three companies were also listed in Wesson's name.

Wesson claimed to be the owner of a credit repair company and guaranteed that he could obtain an FHA insured mortgage for anyone. He worked closely with loan officers Nina Cameron and Warren Williams, as well as real estate agents Linda Edwards, Lewey Thomas, and Toni Myles, also known as Toni Hendricks, who was also a loan processor working for Nina Cameron. Each of these individuals allegedly assisted homebuyers in obtaining mortgages for which they would otherwise have been unqualified. All of the homebuyers obtained false SSNs, W-2's, and pay stubs from Wesson for a fee ranging between \$400 and \$1,000. The documents they received falsely indicated that they were working for companies and earning substantially more money than they actually did. Cameron, Williams, Edwards, Thomas, and Myles were all aware that false information was being used in order to qualify the homebuyers for FHA insured loans. After the loans closed, Edwards and Thomas kicked back approximately 20 percent of their commissions to Wesson, who split the fees with Cameron and Williams. On top of receiving a loan

origination fee, Cameron and Williams also obtained large yield spread premiums when the loans closed.

Defendant Roderick Wesson was charged with one count of conspiracy, 23 counts of false statements, and 20 counts of misuse of an SSN. Cameron was charged with one count of conspiracy, 16 counts of false statements, and 14 counts of misuse of an SSN. Edwards was charged with one count of conspiracy, eight counts of false statements, and seven counts of misuse of an SSN. Myles was charged with one count of conspiracy, six counts of making false statements, and five counts of misuse of an SSN. Thomas was charged with one count of conspiracy, one count of false statements, and one count of misuse of an SSN. Williams was charged with one count of conspiracy, two counts of false statements, and two counts of misuse of an SSN. These defendants were suspended from participation in procurement and non-procurement transactions as participants or principals with HUD and throughout the Executive Branch of the Federal Government.

As a result of the indictment, the following defendants were arrested. Nina Cameron was arrested on one count of conspiracy, 16 counts of false statements, and 14 counts of misuse of an SSN and aiding and abetting. Linda Carnagie, Keith Griffin, Janice Fisher, Janice Marshall, Lasonji Linnear, Lorene Livingston, Suzanne Nangah, Sallena Nichols, Deneen Stone, Paulmiko Parker, Tracey Joyner, Ekan Udom, and Lynn Jones were arrested on one count of false statements and one count of misuse of an SSN and aiding and abetting. Floyd Benjamin and Toni Fisher were arrested on one count of false statements and aiding and abetting. Other defendants included Curtis Lee, Marshon Williams, Michelle Palmer, Mariea Powell, Anthony Rice, and Vaughn Thomas.

Following a 36-count indictment handed down by the Grand Jury for the City and County of **Denver, CO**, 11 individuals were arrested. The arrestees are Golda Harvey, Natalie Soria, Frank Elliott, Albert Lujan, Bridget Kelly, Mary Torres, Reyna Gutierrez, Donnie Pierce, Melanie Seely, Robert Sanchez, and Sylvia Meraz. The indictment included the following charges: violation of the Colorado Organized Crime Control Act; conspiracy; securities fraud; theft; forgery; criminal impersonation; theft from an at-risk

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adult; criminal attempt theft; and first degree aggravated motor vehicle theft. The arrestees were part of a criminal enterprise that defrauded individuals out of the equity in their homes. They also coaxed individuals into becoming “investors,” when in fact the individuals acted as strawbuyers, allowing the enterprise to obtain title to several high-end properties and several FHA insured properties. Also, as a continuation of the criminal enterprise, the defendants fraudulently acquired vehicles with false documentation that they used as props to portray to potential investors the successes of the real estate investment.

As a result of this indictment, defendants Natalie Soria, Albert Lujan, Bridget Kelly, and Reyna Gutierrez were subsequently suspended by HUD from participation in procurement and non-procurement transactions, as a participant or principal, with HUD and throughout the Executive Branch of the Federal Government. Defendant Golda Harvey and three entities affiliated with her, *ASAP Financing, LLC*, *Colorado Real Estate Funding, LLC*, and *Harvey and Associates, LP*, as well as Donnie Pierce and Melanie Seeley, two individuals associated with Harvey, and *Infinity Real Estate Investments, Inc.*, were also suspended.

Following the filing of a criminal complaint in **Detroit, MI**, in Federal Court for the Eastern District of Michigan, defendant Voneesa Crystal Thomas was arrested. The complaint alleges that Thomas, along with at least nine accomplices, assisted in devising and executing a scheme to defraud homeowners whose mortgages were in foreclosure. For the purpose of executing the scheme, Thomas allegedly filed or caused to have filed numerous fraudulent bankruptcy petitions in the U.S. Bankruptcy Court for the Eastern District of Michigan. As of January 2004, HUD had paid over \$1.8 million in FHA insurance claims. HUD has resold many of the foreclosed properties and has an actual loss of \$717,000.

In **Birmingham, AL**, in Federal Court for the Northern District of Alabama, defendants Jason LeSeur, Darren Leonard, Robert McIssac, and Kenneth Taylor were charged with three counts of fraud against HUD and one count of conspiracy. The defendants allegedly sold homes on behalf of *Southern Construction*, which paid the purchasers' down

payments and provided false gift letters to HUD. The defendants also provided false credit reference letters to HUD. False documents were submitted to HUD on more than 55 loans totaling \$3 million. HUD suffered a loss of approximately \$1.5 million due to the scheme.

Four defendants who worked at *Saxon Mortgage Bank* were indicted in **Central Islip, NY**, in Federal Court for the Eastern District of New York. Frances Purcell, a real estate agent and accountant, allegedly facilitated the production of, and prepared, fake W-2's, tax returns, verifications of employment, and pay statements for mortgage applicants. Eli Louis-Pierre, a former loan officer at *Saxon*, was also charged with arranging for fake documents and false employment information for applicants. Carol Horton-Branch, a real estate agent, was charged with facilitating false documents, including the arrangement of fraudulent gift and down payment information. These three defendants were each indicted on eight counts of making false statements and one count of theft. Defendant Stephen Cox, a business owner, was charged with conspiracy for allowing his hair salon to be used as a fraudulent place of employment for mortgage applicants. He was indicted on one count of theft.

Defendant Lilia Ramirez Pereyra was arrested at her place of employment, *Express Home Loans*, pursuant to a federal arrest warrant. The previous day, Pereyra was indicted in **Phoenix, AZ**, in Federal Court for the District of Arizona, on one count of conspiracy, four counts of submitting false statements to HUD, and two counts of misusing a Social Security number (SSN). An investigation disclosed that, while she was employed as a loan officer at *American Financial Resources, Inc. (AFR)*, Pereyra allegedly used falsified wage documents to qualify four of her clients for FHA insured home loans; the mortgages totaled \$373,178. In addition, the SSN which Pereyra reported on her employment applications at *AFR* and at another employer, *First National Mortgage Bank*, was not her SSN. In addition, Pereyra was using a falsified resident alien card and had no legal status in the United States. Based on this information, the Bureau of Immigration and Customs Enforcement issued a detention order for Pereyra.

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In State Court in **Salt Lake City, UT**, defendant Ricky Lee Hale was served with an arrest warrant for committing single family loan fraud while in custody for a recent arrest related to charges of rape of a child. Specifically, he was charged with theft by deception, forgery, and tampering with records. Hale allegedly used a fictitious Social Security number to obtain an FHA insured mortgage that later went into foreclosure, resulting in a \$40,202 loss to HUD. He also used the fictitious Social Security number to obtain employment, conceal income, avoid paying child support, and open a business.

Defendant Joseph Nardone, Sr., was indicted in **Jersey City, NJ**, in Federal Court for the District of New Jersey, on charges of conspiracy to embezzle from a welfare benefit fund. Nardone was the former president of the Novelty Production Workers Union. He and his son, Joseph Nardone, Jr., along with defendants Stanley Rothman and Pete Hasho, were part of a six-count indictment handed down in May 2003. Rothman allegedly used strawbuyers to purchase HUD properties in Florida, which he later resold for a profit. Some of the strawbuyers were members of Rothman's family and others worked for or were associated with the Novelty Production Workers Union 148 Welfare Fund.

### *Mail, Wire & Bank Fraud*

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendant Maggie Cuevas was sentenced for mail and bank fraud and aiding and abetting to 51 months incarceration and five years probation, and was ordered to pay \$10.2 million in restitution. Cuevas owned a business that created false documents for more than 200 individuals in the real estate industry. Customers contacted Cuevas and her staff for fictitious employment documents and W-2 forms needed to qualify buyers for FHA insured mortgages. False credit letters, rental documents, and references were also provided. Cuevas' operation was organized to the degree that she maintained a bank of telephones and operators corresponding to fictitious businesses established to verify borrowers' employment. A forensic auditor team analyzed seized documents and identified borrowers in approximately 3,500 FHA insured loan transactions totaling over \$450 million, and then

matched the seized documents to employment documents in FHA case binders for 450 loans on which claims had been filed, with losses to HUD exceeding \$20 million. Cuevas was on federal probation at the time this investigation began after pleading guilty in 1999 to mail fraud involving FHA loan originations.

Defendant Dora Medrano also pled guilty in this case to conspiracy and wire fraud. Medrano purchased false documents, including pay stubs and W-2 forms, from Cuevas. The documents later appeared in FHA loan applications, resulting in a loss to the government of \$1,032,886.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, defendant Anthony Culpepper, a loan officer, was sentenced to 12 months incarceration, three years probation, and 100 hours of community service, and was ordered to pay \$1,105,636 in restitution. Culpepper previously pled guilty to one count of mail fraud for his participation in multiple schemes to defraud HUD and conventional lenders. Specifically, Culpepper originated more than 30 loans through the use of strawbuyers, false down payments, fabricated employment information, fraudulent Social Security numbers, fictitious landlords and rental payments, and bogus tax documents in order to qualify otherwise unqualified mortgagors. HUD suffered losses of approximately \$460,000, while conventional banks and lenders lost approximately \$640,000. Defendants Dawn McCain and Richard Thomas, co-conspirators in this investigation, have already been sentenced. This case was originally referred to OIG from the Atlanta Homeownership Center and the Chicago Quality Assurance Division.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, defendant Mark Schmitt, an appraiser at First Tennessee National Bank, was sentenced to 22 months incarceration and 60 months probation. Schmitt pled guilty in August 2003 to both mail fraud and income tax fraud for his role in a real estate scheme involving HUD's Section 203(k) Rehabilitation Home Mortgage Insurance Program. As part of the scheme, Schmitt falsified 72 HUD insured 203(k) mortgage inspections by indicating that work had been completed by contractors, thus authorizing escrow draws, when in fact either no work was done, the work was done improperly, or in some cases, the homes had been demolished. Other co-defendants in

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this case include David Guel and John Wojcik, who have already been convicted and sentenced. Restitution totaling \$4,218,496 was previously ordered in this investigation, and is to be paid jointly and severally by all of the defendants in the case. This case was originally referred to OIG by the HUD Quality Assurance Division in Chicago.

Defendant Angela Daidone, president and owner of *Morningstar Bank*, was sentenced in **New York, NY**, in Federal Court for the Eastern District of New York, to 13 months in prison and 36 months supervised release, and was ordered to pay \$1,757,714 in restitution to warehouse banks. Daidone pled guilty to one count of wire fraud following an investigation into double dipping on *Morningstar's* warehouse lines of credit and the use of FHA mortgage insurance premiums to pay business expenses of the bank.

The investigation of *Morningstar* and Daidone began in February 2000. At that time, *Morningstar* occupied the business premises previously occupied by *Executive Mortgage Company*. In December 1999, a search warrant executed on the business premises of *Executive Mortgage* netted evidence that *Executive* was, among other things, committing wire fraud by double dipping on its warehouse lines of credit. *Executive* ceased business operations in January 2000 and sold its pipeline inventory, business equipment, and other assets to *Morningstar*. *Morningstar* also hired some former *Executive* employees and assumed *Executive's* lease. After the FBI raided the same business location, the U.S. Attorney's Office, Eastern District of New York, requested the assistance of the HUD OIG. The investigation disclosed that defendant Daidone was committing wire fraud by double dipping on the bank's warehouse line of credit, and was delaying payments of FHA mortgage insurance premiums in order to use the float of the premium money.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, defendant Brian Wilkozek, a loan officer, was sentenced to one year and one day in prison and two years supervised release, and was ordered to pay \$713,400 in restitution for mail fraud. Wilkozek participated in a fraud scheme involving 100 properties with \$5.7 million in loans. The scheme involved Theresa Holt, a current fugitive and former

employee of *North East Austin*, a HUD approved nonprofit, who started her own business known as *Share Development Corporation*. *Share Development* acquired numerous properties, some of which were obtained through HUD's Direct Sales Program and *North East Austin*, and resold them. Many of the applications for the mortgage loans contained inflated employment information, including information that some buyers worked for *Share Development* and *Northeast Austin*. In addition, buyers, as well as loan officers, were paid \$3,000 to \$4,000 outside of closing for purchasing the properties.

In a related case, defendant Ellen Berry, a mortgagor and former employee of *North East Austin*, was sentenced to five years probation and ordered to pay \$246,009 in restitution, while defendant Thomas Hozier, a mortgagor, was sentenced to five years probation, four months home detention, and 150 hours of community service, and was ordered to pay \$359,974 in restitution. Defendant Jacqueline Watson, a borrower, was sentenced to five years probation, four months home confinement, and 150 hours of community service, and was ordered to pay \$402,750 in restitution. All three defendants previously pled guilty to their participation in a fraud scheme with defendant Theresa Holt.

Defendant Hector Rosales Contreras was sentenced in **Los Angeles, CA**, in Federal Court for the Central District of California, for wire fraud. He was sentenced to 15 months in jail and three years probation, and was ordered to pay \$790,905 in restitution and a \$200 fine. Contreras worked as a property investor and caused false documentation to be submitted to HUD concerning FHA insured loans. He caused not less than \$2,763,294 in fraudulent FHA insured loans to be submitted to HUD, resulting in a loss of \$1,360,676.

In the same case, defendant Hector Piza was indicted on one count of conspiracy, four counts of false statements, and one count of causing an act to be done. Piza allegedly caused false documentation to be submitted to HUD concerning FHA insured loans. The loans, valued at \$829,824, were based on this false documentation.

This sentencing and indictment were part of a larger investigation which revealed that the owners of

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*April 8 Realty* in La Puente, CA, fabricated and sold thousands of false loan support documents to numerous real estate agents. To date, the investigation has resulted in guilty pleas by 24 individuals and sentencing totaling 100 months incarceration, 39 years probation, \$1,683,742 in restitution, and \$22,800 in fines.

In **Cleveland, OH**, in Federal Court for the Northern District of Ohio, defendant Albert Thrower was sentenced to 90 months incarceration and three years supervised release, and was ordered to pay \$188,328 in restitution. The sentence was based on a 32-count federal indictment and conviction, including charges of concealment of assets, bankruptcy fraud, conspiracy, fraud in connection with identification documents, mail fraud, and destruction, falsification, or alteration of records in a federal investigation. Thrower, who had been in custody since his initial arrest and indictment, was found guilty of targeting distressed homebuyers, some of whom had FHA insured loans through his company, *American Services*. Specifically, he started a bankruptcy petition and statement of financial affairs, but had no intention of following through with the plan or the schedules of assets and debts. In addition, *American Services* failed to report on the petition or the statement of financial affairs that they prepared the documents or received payment for their services, in violation of bankruptcy law. As a result, HUD, banks, and private lenders were precluded from foreclosing and minimizing their losses through reacquisition of the properties. One of the counts charged, known as Sarbanes-Oxley, was the first bankruptcy case to be charged under Section 1519 of the recently passed U.S. Patriot Act.

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendant Benjamin Harrison Tyler was sentenced to five years probation and eight months home detention, was ordered to pay \$43,516 in restitution to Equicredit, and was fined \$10,000. Tyler pled guilty to mail fraud in July 2002. Tyler, along with co-defendants Tony Hicks and Greg Philips, used their companies, *Malitop, Inc.*, *Malitop Realty, Inc.*, *Western Security Group*, and *Nesbitt's Distributing, Ltd.*, in a fraud directed at commercial lending institutions and HUD's Title I Program. The defendants used the personal information of others,

including Social Security numbers and dates of birth, to fraudulently obtain conventional mortgage loans and FHA insured Title I loans. They recruited strawbuyers or directed other co-conspirators to do so, created or obtained false W-2 forms and pay stubs in the names of the strawbuyers, and then notarized documents certifying that the strawbuyers signed deeds and other necessary documentation. The loan applications and false documents were submitted to lending institutions to support inflated income levels necessary for the loans to fund, and the lending institutions in turn relied on the false information to extend loans to the strawbuyers. The defendants caused at least \$1.5 million in loans to go into default.

Defendant Martha Amaya, an associate of a real estate investor, pled guilty in **Los Angeles, CA**, in Federal Court for the Central District of California, to two counts of wire fraud. Amaya recruited unqualified buyers to act as purchasers of residential properties from her employer. She then purchased fraudulent documents and caused the buyers to obtain FHA insured mortgages to purchase the properties. As a result of the fraud, Amaya caused \$4,879,563 in fraudulent FHA insured loans to be submitted to various lending institutions and HUD.

In **Seattle, WA**, in U.S. District Court for the Western District of Washington, defendants Scott Anderson and Stephanie Anderson were indicted on five additional counts of mail fraud by way of a superseding indictment. The defendants were originally indicted on eight counts of conspiracy, wire fraud, money laundering, interstate transmission of stolen funds, and possession of cocaine. The defendants were the owners and operators of an escrow company named *Washington One Stop*. During their operation of the company, they allegedly embezzled funds from the escrow trust account. These funds were due the various parties in real estate financial transactions, such as borrowers, title companies, and mortgage brokers. These embezzlements created a surplus of funds in the escrow account. During a three-month period, the defendants withdrew \$134,863 from the escrow trust account through five withdrawals and then abandoned the company. After withdrawing the funds, they made \$60,000 in subsequent wire transfers to a casino in Las Vegas.

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The additional five counts of mail fraud stem from the defendants' submission of false employment and wage earnings to the Washington State Employment Security Department in order to obtain payments to which they were not entitled. Employment Security transmits unemployment insurance checks via the United States mail.

In **Cleveland, OH**, in Federal Court for the Northern District of Ohio, defendant Otis Bevel, an investor/mortgage broker, was charged in a 12-count indictment with mail fraud, bank fraud, money laundering, and Social Security number fraud related to his involvement in a mortgage loan fraud scheme. The indictment alleged that in March and April 2003, Bevel executed a scheme to defraud Second National Bank and other mortgage lenders through his two residential real estate companies, *Capital Realty Group* and *Midwest Venture Realty, Inc.* Bevel allegedly provided various false and fraudulent financial documents to lenders in support of loan applications for both conventional and FHA insured loans. Several of the loan applications contained fictitious names and Social Security numbers. Bevel also used nominee or nonexistent employers to falsely verify employment and income for the loan applicants, as well as fictitious pay stubs and tax forms.

Bevel allegedly caused one loan to close in which the mortgagor used the alias of a minor child, concealing from the lender the true identity of the borrower. HUD insured this particular loan in the amount of \$111,599. To date, Bevel has enriched himself by more than \$500,000 in proceeds from his illegal activities. He is currently serving a prison sentence for a previous mortgage fraud activity after pleading guilty in March 2003. The earliest offense in this current indictment allegedly began on the same day of his original guilty plea. Bevel continued his illegal activities right up until the time he reported to prison in August 2003.

In **St. Louis, MO**, in Federal Court for the Eastern District of Missouri, defendant Sean Holland pled guilty to a one-count information charging him with conspiracy to commit wire fraud. Holland was an accountant for *The Loan Store, Inc.* He admitted creating false tax returns and other income documents for the owner and officers of *The Loan Store*. A federal search warrant was executed at Holland's

home/office in November 2001, and computer files containing the false income documents were seized.

Also in this case, defendant Tandy Hairston, former president of *The Loan Store, Inc.*, pled guilty to five counts of wire fraud and one count of conspiracy. Hairston, who operated as a mortgage broker and banker, admitted to committing mail fraud and wire fraud by submitting false documents to obtain funding from warehouse lines of credit and then using false documents to sell the loans to mortgage investors. Hairston also operated as *Midtown Mortgage* and *Nations Investments*, and admitted to using his businesses to flip properties to unqualified buyers and strawbuyers. Hairston and associated real estate investors purchased dilapidated properties under the name *Nations Investments* in and around St. Louis, and obtained false income documents from Sean Holland to qualify purchasers for loans through *The Loan Store/Midtown Mortgage*, an FHA approved lender. In a signed plea agreement, Hairston admitted to \$5 million in intended losses, and \$2.5 million of actual losses.

In the same case, defendant Kelan Pyant pled guilty to one count of conspiracy to commit wire fraud. Pyant, who worked for *Nations Investments*, admitted using a strawbuyer to purchase a property from HUD, transferring the property to his own name, and then obtaining an inflated appraisal and flipping the property at a substantial profit to an unqualified purchaser. Pyant also admitted conspiring with Hairston to obtain financing with false documents. Pyant's fraudulent activities caused a loss of approximately \$50,000.

Defendant Billy Miller, a real estate investor, pled guilty in this case to one count of wire fraud. Miller admitted being paid for locating a strawbuyer to purchase property and obtain over \$350,000 in mortgage loans, and for assisting investors in avoiding the loss of their properties to the foreclosure process. Miller caused \$345,000 to be wired under false pretenses.

Finally in this case, defendants Iris Whitener, DeMona Payne, Anthony Orr, Kelan Pyant, Arnold Mitchell, and Mark Williams, six of Hairston's employees and associates, were indicted for conspiracy to commit wire fraud, mail fraud, and money laundering.

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Defendant Leslie Bhagwandin, a real estate and mortgage broker, was arrested and charged in **Central Islip, NY**, in Federal Court for the Eastern District of New York, with conspiracy to commit mail fraud in connection with FHA loan files that were eventually endorsed by HUD. Bhagwandin, who is the president and chief executive officer of *Nardin Realty* and *Nardin Group of Companies*, planned, coordinated, and caused to be submitted numerous fraudulent loans that have either gone into default or foreclosure. Bhagwandin allegedly solicited business from first time homebuyers with promises of low or no down payments or closing costs. In order to further the scheme, bogus gift affidavits, tenant letters, W-2 forms, pay stubs, and verifications of employment were created. Bhagwandin orchestrated the fraud by handling all HUD required documents and steering potential homeowners to a lending institution that was involved in the fraud and to attorneys who claimed to have received escrow monies on behalf of the homebuyers. The amount of the fraudulent loans totals more than \$2.4 million.

In the same case, defendant David Becker, a licensed attorney in the state of New York, was arrested and charged in **Central Islip, NY**, in Federal Court for the Eastern District of New York, with conspiracy to commit mail fraud. Becker allegedly submitted numerous fraudulent loan documents in support of FHA insured loans that have gone into either default or foreclosure. On at least two separate occasions, Becker acted as the homebuyers' attorney, claiming to hold down payments and closing fees in his attorney escrow account. The scheme was carried out by means of bogus gift donors who used checks that were either never endorsed or were re-deposited in their accounts.

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendants Jade Serrano, Enrique Martinez, and Douglas Segura were charged with wire fraud. Serrano, a loan officer for *North American Mortgage Company*, and Martinez and Segura, real estate agents with *California Brokers*, allegedly caused mortgage applications that contained false employment, income, and credit related documents to be submitted to HUD. As part of the scheme, Serrano claimed that she had conducted face-to-face interviews with borrowers when in fact

she had not. In one instance, the interview was not conducted because the borrower did not exist. In furtherance of the scheme, Serrano and others caused wire transfers to be sent from commercial lenders in California to HUD's account at Mellon Bank in Pennsylvania. This investigation was initiated following a referral from the HUD Quality Assurance Division at the Santa Ana Homeownership Center.

Defendants Pete Karsos and Kimberly Kovacs, brokers at *Nation Mortgage Company*, and Anthony Dichiara, an appraiser at *LTD Appraisals*, were indicted in **Baltimore, MD**, in U.S. District Court for the District of Maryland, on mail fraud charges. An investigation disclosed that, from at least April 1998 through December 1999, Karsos and Kovacs allegedly were involved in buying and selling homes to investors. Each brokered the mortgage loans and knowingly provided false information to mortgage lenders by using fictitious Social Security numbers, inflating borrowers' income, and fraudulently stating that the borrowers intended to occupy the homes as their primary residence. Dichiara provided false appraisals to support the inflated property values. In some instances, Karsos or Kovacs provided money to potential homebuyers to handle closing costs and ensure a steady stream of business. In furtherance of the scheme, defendants Nicholas Pistolas and Barbara Prichard, settlement agents who have already been charged in this case, prepared fraudulent settlement sheets and were involved in property flipping transactions.

### *Equity Skimming*

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendant Ray Tomlinson was sentenced to 30 months imprisonment and three years probation, was ordered to pay \$932,626 in restitution to HUD and \$433,654 in restitution to the Department of Veterans Affairs (DVA), and was fined \$50,000. Defendant Penny Lubanko was sentenced to 21 months imprisonment and three years probation and was fined \$40,000. Lubanko is jointly liable for the same restitution as Tomlinson. This investigation began after OIG received allegations that the defendants were associated with a bankruptcy fraud and equity skimming scheme that involved 150 properties with HUD insured and

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DVA guaranteed mortgages. Federal informations were filed against Tomlinson and Lubanko, alleging that they had purchased properties with HUD insured and DVA guaranteed loans that were in default, and failed to make the mortgage payments while they continued collecting rent. The defendants pled guilty to bankruptcy fraud, equity skimming, conspiracy, false representation of Social Security numbers, and submitting false statements in bankruptcy proceedings.

Defendant Renee Wilmot was sentenced in **Newark, NJ**, in Federal Court for the District of New Jersey, to three years and five months home detention for her part in an equity skimming and mail fraud scheme. Wilmot previously pled guilty to failure to file income tax returns. Wilmot and her two co-defendants, Timothy Burke and Paul Ligas, operated a real estate company called *Lincoln Management*. *Lincoln Management* fraudulently claimed to be able to help homeowners who were in default on their mortgages, and then converted homeowner payments to their own use, forcing many to lose their homes.

Defendant Edwin “Andy” Kane was indicted in **Rochester, NY**, in Federal Court for the Western District of New York, on one count of single family equity skimming and four counts of mail fraud. Kane allegedly devised a scheme in which he purchased, through simple assumption, numerous FHA insured properties throughout the City of Rochester. At the time of purchase, all of the properties were rented to tenants. Kane continued to collect rents on the properties but failed to make any mortgage payments, causing the properties to go into foreclosure. In addition, shortly after assuming the properties, Kane sold them, again through simple assumption, to a fictitious third party. He then mailed the fraudulent assumption paperwork to the financial institution servicing the FHA insured mortgage.

### *Money Laundering*

In Cook County Court, **Chicago, IL**, defendant David Johnson pled guilty to theft of over \$100,000 and received 30 months probation. The next day, defendant Eric Pollards, an appraiser, pled guilty to money laundering and theft of over \$100,000 and received 36 months probation. Johnson and Pollards were indicted in June 2003 along with 15 other co-defendants for

their role in an elaborate single family fraud scheme wherein HUD Direct Sales properties and privately owned homes were sold with mortgages which were obtained with fraudulent appraisals, false employment information, fictitious down payment information, and bogus identities. Johnson was not a licensed appraiser. Instead, he stole the name and appraisal identification number of his deceased brother in order to inflate property values and verify rehabilitation work on properties. Overall, Johnson accepted responsibility for fraudulent loans valued at \$300,000. Pollards, a licensed appraiser, accepted responsibility for fraudulent appraisals and for his role in diverting mortgage proceeds through fraudulent pay-off letters. Pollards would file fraudulent documentation with the recorder’s office and assist in the laundering of diverted closing funds. The monies should have ultimately gone to a legitimate lender holding the first lien on the properties. Pollards accepted responsibility for over \$1 million in fraudulent loans.

### *Forgery/Theft/Embezzlement*

Defendant Dina M. Leone was charged in **Westminster, MD**, in District Court of Maryland for Carroll County, with nine counts of theft over \$500, 12 counts of theft under \$500, and one count of carrying out a theft scheme over \$500 in connection with her role in defrauding local homeowners into making their monthly mortgage payments to Leone in order to avoid foreclosure. In May 2001, the victims in this case were in financial danger of losing their FHA insured properties. In an effort to avoid foreclosure, the homeowners hired an attorney at the local law office of *Bauhof & Dorsey*. The attorney worked on the case for approximately one month but was unable to develop a plan to prevent the foreclosures. At the time, Leone was employed at *Bauhof & Dorsey* as a paralegal.

In June 2001, Leone contacted the homeowners and told them that she was leaving *Bauhof & Dorsey* to start her own practice, giving the homeowners the impression that she was an attorney. To help the homeowners avoid foreclosure, Leone proposed that payments be made to her in cash and that she would in turn pay the bank until their financial obligations were current. In September 2001, desperate to keep

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their homes, the homeowners agreed to Leone's offer and began making monthly mortgage payments directly to Leone. Leone usually requested amounts that were higher than the monthly mortgage payments, explaining that extra money was needed to bring the mortgage payments current. The homeowners struggled to make the monthly mortgage payments to Leone through January 2003, in one instance withdrawing money from an Individual Retirement Account with the understanding the money would be applied to the mortgage. In February 2003, the lender from this particular property foreclosed on the loan, resulting in a loss of over \$15,000 to the Department after the subsequent resale. Subpoenaed financial records from the lender revealed that no payments were made on the mortgage during the period in which the homeowner was giving money to Leone.

### *Conversion of Government Property*

In **Grand Rapids, MI**, in Federal Court for the Western District of Michigan, defendants Chad and Dawn Elve, children of Terrance Hansen, the former chief of property disposition, and Judy Hansen, former HUD multifamily specialist, were sentenced for their earlier guilty pleas to conversion of government property. Chad Elve was sentenced to 18 months incarceration, 300 hours of community service, and three years probation, and was ordered to pay \$91,968 in restitution. Dawn Elve was sentenced to six months home confinement and three years probation, and was ordered to pay \$66,328 in restitution. Through their stepfather, Terry Hansen, Chad and Dawn Elve obtained HUD properties for \$600 each when in fact they were valued at \$96,000 and \$80,000, respectively. In addition to their \$600 purchases, they both obtained equity out of the properties totaling \$70,000 and \$40,000, respectively.

Their mother, Judy Hansen, was previously sentenced to four months home confinement, three years supervised release, and 300 hours of community service, was fined \$2,000, and ordered to pay \$53,400 in restitution to HUD. Terry Hansen has already pled guilty to two of four different indictments with which he was charged. Specifically, Hansen pled guilty to three counts of wire fraud and one count of false statements for lying to federal agents during an interview. In his capacity as chief property officer,

Hansen was responsible for selling property acquired through FHA foreclosures. He was required to sell the properties for their maximum value, in compliance with outstanding regulations and guidelines, in order to replenish the mortgage insurance fund. As part of his plea, Hansen accepted responsibility for selling HUD foreclosed properties to his wife, Judy Hansen. In an attempt to confuse or misrepresent the details of the sales to his family members, Hansen created false entries in the Single Family Asset Management System (SAMS). He was also responsible for creating a bogus vendor number in SAMS for his stepdaughter, and directed HUD funds to be paid to his stepdaughter via SAMS. Finally, Hansen created a bogus deed of sale reflecting a false sales price for the home purchased by his stepson. Using the false deed, the stepson immediately obtained an equity loan from Bank One to "cash out" for the true value of the home.

In the second indictment to which Hansen has pled, he pled guilty to 10 counts of wire fraud and 10 counts of conversion. Hansen admitted selling HUD property disposition properties to Emalee and Jack Birne at prices well below their appraised values. At the time of the fraudulent sales, Emalee Birne was acting as the HUD closing agent and was responsible for repossessed property closings on behalf of HUD. Prior to this contract, Emalee Birne also served as the real estate asset manager for the HUD Grand Rapids Office.

### *Officer Next Door (OND) Program*

In **Chicago, IL**, the U.S. District Court for the Northern District of Illinois entered a default judgment in favor of the Federal Government in the amount of \$184,500 against defendant Robert Mohedano, a participant in HUD's OND Program. This amount was three times the discount price of \$61,500 for Mohedano's initial purchase of the OND property. Specifically, Mohedano allegedly rented out his OND property to a market rate tenant while he lived elsewhere. Two months after the purchase of the property, Mohedano refinanced the house using a fictitious lease agreement between him and his girlfriend and received cash proceeds of approximately \$75,000. While still bound by the OND three-year commitment to live in the property, Mohedano refinanced his other two properties and purchased an

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additional two residences, one of which was an FHA insured property in Puerto Rico. On all of these subsequent purchases, Mohedano indicated that he would occupy the properties as his primary residence.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, defendant Dionisio Flores, a police officer with the Chicago Police Department, agreed to pay \$138,000 through a civil settlement with the U.S. Attorney's Office, Civil Division. This amount is double damages for the \$69,000 discount he received on his original purchase of an OND property. Flores rented out the property to family members while he lived at his girlfriend's house instead of occupying the property as required by HUD regulations.

In **Milwaukee, WI**, in Federal Court for the Eastern District of Wisconsin, the U.S. Attorney's Office entered into a settlement agreement with defendant Jeffrey S. Stevens, a Milwaukee County Sheriff's Office deputy, on behalf of HUD with respect to Stevens' failure to complete his required three years' residency at the property he purchased through HUD's OND Program. Pursuant to the agreement, Stevens paid \$12,500 to the United States. In August 1998, Stevens purchased the OND property, which had been appraised at \$38,000, for the discounted price of \$19,000. He initially resided at the property, but in December 2000, moved to live with his fiance in a house that was purchased in her name in November 2000. Stevens then rented out his OND property for \$500 per month and subsequently sold the property in August 2002 for \$78,000.

Defendants Torris Cooper, a police officer for the South Miami Police Department, and Gwendolyn Okotogbo, a corrections officer for the Metro-Dade Department of Corrections, were sentenced in **Miami, FL**, in Federal Court for the Southern District of Florida. Cooper was sentenced to 15 months incarceration, 24 months probation, and 200 hours of community service. The judge delayed her finding on restitution until a later date. Okotogbo was sentenced to four months home confinement and 12 months probation, and was ordered to pay \$43,200 in restitution to HUD. The defendants were two of three law enforcement officers who purchased homes through HUD's OND Program and were indicted in

July 2003 on charges of making false statements to HUD and to federal law enforcement officers. Cooper and Okotogbo, along with defendant Charles D. Brunson, a police officer for the City of Opa Locka Police Department, were charged with falsely claiming that they used/intended to use their OND homes as their sole residences during the three-year occupancy requirement. Brunson was also sentenced to one year probation.

Defendant Stacey Orr, a former Kenosha, WI police officer, pled guilty in **Milwaukee, WI**, in U.S. District Court for the Eastern District of Wisconsin, to one count of false statements in connection with two Uniform Residential Loan Applications used to obtain guarantees on two mortgages on two separate properties. The original indictment charged Orr with failing to disclose the existence of loans on which he was making payments to the Kenosha Police and Fire Credit Union. On the dates of the false statements, the unpaid balances were identified as \$35,688 and \$29,183, respectively. The second count of the indictment charged Orr with submitting a false statement related to the refinancing of a property obtained through HUD's OND Program. The indictment further stated that both mortgages subsequently went into foreclosure. As a result of these foreclosures, Orr failed to complete his three-year occupancy requirement under the OND Program, and the Department of Veterans Affairs (DVA) paid out \$27,181 for the guaranty. Orr had purchased the OND property, then appraised at \$71,100, for the discounted price of \$35,550, obtaining a 50 percent discount from HUD based on his agreement to reside in the property for at least three years.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, a civil complaint was filed by the U.S. Attorney's Office, Civil Division, against defendant Ronald Johnson, a police officer, who allegedly rented out his OND Program property instead of occupying it as his residence. Johnson purportedly resided with his girlfriend in lieu of occupying the property. The U.S. Attorney's Office is seeking \$98,000, which is half of the \$196,000 FHA insured Section 203(k) loan.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, a civil complaint was filed by

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the U.S. Attorney's Office, Civil Division, against John Luckett, a corrections officer, who allegedly rented out his OND Program property instead of occupying it as his residence. In addition, Luckett allegedly obtained a loan for another single family property during the required three-year occupancy timeframe, claiming he would be the owner/occupant. The U.S. Attorney's Office is seeking \$57,000, which is half of Luckett's \$114,000 conventional loan.

### *Grand Larceny*

Defendant Jean Guilbaud, a real estate broker who is presently a fugitive, was indicted in State Court, **Nassau County, NY**, on four counts of grand larceny, one count of scheme to defraud, and one count of bail jumping in connection with a \$40,000 HUD real estate owned fraud scheme. Guilbaud was authorized to submit bids on HUD owned properties on behalf of the general public. She was charged with receiving bid deposits from complainants, ranging from \$1,000 to \$13,000, and failing to return the deposits when the bids were not awarded. Guilbaud also failed to pass bid deposits on to HUD that were due from winning bidders who failed to close on the properties. HUD has since terminated Guilbaud's approval to bid on HUD owned properties.

### *Harboring Unauthorized Aliens*

In **Norfolk, VA**, in U.S. District Court for the Eastern District of Virginia, defendant Ubaldo Gomez-Mercado was sentenced to 33 months incarceration for harboring unauthorized aliens, 33 months incarceration for mail fraud, and 33 months incarceration for making false statements on a loan application, all to be served concurrently. Gomez-Mercado was also sentenced to three years supervised release and was ordered to pay \$23,185 in restitution. Upon his release from prison, Gomez-Mercado is required to surrender himself to the Bureau of Immigration and Customs Enforcement to undergo a deportation hearing.

Gomez-Mercado used strawbuyers to purchase FHA insured properties in a scheme to hide his own assets and to establish secure locations to house illegal immigrants. Both the strawbuyers and a large number of illegal immigrants worked for businesses owned by Gomez-Mercado. The defendant falsely

certified in a gift letter that he was giving \$12,000 to Juan Carlos Ayala toward the purchase of an FHA insured property. Ayala was previously sentenced to six months incarceration and one year supervised release for making false certifications on his loan application. Gomez-Mercado also pled guilty to mail fraud in connection with his underreporting of income from a business that he owns and his subsequent failure to pay related sales taxes.

Gomez-Mercado was charged as a result of a Joint Terrorist Task Force looking into the transportation of illegal aliens and the creation of counterfeit identification documents in the Tidewater area. HUD OIG was tasked with investigating FHA insurance fraud and the manufacture of fraudulent identification documents.

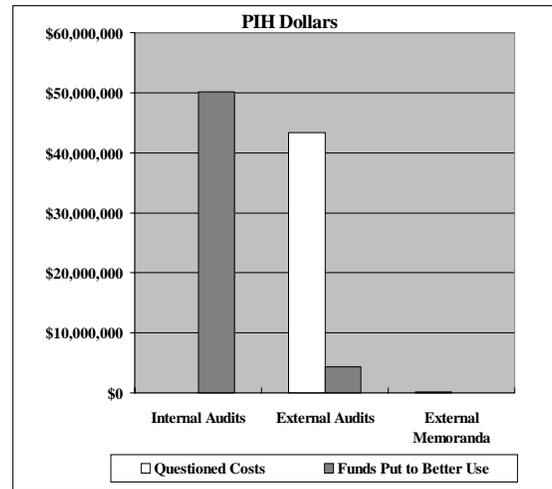
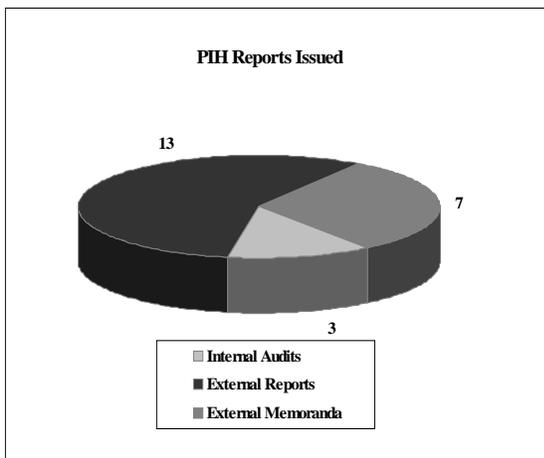


# Chapter 3 — HUD’s Public and Indian Housing Programs

HUD provides grants and subsidies to approximately 4,200 public housing agencies (PHAs) nationwide. About 3,200 PHAs manage public housing units and another 1,000 PHAs, with no public housing, manage units under Section 8 Programs. Many PHAs administer both Public Housing and Section 8 Programs. HUD also provides assistance directly to PHAs’ resident organizations to encourage increased resident management of public housing developments and to promote the formation and development of resident management entities and resident skills. 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.

## Audits

During this reporting period, the OIG issued 23 reports: three internal audits, 13 external audits, and seven external memoranda in the Public and Indian Housing Program area. These reports disclosed about \$43.5 million in questioned costs, and over \$54.5 million in recommendations that funds be put to better use. During this reporting period, we reviewed HUD management of PHA development activities, the portability features of the Section 8 Housing Choice Voucher Program, the Moving to Work Program, and activities at various PHAs. In addition, we are reporting on our audit work that related to a qui tam lawsuit involving overbilling by a security company.



## HUD Management of PHA Development Activities

We conducted an audit to determine whether HUD had adequate management controls to assess PHA development activities. We found that HUD often was unaware of the extent to which activities with related nonprofit organizations impacted PHA operations and of the numerous Annual Contributions Contract (ACC) violations associated with them. HUD had neither the mechanisms to readily identify or monitor such activities, nor staff adequately trained to detect improper transactions. Further, even when field offices did become aware of improper activities, they did not aggressively pursue corrective actions to stop the activities or recover funds.

PHAs did not fully disclose activities with related nonprofit organizations in their financial statements and Independent Public Accountants did not include findings when those activities violated ACCs or other requirements. PHAs also claimed to misunderstand HUD’s rules. The impact of known and potential violations is high. Our analysis of key account balances from PHAs’ audited financial statements identified 777 PHAs with indicators of possible unauthorized development activities. Eleven PHAs recently audited by OIG and four PHAs reviewed for this audit, all of which had unauthorized development

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activities, were included in the 777 PHAs. The OIG audits questioned over \$16 million. For the 777 PHAs, the potential risk to the Low-Income Public Housing Program alone could be \$600 million or more. The potential negative impact of the inequitable agreements is unknown, but also could be substantial.

We recommended that HUD take immediate steps to identify PHAs involved in nonprofit development activities, halt deals that violate the ACCs, and begin training its own staff and the public housing community on the legal avenues for developing low-income housing through nonprofit affiliates. (Report No. 2004-AT-0001)

To further assess the impact of the inadequate controls over these activities, we are auditing development activities at PHAs selected from the list of 777 referred to above. This effort is ongoing. During this semiannual reporting period, we completed audits at four PHAs where findings included improper development activities. Presented below under “Public Housing Agency Activities” are the results of our audits of the Corpus Christi, TX, Petersburg, VA, Cuthbert, GA, and Ft. Lauderdale, FL PHAs.

### *Portability Features of the Section 8 Housing Choice Voucher Program*

Our audit of the portability features of the Section 8 Housing Choice Voucher Program (HCVP) determined that the PHAs’ administration of the portability features was not always effective when the receiving PHA terminated program participants. In 33 percent of the 335 terminations reviewed, the payments from the initial PHA to the receiving PHA continued after the program participant terminated. Overpayment periods ranged from one month to 22 months and totaled over \$158,000; we attributed the overpayments to poor communication between PHAs. In addition, initial PHAs have limited access to data for program participants terminated by the receiving PHA. Consequently, Housing Choice Vouchers were not available to serve other needy clients.

We analyzed the current databases for the six **New England States** from the Multifamily Tenant Characteristics System module of the Public and Indian Housing Information Center (PIC) and found that seven percent of the data fields reviewed con-

tained fatal errors that circumvented system edit checks. HUD’s risk of program fraud increases and the reliability of PIC information decreases because of these deficiencies.

We recommended that HUD require PHAs to communicate sufficiently with each other and to refund any outstanding overpayments to initial PHAs; provide guidance to PHAs on how refunded amounts should be recorded on the financial statements; and impose administrative sanctions against PHAs that do not comply with HUD regulations related to the portability features of the HCVP. (Report No. 2004-BO-0006)

### *Moving to Work Program*

Our audit of HUD’s oversight of the **Philadelphia, PA** Housing Authority’s (PHA) Moving to Work Program, a new flexible housing demonstration program, found that HUD accepted the PHA into the program without restriction before carefully evaluating the reasons for the PHA’s past poor performance in utilizing its Section 8 funding and the merits of its Moving to Work application. Although HUD was within its authority to accept the PHA into the demonstration program, by doing so it incurred a high risk. HUD should have established more stringent controls under its agreement with the PHA to ensure its interests were adequately protected and HUD funds were used in the most effective manner to serve the residents of the community.

After it accepted the PHA into the Moving to Work Program, HUD did not provide adequate oversight of the development and implementation of the PHA’s Moving to Work plans. Specifically, HUD did not adequately evaluate the appropriateness of the PHA’s proposed alternative uses of Section 8 funds to determine if they would better serve the residents of Philadelphia, nor did HUD develop an effective monitoring plan to track the PHA’s progress and performance in implementing its new program.

HUD personnel stated that the Department was reluctant to interfere with the PHA’s Moving to Work plans because it viewed this action as contrary to the philosophy of the demonstration program. They also said a lack of resources hindered HUD’s ability to adequately monitor the PHA’s performance under the program. As a result, HUD has no assurance that the

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PHA's plans to spend as much as \$134 million of Section 8 funds in alternative ways, over the seven-year term of its Moving to Work Agreement, will provide more efficient and effective housing assistance to needy families in the City.

In a September 2003 audit, the OIG determined that the PHA was not able to fully utilize its Section 8 Program due to limitations in the way it administered the program. HUD's local field office had similar concerns; the PHA's Section 8 Management Assessment Program scores reflected its performance problems. In effect, HUD rewarded the PHA for its past poor performance by allowing it to participate in the new program in which it has the flexibility to use substantial Section 8 funds in non-traditional ways. Accordingly, we believe the PHA could put to better use an estimated \$50.2 million of the Section 8 funding it will receive over the remaining four years of its Agreement by leasing-up the remaining rental housing vouchers in its inventory. (Report No. 2004-PH-0003)

### *Public Housing Agency Activities*

Our audit of the **Springfield, MA** Housing Authority found that the Authority: (1) failed to ensure that its Section 8 housing met housing quality standards; (2) violated federal conflict of interest provisions; (3) inappropriately charged over \$550,000 to the Capital Fund Program (CFP), and if it does not change its practices, stands to charge an additional \$411,000; (4) lacked adequate management controls to protect the integrity of its federal programs; (5) ignored implementing an equitable method of allocating costs between its federal and state housing programs; (6) inadequately determined the rent reasonableness for units entering the Section 8 Program and subsequent rent increases; (7) submitted inaccurate performance and financial data to HUD; and (8) improperly procured goods and services and lacked adequate documentation to ensure its grant program complied with federal regulations.

Eighty-six percent of the Authority's \$11 million in housing assistance payments for FY 2002 were questionable because HUD cannot be assured that the payments were for decent, safe, and sanitary housing. Examples of cases in which the Authority failed to ensure that its Section 8 housing met housing quality standards are shown as follows:

Broken window with jagged edged glass at Section 8 unit administered by the Springfield Housing Authority.



Hole in bathroom floor at Section 8 unit administered by the Springfield Housing Authority.



In addition, the Authority may have inappropriately received \$1.6 million in Section 8 administrative fees in FY 2003. Also, although the Authority expended \$19 million in federal awards in FY 2002, the Authority did not follow its own policies or federal regulations when procuring goods and services. Furthermore, the Authority cannot assure HUD that it properly monitors its modernization grants by maintaining sufficient records to ensure that its \$10 million modernization program complies with federal regulations and that related performance goals are being realized.

We recommended, among other things, that: (1) the Authority provide assurances that \$9.8 million in housing assistance payments for FY 2002 were used for decent, safe, and sanitary housing; (2) HUD determine if the Authority has any funds available

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from its low-income operating budgets for FYs 1998 through 2001 and whether it may reassign over \$550,000 in ineligible and \$411,000 in questioned CFP costs; (3) the Authority submit corrected operating budgets and audited financial statements for the last four fiscal years in support of \$21.6 million in salaries charged to federal programs; and (4) the Authority repay unearned administrative fees of over \$1.6 million for FY 2003. In addition, HUD should take appropriate administrative sanctions, where warranted. (Report No. 2004-BO-1005)

Our audit of the **Danbury, CT** Housing Authority's Capital Fund Program (CFP) disclosed that the Authority's: (1) \$11 million variable rate general obligation bonds were declared to be in default by the bank, making them immediately due and payable; (2) financial viability is threatened and it lacks the ability to pay debt and fees associated with the bonds; and (3) operations are not being managed effectively and efficiently. The Authority lacked adequate policies, procedures, and internal controls governing the use of vehicles, cellular phones, and maintenance costs. We identified potential annual cost savings (funds put to better use) of over \$390,000.

The audit also found that the Authority incurred nearly \$93,000 of ineligible and unsupported costs. We identified \$73,000 of ineligible salary bonus payments made to the executive director (ED) and his staff, \$9,800 of personal expenses (ceramic tiles and a cellular phone) that the ED charged to the Authority, and \$10,000 in unsupported costs paid to the ED. In addition, the Authority's procurement practices did not comply with HUD regulations and its own procurement policy.

We recommended that the Authority: (1) take steps to recover approximately \$1.9 million of the \$2.3 million in improper bond related transactions related to an improper contractor advance, ineligible loans, and unsupported costs; (2) work with the bank and the contractor's surety company to negotiate a restructuring agreement for the bonds; (3) develop a long-term cash flow analysis and a plan to show how its financial obligations and public housing modernization needs will be addressed; (4) establish adequate policies, procedures, and internal controls governing the use of vehicles, cellular phones, and maintenance costs; (5) implement OIG suggestions for

achieving potential annual cost savings of over \$390,000; (6) recover all ineligible and unsupported costs; and (7) implement adequate procedures over the procurement process. We also recommended that HUD sanction the former ED, as appropriate. (Report No. 2004-BO-1004)

At the request of the Director of Public Housing, we audited the Housing Authority of **Corpus Christi, TX**, to determine whether the Authority used funds in accordance with HUD requirements under the Low-Rent, Section 8, Drug Elimination, and Resident Opportunity and Self-Sufficiency Programs. We found that the Authority violated HUD program requirements by spending over \$4 million in HUD funds for ineligible and questionable purposes. The Authority management used over \$1 million in HUD program funds for unauthorized purposes and cannot support over \$3 million in arbitrary payroll allocations and other program costs. The unauthorized and unsupported costs charged to HUD programs included costs to develop a housing project of an affiliated nonprofit entity and arbitrary allocations of administrative costs.

Examples of the Authority's misuse of program funds include the following. The Authority: (1) used over \$2.9 million in Low-Rent funds to pay development and salary costs of an affiliated nonprofit's housing project, Section 8 Program salary and benefit costs, and administrative costs; (2) used nearly \$534,000 in Section 8 Voucher Program funds to pay the development and salary costs of an affiliated nonprofit's housing project and arbitrary salary and benefit cost allocations; (3) used over \$228,000 in Drug Elimination Grant funds to pay the development and salary costs of an affiliated nonprofit's housing project and questionable program costs; and (4) used over \$194,000 in Capital Funds to pay arbitrary salary and benefit cost allocations.

Authority managers told the OIG they were not familiar with the provisions of Low-Rent and Section 8 contracts, federal cost principles, and other HUD program requirements for cost eligibility. They also told us they thought that all HUD program funds could be used for the purpose of providing any affordable housing for people throughout Corpus Christi. During the audit, Authority officials indicated they took action to address our concerns by implementing cost alloca-

tion plans and timekeeping procedures to properly allocate salaries and benefits. In addition, the Authority paid back to HUD programs or recorded inter-fund payables for nearly \$489,000 of the unallowable costs we identified for nonprofit activities and common cost allocations.

We recommended that the Authority implement effective procedures to ensure costs are eligible and adequately documented. The Authority also needs to repay all ineligible costs incurred during and subsequent to the audit period. In addition, HUD should obtain sufficient support for the arbitrary salary and benefit allocations, common cost allocations, and other questionable costs, and recover any remaining unsupported costs. (Report No. 2004-FW-1004)

In response to an anonymous complaint, the OIG reviewed the Public Housing Drug Elimination Program grant funds awarded to the Allegheny County Housing Authority, **Pittsburgh, PA**, for FYs 1996 through 2000. The complainant alleged that the Authority was misspending grant funds on various ineligible expenditures, such as payments to consultants, a \$20,000 wood chipper, and entertainment. We found that the Authority did not administer its Drug Elimination Program according to its grant agreements with HUD and applicable HUD rules and regulations. Specifically, the Authority did not always ensure program expenditures were eligible and properly supported, and did not properly follow federal procurement requirements when it awarded a number of service contracts. Therefore, the complainant's allegations that the Authority misspent grant funds had merit. The deficiencies can be attributed to the Authority's lack of proper controls. As a result of these deficiencies, the Authority spent over \$615,000 on ineligible expenditures and drew down over \$761,000 of grant funds for expenditures that were not properly supported.

In addition to making recommendations to improve the Authority's management of its grant funds, we requested that HUD ensure that the Authority reimburses HUD for the ineligible and questioned costs it cannot properly support, and develop and implement appropriate management controls to correct the weaknesses cited in this report. (Report No. 2004-PH-1002)

As part of an ongoing comprehensive audit of the **Kankakee, IL** County Housing Authority, the OIG audited the Authority's Section 8 Housing Program. A citizen's complaint to the OIG alleged that the Authority's former executive director, who left the Authority in 2001, was not qualified for his position.

We found that the Authority's management controls over its Section 8 Housing Program were very weak. The Authority lacked adequate procedures and controls over housing quality standards (HQS) and administrative processes, resulting in Section 8 units that contained health and safety violations. A total of 873 HQS violations were found in 47 of the 50 units inspected.

Electrical wall outlet cover plate missing at Kankakee Housing Authority unit.



Doorframe heavily damaged, loose hinges, at Kankakee Housing Authority unit.



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In addition, the Authority failed to properly enforce the City of Kankakee's ordinance governing the licensing of housing units occupied by persons other than the owners. The Authority: (1) made over \$36,000 in housing assistance payments (HAPS) for 11 units without executing HAP contracts with the landlords; (2) lacked HAP contracts, lease agreements, and/or tenancy addendums to show that over \$324,000 in HAPS for 40 units were appropriate; (3) incorrectly calculated HAPS for 19 units; (4) failed to conduct five reexaminations for four tenants; (5) did not complete seven reexaminations prior to the anniversary date for nine tenants; (6) lacked other required supporting documentation for 56 reexaminations for 29 units; (7) failed to review and/or did not have documentation to support its utility allowances and Section 8 Housing Choice Program payment standards; (8) did not properly establish or manage its Family Self-Sufficiency Program according to the minimum required program size; (9) failed to open a federally insured interest bearing investment account and deposit escrow balances totaling over \$37,000 into the account; and (10) did not properly complete rent reasonableness certifications for Section 8 housing units placed under contract.

The Authority's board of commissioners did not adequately exercise its responsibility to effectively manage the Authority, and the Authority's former executive directors did not implement adequate controls to ensure that Section 8 units were free of health and safety violations. Further, the Authority's board and former executive directors did not follow federal requirements, the City of Kankakee's ordinance, or the Authority's own policies.

We recommended that HUD assure that the Authority implements procedures and controls to correct the weaknesses cited in this report. In addition, HUD should: (1) take administrative action against the Authority's former executive directors and board of commissioners for failing to administer the Authority according to federal, City of Kankakee, and its own requirements; (2) provide training and technical assistance to the Authority's staff and its board of commissioners regarding their duties and responsibilities; and (3) issue a notice of default to the Authority as permitted by the Consolidated Annual Contributions Contract. HUD's default notice should help

ensure that the Authority's \$2.2 million in Section 8 Program funds are used appropriately. (Report No. 2004-CH-1001)

Our audit found that the **Petersburg, VA** Redevelopment and Housing Authority improperly used federal funds on a regular basis to support its non-federal entities and placed its Annual Contributions Contract assets at risk by improperly guaranteeing the debt of two of its three affiliated non-federal entities. This occurred because the Authority did not properly account for the work its employees performed, and failed to establish appropriate management controls to prevent it from encumbering or pledging its federal assets without HUD approval. The Authority's high management turnover, inadequate financial system, and practice of allowing key Authority personnel to serve in similar roles for its non-federal entities contributed to these problems.

As a result, the Authority improperly pledged assets to guarantee debt incurred by its non-federal entities estimated at over \$950,000. Additionally, the Authority paid salaries estimated at more than \$620,000 from federal funds for work its employees performed in support of its affiliated non-federal entities on a part-time basis from January 2001 until December 2003. Further, we estimated the Authority could more effectively use another \$370,000 annually by ensuring it properly accounts for and receives reimbursement for work its employees perform for its affiliated non-federal housing projects, and by preventing apparent conflict of interest situations in the future. Under the Consolidated Annual Contributions Contract, these activities may be considered events of substantial default.

We recommended that HUD require the Authority to recover or repay from non-federal funds over \$620,000 in salaries, implement controls to prevent it from pledging future HUD assets, and withdraw its pledge of Consolidated Annual Contributions Contract assets. In addition, HUD should take appropriate administrative action against the chairmen of the Authority's board of commissioners responsible for pledging HUD assets. Lastly, the Authority should develop a reasonable method for allocating and collecting future costs from its affiliated non-federal entities. (Report No. 2004-PH-1005)

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The Housing Authority of the City of **Cuthbert, GA**, violated its Annual Contributions Contract (ACC) with HUD by inappropriately advancing funds and pledging assets for non-federal development activities. As of April 2002, management had advanced nearly \$800,000 of low-income housing (LIH) funds to the Southwest Georgia Housing Development Corporation (SGHDC) to pay its development expenses. As of June 2003, SGHDC had reimbursed the Authority all but about \$300,000. The advances reduced LIH funds available for Authority operating expenses. Management also inappropriately pledged assets when it guaranteed repayment of two SGHDC loans totaling nearly \$700,000. Further, the Authority's executive director, who was also the secretary/treasurer of SGHDC, violated conflict of interest restrictions. We attributed these deficiencies to the fact that the board of commissioners did not establish sufficient controls to monitor the nonprofit and ensure transactions adhered to federal regulations. In addition, the executive director did not have a full understanding of the provisions of the Quality Housing and Work Responsibility Act of 1998.

We recommended that the Authority be required to collect the approximately \$300,000 due from SGHDC and discontinue advancing funds, and ensure that its assets are not encumbered or pledged without HUD approval. In addition, HUD should ensure that the board of commissioners takes appropriate measures to prevent conflict of interest situations, and require the Authority to develop a reasonable method for allocating costs. (Report No. 2004-AT-1001)

As part of an audit of HUD's oversight of public housing agency activities with related nonprofit entities, the OIG reviewed the administration of development activities by the Housing Authority of the City of **Fort Lauderdale, FL**. The audit disclosed that the Authority violated its Annual Contributions Contract (ACC) with HUD by inappropriately pledging assets and advancing funds for some of its activities. The Authority's management inappropriately pledged assets of \$452,000 in low-income housing (LIH) funds to assure the rehabilitation and purchase of two non-federal development activities. Management also inappropriately advanced over \$151,000 in LIH funds to support various programs. Specifically, the Authority used nearly \$128,000 to purchase inventory materials or insurance for seven programs/activities,

and nearly \$24,000 to support the activities of an affiliated nonprofit. On December 5, 2003, the Authority reimbursed all but \$82,000.

The Authority did not have a proper cost allocation plan to support the allocation of over \$11,000 to the Section 8 Program and more than \$86,000 of indirect costs to LIH and Section 8 funds. We believe these deficiencies occurred because the Authority has not established adequate controls to monitor and ensure that its transactions adhere to HUD requirements.

We recommended that HUD require the Authority to establish procedures to ensure that its assets are not encumbered or pledged without HUD approval; establish adequate controls to monitor and ensure that transactions comply with the ACC and other HUD requirements; reallocate costs of \$11,000 from the Section 8 Program to the Affordable Housing Program; develop a reasonable method of allocating shared and indirect costs in accordance with appropriate regulations; and reallocate costs of \$86,000 to other programs using a reasonable method. (Report No. 2004-AT-1003)

Our audit of the City of **Little Rock, AR** Housing Authority disclosed that the Authority lacked sufficient controls and management over its procurement process and assets. The Authority sole-sourced two contracts that were not approved by HUD, resulting in over \$228,000 in unsupported payments. The Authority also needs to improve maintenance and security at some sites. Needed maintenance included demolition of units not viable to rehabilitate; securing of vacant buildings; routine repairs to and repainting of units per tenant requests; treatment for insects; replacement of smoke detector batteries and air conditioning filters; cleaning of common areas; and improvements to security.

The audit also found that the Authority did not develop and implement written policies and procedures for disbursements to ensure its funds were properly expended or assets were properly utilized. Further, the Authority's independent audits were not completed timely for FYs 2000 and 2001 and they did not disclose identity-of-interest issues with related nonprofit development entities. These entities paid \$20,000 to the Authority's executive director and deputy director during the audit period.

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We recommended that the Authority adhere to its procurement policy; support or repay any amounts that it paid in excess of reasonable costs; and re-procure the contracted services. Further, the Authority should promptly identify and correct maintenance and security deficiencies and implement the necessary policies to prevent the deficiencies from recurring. Finally, HUD should review the relationship between the Authority and the nonprofit entities and take necessary action regarding the money given to the two directors. (Report No. 2004-FW-1001)

In response to a complaint regarding the **Seattle, WA** Housing Authority's procurement and award of Section 8 project-based vouchers, and personnel conduct issues regarding conflict of interest and lobbying, we audited the Authority. The audit results indicated that the complaint was not valid. However, during the review we found that the Authority improperly waived part of its published contracting requirements when it awarded Section 8 project-based vouchers to the YWCA. Because the Authority did not provide other potential applicants with the opportunity to submit proposals based on the waived requirements, the procurement process was neither open nor fair to all possible proposers. This occurred because the Authority did not have clear and specific controls to ensure that the requirements of the Request for Proposals were followed when determining eligibility of proposals.

We recommended that HUD determine if the Authority has implemented policies and procedures to ensure that procurements are performed fairly and openly. The Authority should also be required to implement necessary controls. (Report No. 2004-SE-1001)

We previously completed a review of the procurement activities of the Housing Authority of the City of **Los Angeles, CA** (HACLA), including ongoing monitoring and management of resultant contracts as they relate to HACLA's Resident Management Corporations/Resident Advisory Councils (RMCs). The review was initiated in response to several citizen complaints alleging irregularities with HACLA's RMCs and related contracting activities. Legal complications have precluded the issuance of a final audit report describing the results of this review. However, as part of the review, we also identified problems related to

HACLA's management of its legal affairs, including failure to advise HUD of significant legal matters. Specifically, HACLA incurred outside legal service fees and entered into a \$1.8 million litigation settlement agreement to resolve an employee lawsuit without required prior HUD notification and approval. HACLA also incurred unnecessary and ineligible attorney fees of over \$119,000 on behalf of a consultant and over \$47,000 in unnecessary attorney fees to monitor information requests and activities of the OIG during our review.

We recommended that HUD ensure HACLA uses non-federal funds to reimburse its Low-Rent Housing Program for the ineligible legal fees and require HACLA to establish appropriate policies and procedures to ensure that in the future, legal activities are carried out in accordance with HUD requirements. (Report No. 2004-LA-1002)

### *Qui Tam Civil Lawsuit*

For over three years, OIG has provided extensive audit assistance to an Assistant U.S. Attorney (AUSA) on a qui tam civil lawsuit against *Patrol Services, Inc.* *Patrol Services* routinely overbilled for its services as if every guard shift were fully staffed, and submitted false time records listing nonexistent persons and persons who did not work the hours claimed. OIG estimated that *Patrol Services* over-claimed \$536,000 from February 1997 through September 1998. The AUSA settled the case out of court. Under the settlement, the government will receive \$100,000 from the **Atlanta, GA** Housing Authority and \$300,000 from *Dominium Management Georgia Company*, a management contractor for the Authority, and its parent, *Dominium Management Services, Inc.* *Dominium* hired *Patrol Services* to provide security guard services at three Housing Authority properties and was responsible for overseeing its performance and billings. The husband and wife owners of the now bankrupt *Patrol Services*, Andrew and Michelle Bryan, separately consented to judgments in favor of the U.S. totaling \$380,000. The qui tam relator will receive 25 to 30 percent of settlement amounts collected by the U.S.



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## Investigations

During this reporting period, the OIG opened 519 investigation cases and closed 335 cases in the Public and Indian Housing Program area. Judicial action taken on these cases during the period included \$4,438,487 in investigative recoveries, \$12,659,934 in funds put to better use, 341 indictments/informations, 212 convictions/pleas/pre-trial diversions, 230 administrative actions, eight civil actions, and 691 arrests. The results of our more significant investigations are described below.

### *Racketeering*

In Federal Court for the **District of Columbia**, the following verdicts were handed down against defendants Tayo John Bode, Sunday Yemi Adefehinti, Stephen Benson Akinkuowo, Olushola Akinleye, and *Protech Builders, Inc.* Bode was found guilty of one count of racketeering, six counts of bank fraud, two counts of money laundering, and four counts of interstate transportation of stolen property. Adefehinti was found guilty of one count of racketeering, five counts of bank fraud, one count of money laundering, and one count of interstate transportation of stolen property. Akinkuowo was found guilty of one count of racketeering, two counts of bank fraud, three counts of money laundering, 14 counts of mail fraud, and three counts of interstate transportation of stolen property. Akinleye was found guilty of one count of racketeering and three counts of bank fraud. *Protech Builders, Inc.*, was found guilty of one count of racketeering and three counts of bank fraud.

The defendants were involved in a scheme in which they flipped properties, transferred ownership into the names of strawbuyers, fraudulently obtained conventional mortgages, and then entered the properties into the Section 8 Program. The defendants allowed the properties to go into default and subsequent foreclosure while continuing to receive Section 8 rental subsidies. A Section 8 subsidized apartment was used by the defendants to make the false identities of the strawbuyers appear to be legitimate. Annual certifications made to HUD regarding this Section 8 apartment were false.

In October 2003, a hearing was held before the jury to determine whether there was a nexus between

the items to be forfeited and the Racketeering Influenced Corrupt Organizations (RICO) enterprise, as required for forfeiture under the RICO statute. The jury returned a verdict for the forfeiture of \$1,253,338 from defendants Bode, Adefehinti, Akinkuowo, and Akinleye. Of this amount, \$98,588 involved Section 8 benefits which were fraudulently obtained. The remainder was the amount of loan proceeds obtained from commercial lending institutions.

### *PHA Management and Program Officials/Employees*

In **Marquette, MI**, in Federal Court for the Western District of Michigan, defendant Brenda Lou Welsh, the former executive director of the Keweenaw Bay Ojibwa Housing Authority (KBOHA), was sentenced for embezzling funds from the Authority. She was sentenced to 36 months incarceration and 36 months supervised release, and was ordered to pay \$420,780 in restitution to HUD. Welsh was the executive director of the KBOHA from March 1972 until June 2001 and used her position to embezzle funds. She used a variety of payees, including cash to herself, credit cards, and car payments. The stolen funds consisted primarily of funds appropriated to the Authority by HUD.

In **Tampa, FL**, in Federal Court for the Middle District of Florida, defendant Audley Evans, the former executive director of the Tampa Housing Authority, was sentenced to 33 months in prison and 24 months probation, and was ordered to pay \$20,000 in restitution and \$400 in court fees. Evans was convicted on three counts of making false statements to HUD, two counts of bribery, and one count of conspiracy.

Defendant Debra Smith, the former Section 8 housing assistance manager for the Housing Authority of Bogalusa, was sentenced in **New Orleans, LA**, in Federal Court for the Eastern District of Louisiana, to five years probation and was ordered to pay \$6,990 in restitution for her role in defrauding the Section 8 Housing Assistance Payment (HAP) Program. Smith previously pled guilty to making false statements to HUD. From January 1997 to March 1999, Smith used her position to create and approve fraudulent Section

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8 HAP contracts in the names of family and friends. As a result of the scheme, about \$25,000 in Section 8 payments were made to landlords who are Smith's relatives.

Defendant Derrick Moreau, former executive director of the Simmesport Housing Authority, pled guilty in **Simmesport, LA**, in Avoyelles Parish State Court, to seven counts of felony theft, one count of malfeasance in office, and one count of misdemeanor theft. Moreau was sentenced to eight years on each of the felony theft counts, five years on the malfeasance in office charge, and six months on the misdemeanor theft charge, all to run concurrently. While working as executive director, Moreau was reimbursed for items that had previously been purchased by the Housing Authority, paid for personal expenses, such as child support payments, and purchased a new air conditioner for his home using Authority funds.

Defendant Eddy Lee Summers, former deputy executive director of the **Wheeling, WV** Housing Authority (WHA), was debarred by the HUD Enforcement Center from future participation in HUD funded programs. Summers was also ordered to pay \$12,240 in restitution. Summers, who pled guilty in June 2003 to embezzling \$3,496 from the WHA petty cash account by submitting falsified invoices for equipment and services, will also be prohibited from obtaining employment with organizations receiving funding from HUD. Summers created a scheme to defraud WHA by identifying these expenditures as emergencies and bypassing the financial control system at WHA. This investigation was initiated after finance representatives from WHA began to notice inconsistencies as well as an inordinate amount of "emergency" expenditures by Summers.

In **Kansas City, MO**, in Platte County District Court, defendant Paul Howard pled guilty to stealing and was sentenced to four years supervised release and ordered to pay \$12,179 in restitution. From July through October 2003, Howard charged \$12,179 on a gas credit card that he stole from the Housing Authority of Kansas City while he was an employee.

In **Clinton, MO**, in Henry County District Court, defendants Bonnie Houk, former executive director of the Clinton Housing Authority (CHA), and Donna

Tyler, former administrative assistant at the CHA, each pled guilty to issuing a false instrument. The defendants altered criminal background checks in order to allow prospective tenants into HUD subsidized housing. Both Houk and Tyler received a suspended imposition of sentence and two years probation, and were ordered to perform 60 hours of community service.

Defendant Susan Adams, former executive director of the Auburn Housing Authority, was sentenced in **Omaha, NE**, in U.S. District Court for the District of Nebraska, for embezzling \$15,881 from the Housing Authority. She was sentenced to three years probation and 120 hours of community service, and was ordered to pay \$15,881 in restitution and a \$100 assessment fee.

The Departmental Enforcement Center suspended and proposed debarment against former Lycoming County Housing Authority employee Theresa Coughlin. Coughlin was convicted and sentenced in **Williamsport, PA**, in U.S. District Court, Middle District of Pennsylvania, to five years supervised probation and 100 hours of community service, and was ordered to pay \$28,000 in restitution to the Housing Authority. Coughlin was charged with 208 counts of theft for failure to make required disposition of funds, tampering with public records, and receiving stolen property. She was employed as the housing coordinator at the Pennvale public housing development when the thefts occurred. Coughlin stole the cash rent payments that she received from tenants, and lowered the rents for other tenants without justification or authorization.

Defendant Joyce Gates, former executive director of the Logansport Housing Authority (LHA), pled guilty in **Logansport, LA**, in Federal Court for the Western District of Louisiana, to one count of theft of government funds. Gates admitted stealing over \$117,000 from the LHA by skimming rent, giving herself raises that were not authorized by the board, purchasing a personal vehicle, paying for car insurance for her personal vehicle, having furniture delivered to her home, and installing a fence at her residence. Gates also wrote numerous checks to fictitious companies for work that was never com-

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pleted and subsequently deposited the money in her personal account.

In **Albuquerque, NM**, in U.S. District Court for the District of New Mexico, defendant Joe R. Calabaza pled guilty to one count of theft of federal program funds. Defendant Lorenzo Coriz pled guilty to embezzlement and theft from an Indian Tribal Organization. As part of the plea, both defendants have agreed to make restitution to the Santo Domingo Tribal Housing Authority (SDTHA) of the funds they embezzled. The exact amount of restitution will not be determined until the pre-sentence report is completed, but it is anticipated to be approximately \$157,000 for Calabaza and \$37,700 for Coriz. Calabaza, who is the former SDTHA executive director, and Coriz, a former SDTHA board member, were charged in September 2003, along with former SDTHA board members Jerry Nieto and Howard Tenorio, with embezzling over \$200,000 from SDTHA. Nieto and Tenorio have already pled guilty in this case.

Defendant Jimmie L. Woodard, a former accountant at the Diboll Housing Authority, pled guilty in **Diboll, TX**, in Federal Court for the Eastern District of Texas, to theft from a government program. An investigation revealed that over a period of five years, Woodard embezzled over \$78,000 by failing to deduct monies from her payroll checks to cover federal withholding taxes and personal loan payments to a credit union.

In **Oklahoma City, OK**, in Federal Court for the Western District of Oklahoma, defendant Gwendolyn Terrapin pled guilty to one count of a three-count indictment. This investigation was initiated after OIG received allegations that the defendant was embezzling HUD funds from the Otoe-Missouria Indian Housing Authority while she was executive director. Terrapin admitted in a change of plea hearing that she used the Authority's credit card to make personal purchases and pay personal bills. She later authorized the Authority to pay the credit card bill. HUD's loss amounted to \$23,683. Terrapin resigned after being investigated by the Tribe and moved from the area, leaving an outstanding rent and utility balance for a 20-month time period. The Authority paid this balance.

Defendant Sonja Hamilton, former executive director of the Homer Housing Authority (HHA), pled guilty in **Homer, LA**, in Federal Court for the Western District of Louisiana, to one count of theft of government funds. Between 2002 and March 2003, Hamilton telephonically transferred over \$12,000 from the HHA's account to her personal account. She also paid personal credit card bills on line with Housing Authority funds. Hamilton concealed these transactions from the HHA's fee accountant by altering the Authority's bank statements each month. In addition, Hamilton lived in the Housing Authority rent-free and gave herself raises that were not approved by the board. This scheme resulted in a \$30,178 loss to the HHA. Hamilton has also been suspended from participation in procurement and non-procurement transactions with the Executive Branch of the Federal Government.

Defendant Terry Latimore, a former employee of the Dallas Housing Authority (DHA), pled guilty in **Dallas, TX**, in Dallas County State Court, to one count of theft by a public servant and was sentenced to five years probation, fined \$750, and ordered to pay \$2,910 in restitution to the DHA and \$360 to the Dallas District Attorney's Office. While working for the DHA as a public housing manager, Latimore embezzled rent payments from tenants. He stole blank money orders from elderly and disabled tenants and wrote his name in the payee line. In addition, Latimore took cash for rent from tenants and never applied it to their accounts. Latimore gave each tenant a receipt for these transactions.

Defendant Charles T. Bell, former executive director of the Ferriday Housing Authority, was debarred from participating in any HUD programs for a five-year period. Bell previously pled guilty in **Ferriday, LA**, in Federal Court for the Western District of Louisiana, to one count of theft of government funds. He created and used a nonprofit organization, *Community Housing Development Organization of Concordia*, to divert Housing Authority funds into the nonprofit's account and subsequently pay for his personal expenses.

Defendant Tonya House, a former payroll accountant at the Memphis Housing Authority, was indicted in **Memphis, TN**, in Federal Court for the Western

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District of Tennessee, for embezzling Authority funds. Between December 2002 and January 2003, House allegedly stole 26 payroll checks totaling over \$42,000 from the Authority. She was subsequently terminated from the Authority.

Defendant Charles Brown was indicted in **New York, NY**, in Federal Court for the Southern District of New York, on one count of conspiracy to commit theft concerning programs receiving federal funds and one count of theft concerning programs receiving federal funds. Brown, a former New York City Housing Authority (NYCHA) property manager, is charged with using his position with NYCHA in order to rent or offer to rent NYCHA managed commercial space without NYCHA's authorization. He allegedly caused commercial space to be rented by way of bogus leases, and collected commissions and down payments in addition to rent for this space. Brown used the monies collected from the scheme for his personal benefit.

Raymond Williams, a real estate agent, was also charged in this case for allegedly acting as the middleman in the scheme to solicit prospective storeowners who then signed fictitious leases obtained from Brown via his position with NYCHA. Brown and Williams collected application and commission fees in addition to approximately \$65,000 in rental payments from the shopkeepers.

Defendant Augustus R. Bond, Sr., was indicted in **Baltimore, MD**, in Federal Court for the District of Maryland, on 15 counts of theft of government property and aiding and abetting for his part in a scheme to defraud the Housing Authority of Baltimore City (HABC). Bond allegedly received and negotiated 77 HABC checks representing payment of Section 8 rent subsidies for two tenants who were no longer residing at his rental property, resulting in \$65,664 in losses to the HABC and HUD. The scheme involved the submission and falsification of annual tenant recertifications and new tenant documentation for former Section 8 tenants. The first tenant vacated Bond's rental unit in April 1993 but was reinitiated as a new tenant on Bond's landlord account in May 1995. Another tenant sublet her Section 8 unit, with Bond's knowledge, to a friend in January 1999 for \$200 per month. Bond continued to receive the Section 8 subsidy payments for both of these units through

February 2003, at which time subsequent payments were suspended pending the outcome of the investigation. This indictment stems from an investigation into employee theft and misconduct at the HABC, which to date has resulted in the indictment and conviction of defendant Cardoza Jacks, another Section 8 landlord, as well as an administrative action against defendant Mark Kendel, an HABC employee. Jacks was sentenced to three years probation and ordered to pay \$44,706 in restitution to HUD for his role in the fraudulent receipt of housing assistance payments from the HABC.

Defendants Valarie Campbell, Debbie Nelson, Frances Robinson, and Genevieve Smith, former Pompano Beach Housing Authority (PBHA) employees, Arjunen Apana, a current PBHA employee, and Denise Laxey, Erius Thomas, and Leroyd Cleofoster Joyce were indicted in **Pompano Beach, FL**, in Federal Court for the Southern District of Florida, on 22 counts of conspiracy, theft concerning programs receiving federal funds, and theft of public funds. The indictment also alleged that the PBHA constituted a criminal enterprise involved in racketeering, as defined under the Racketeering Influenced and Corrupt Organizations statute. Those charged under this indictment allegedly solicited bribes to award Section 8 rental subsidies to ineligible individuals.

Campbell allegedly misused her position with the PBHA to fraudulently issue Section 8 landlord payments to Joyce and Thomas. Nelson allegedly misused her position with the PBHA to fraudulently issue payments to Laxey. These defendants were among 14 individuals charged with conspiring to defraud HUD's Section 8 Program. From June 1997 through March 2002, the co-conspirators profited from the illegal award of over 300 Section 8 vouchers to individuals who neither qualified for rental subsidies nor appeared on the PBHA's waiting list. This waiting list was closed in June 1997 due to an overwhelming number of qualified applicants. The co-conspirators also issued or received fraudulent Section 8 landlord payments.

Also in this case, defendants Chiquita Blue, Deborah Youn Brown, Nirmala Chandradat, Connie Devoe, Denise Haygood, and Belinda Moore were charged as co-conspirators with defrauding HUD's Section 8 Rental Subsidy Program.

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Defendant Michael Lyons, an employee of the **Buffalo, NY** Municipal Housing Authority (BMHA), was suspended without pay for 30 days and placed on probation for one year. As a result of Lyons' suspension, the BMHA will not pay him \$4,529 of his yearly salary. Lyons was involved in a bid rigging scheme in which defendant Dominic DiSalvo, a contractor, submitted fraudulent bids to the BMHA in order win a contract award. DiSalvo has already pled guilty to making a false statement and was sentenced to one year probation and ordered to pay \$1,000 in restitution.

Defendant Denise Guite was arrested pursuant to a Connecticut State arrest warrant on one count of larceny in the first degree by defrauding a public community. Guite is the former executive director of the **Berlin, CT** Housing Authority. While employed in that capacity between November 2000 and November 2002, Guite allegedly embezzled approximately \$17,205 from the Authority. This dollar amount includes funds to pay health insurance and dental insurance benefits to which she was not entitled.

Defendants Vernell King and her sister Elise Johnson, both employees of the **City of New York**, were arrested on complaints issued by the U.S. Attorney's Office, Eastern District of New York, for defrauding the HUD Section 236 Program. King, a secretary for the Law Department of the New York City Housing Authority, the same agency that administered the program she allegedly defrauded, was charged with theft of government funds and false statements. Johnson, a community service aide with the New York City Health and Hospital Corporation, was arrested on the same charges. Allegedly, King fraudulently obtained two separate subsidized apartments, one for herself and one for her sister. Both would have been ineligible for subsidies had they reported their true income.

Defendant Nestor Zamot, Sr., a former York Housing Authority employee who was fired after his fraud scheme was uncovered, was convicted in **Harrisburg, PA**, in Federal Court for the Middle District of Pennsylvania, for living rent-free in a public housing unit. Zamot, who was employed as a groundskeeper, pled guilty to the illegal conversion of

government property. He had been living rent-free in a public housing unit with his wife, whom he had reportedly divorced. A search warrant executed at the residence yielded evidence that Zamot had been living with his wife in the unit for the past three years. The Housing Authority suffered a loss of \$17,000.

Defendant Millie Holliday was arrested pursuant to a state warrant issued by the Spaulding County Superior Court. Holliday, the former executive director of the **Griffin, GA** Housing Authority, who was terminated from her position, was charged with misusing the Housing Authority's credit card and illegally eavesdropping on employees. Holliday allegedly charged \$4,177 in personal items on the credit card. She also had surveillance equipment installed on the computer of the Authority's accountant, and when the accountant cooperated with the OIG, Holliday fired the employee.

### *Investigations Involving Public Officials*

In **Little Rock, AR**, in Federal Court for the Eastern District of Arkansas, defendant Jack E. Foster, a member of the Pine Bluff City Council, and a tenant of the Pine Bluff Housing Authority, was indicted for allegedly extorting \$32,500 in community development funds from a contractor in return for his vote in favor of a motion before the City Council. The investigation also disclosed that Foster failed to report his income from his City Council position while he was receiving housing assistance.

In **Hammond, IN**, in Federal Court for the Northern District of Indiana, defendants Geraldine Tousant, deputy mayor of the City of Gary, IN, Vanessa Dabney, executive director of the City of Gary Department of Redevelopment and Demolition, and Kimberly E. Lyles, superintendent of parks for the City of Gary Parks Department, were each indicted for making false statements to investigators of a federal task force investigating public corruption in the City of Gary. Tousant, Dabney, and Lyles were each indicted for lying to federal agents during their interviews regarding their dealings with a specific Gary, IN businessperson.

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In the same case, defendant Otho Lyles, commissioner of the Gary sanitary district and contractor with the City of Gary, was indicted in Federal Court for the Northern District of Indiana for making a false statement to federal task force agents investigating public corruption. Lyles was indicted for lying about his knowledge of the involvement of a city official in the awarding of contracts by the City of Gary. Lyles is also the owner of Northlake Excavating and Demolition (NED). Lyles and NED allegedly received payments from the Gary Housing Authority.

## *Conspiracy*

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendant Michael Clarence Jones was sentenced for conspiracy and mail fraud to one year plus one day incarceration. Jones was paid a salary by *American Development Company (ADC)*, a company that managed Section 8 properties, when in reality he was a ghost employee who rarely did any work for ADC. Jones also used ADC salaried employees to perform construction work at a private residence for a construction company he controlled. Jones' fraud resulted in \$206,000 in losses to HUD.

Defendants Ernest Stevenson, a Section 8 landlord, and Paula Petruk, a Section 8 tenant, were indicted in **Duluth, MN**, in Federal Court for the District of Minnesota, on one count of conspiracy and three counts of false statements. The defendants allegedly conspired to fraudulently obtain \$45,000 in Section 8 rental assistance during a scheme in which Stevenson resided in the Section 8 unit with Petruk from 1987 through 2001.

Defendant Juan Carlos Don Juan-Gayton, also known as Juan Carlos Don Juan and Juan Cisneros, pled guilty in **Houston, TX**, in Federal Court for the Southern District of Texas. Juan-Gayton was previously indicted, along with 13 other individuals, including Claudia Carrizales de Villa, as part of a 58-count indictment that outlined his involvement in a conspiracy to harbor/conceal illegal aliens in Section 8 apartment units. The actions of Juan-Gayton and his co-conspirators resulted in the death and injury of a number of illegal aliens. The investigation also revealed that Carrizales de Villa falsified information

on her application for housing assistance and fraudulently obtained housing for illegal aliens.

In **Syracuse, NY**, in Federal Court for the Northern District of New York, defendant *Griffin International, Inc.*, of Plattsburgh, NY, pled guilty to conspiracy to violate the Clean Air Act and mail fraud. *Griffin International* provides project design, project monitoring, and air monitoring to firms performing asbestos abatement. The charges arose from an illegal agreement between *Griffin International* and *Parker Environmental Management Group*. *Griffin International* took fraudulent air monitoring samples and permitted *Parker Environmental* to perform illegal asbestos work practices during an abatement project at the Plattsburgh Housing Authority. *Parker Environmental* and its owner, Andre Parker, were previously found guilty of illegal removal and disposal of asbestos containing materials from several buildings at the Plattsburgh Housing Authority.

## *Grand Larceny/Theft*

Defendant Shau Ling Yam, a Section 236 Program participant, pled guilty in State of New York Supreme Court, **New York, NY**, to grand larceny in the third degree and scheming to defraud in the first degree. Yam, a resident of Two Bridges Houses, posed as a HUD managing agent in her housing community. She approached unwitting immigrants in Chinatown and made false promises to assist them in obtaining public housing units. She charged individuals between \$1,000 and \$17,500 as initial fees to obtain these units. In order to make her scheme appear legitimate, Yam used altered HUD recertification forms from her own request for recertification. When the victims finally realized what had happened and requested their money back, Yam threatened them with gang violence. There were over 33 victims who came forward in this case claiming to have been defrauded by Yam. In total, Yam stole over \$171,000 from her victims.

Defendants Micah Brown, Leonard Walters, Berquilia Paulino, also known as Belkis Paulino, Theresa Ahmed, Joy Felder, and Tracey Hannon were arrested and charged in State Court in **New York, NY**, with grand larceny, false filings, offering a

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false instrument, and criminal possession of a forged instrument. Defendants Brown and Walters allegedly underreported their income and received more than \$3,000 each in Section 8 subsidies to which they were not entitled. Defendants Paulino and Ahmed allegedly submitted false documents in which they misrepresented their total household income over a period of several years. During that time, they received \$22,171 and \$21,518, respectively, in Section 8 assistance to which they were not entitled. Defendants Felder and Hannon allegedly underreported their income and received more than \$3,000 each in excess Section 8 subsidies.

Numerous investigations have disclosed various theft schemes by individuals attempting to defraud the Yonkers Municipal Housing Authority (YMHA). In **White Plains, NY**, in U.S. District Court for the Southern District of New York, defendant Celeste Peixoto was sentenced to 13 months in prison and was ordered to pay \$85,449 in restitution and a \$5,000 fine. Peixoto was previously charged with theft concerning programs receiving federal funds, false statements, and conspiracy to defraud HUD. By creating and using false documents such as sham leases and fake real estate deeds, Peixoto fraudulently obtained monies from the Section 8 Program administered by the YMHA.

Defendant Janette Torres was sentenced to six months home confinement and was ordered to pay \$45,472 in restitution. Torres previously pled guilty to theft of government funds. She defrauded the Section 8 Program by concealing her employment and income from the YMHA.

Defendant Shelli Phoenix was sentenced to three years probation and was ordered to pay \$53,322 in restitution. Defendant Shirley Jones was sentenced to three years probation and was ordered to pay \$23,700 in restitution. Phoenix held two HUD subsidized apartments and failed to disclose her true income to the YMHA. Jones, who lived in one of the apartments, benefited from the fraud.

Defendants Amanda Soto and Bilal Mehdawi pled guilty to theft of government money. Soto failed to inform the YMHA that her husband, Bilal Mehdawi, had been living with her since 1998. Mehdawi allegedly owns a business, which would have made

Soto ineligible to receive Section 8 subsidies. The estimated overpayment is \$49,787.

Defendants Rosario and Victor Mendoza, husband and wife, were sentenced in **Los Angeles, CA**, in State Court, to four years in state prison for grand theft and welfare fraud. They were also ordered to pay \$55,003 each in restitution to the City of Norwalk Housing Authority. In April 2003, a felony complaint was filed by the County of Los Angeles District Attorney's Office against the defendants alleging that they made false statements to unlawfully obtain Section 8 benefits. The Section 8 loss amount was calculated at \$55,003.

In **Eden, NC**, in Federal Court for the Middle District of North Carolina, defendant April Deese, a former Section 8 manager, was sentenced for theft of government funds. Deese received six months home detention and five years probation, and was ordered to pay \$53,350 in restitution. Deese was the on-site manager for five housing developments, two of which were Section 8 complexes. From 1999 to 2001, Deese deposited tenant rents in her personal bank account and then used the funds for her own benefit.

Defendant Grace M. DeLarge, who fraudulently cashed \$23,414 worth of Section 8 housing assistance payments checks intended for her deceased mother, Hazel Thompson, was sentenced in **Los Angeles, CA**, in Federal Court for the Central District of California, to five years probation and was ordered to pay \$78,726 in restitution.

In **Seattle, WA**, in U.S. District Court for the Western District of Washington, defendant Vernice Allen, a Section 8 housing voucher recipient, was sentenced to five years probation and ordered to pay \$25,632 in restitution. Allen pled guilty in October 2003 to one count of theft of a thing of value from a government department. During three annual recertifications, Allen underreported her income and received \$25,632 in assistance to which she was not entitled.

Defendant Nhat Huynh, a former Section 8 tenant, pled guilty in the State of California Superior Court, **San Jose, CA**, to five counts of grand theft, welfare fraud, submitting a false application for

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housing, and perjury in connection with her failure to provide complete and accurate information about her household composition, income, and employment to various Santa Clara County social services agencies, including the Santa Clara County Housing Authority. From 1996 to 1999, Huynh told local authorities that she was a single mother and that she did not know the father of her three children, when in fact the father was living with her in her Section 8 unit. Huynh also withheld information about her spouse's ownership of a tailoring business and two rental properties. As a result of this false information, Huynh received more than \$117,000 in housing, medical, and welfare benefits to which she was not entitled.

Defendant Denise Gardner pled guilty in **Philadelphia, PA**, in the Commonwealth of Pennsylvania Court of Common Pleas, to felony theft by deception, unsworn falsifications, and false swearing. An investigation uncovered Gardner's scheme to submit false information to the Philadelphia Housing Authority (PHA). Gardner, a Pennsylvania State employee, allegedly misrepresented her yearly income to the PHA in order to qualify for over \$34,000 in Section 8 assistance. Her fraud scheme began in 1995 and ended approximately one year ago. The investigation further determined that Gardner conspired to submit false unemployment information to the PHA on behalf of her sister, Patricia Wright, who was also a Section 8 tenant.

In **Harrisburg, PA**, in Federal Court for the Middle District of Pennsylvania, defendant Heather Roberts pled guilty to conversion of government property for her own personal use in connection with her participation in HUD's Housing Choice Voucher Program (HCVP). Roberts participated in the HCVP from March 1997 through September 2003, during which time she lived at the Waterford at Summit View development in Hummelstown, PA. An investigation disclosed that Roberts failed to report her marriage to the Dauphin County Housing Authority and the fact that her husband was living with her. Roberts' husband had several felony drug convictions that would have made her ineligible to continue participating in the HCVP. The Housing Authority paid \$24,000 in housing assistance payments on Roberts' behalf.

Defendants Jonetta Reeves, a former Section 8 tenant, and Preston Handcox, a former Section 8 landlord, were indicted in the Circuit Court of Cook County, **Chicago, IL**, on four felony counts of theft. According to the indictment, Reeves was responsible for planning a scheme wherein she and her husband, Graylin Waters, would occupy their newly purchased home as co-occupants, while at the same time instructing her father-in-law, Handcox, to act as the owner and landlord for Section 8 purposes on behalf of that same property. Handcox is alleged to have collected the monthly housing assistance payment checks from the Cook County Housing Authority and, after cashing them, kicking back the money to Reeves, the Section 8 tenant. The total loss to the Housing Authority was \$17,000.

In a separate indictment, defendant Allison Waters, the brother of Graylin Waters, and Patricia Flowers, Waters' wife and a former Section 8 tenant, were charged with three felony counts of theft. Waters and Flowers allegedly planned a similar scheme by occupying a newly purchased home as co-occupants. In this case, Waters was the Section 8 landlord for the property he occupied with his wife, Flowers. The role of Handcox in this case was the use of his address as a Section 8 drop box. Handcox would accept checks from the Housing Authority made out to Waters, and would in turn provide them directly to Waters. The total loss to the Housing Authority was \$48,000.

The Alameda County District Attorney's Office issued a complaint and arrest warrant for defendant Caprell Moss, a public housing tenant at the **Oakland, CA** Housing Authority, charging Moss with multiple counts of grand theft and perjury relating to welfare and housing fraud. From July 1997 through August 2002, Moss repeatedly told the Alameda County Department of Social Services and the Oakland Housing Authority that she did not know the whereabouts of her children's father. However, an investigation disclosed that the children's father was gainfully employed and was living with Moss and their children at her public housing unit. As the result of the fraud, Moss received \$40,812 in housing assistance to which she was not entitled.

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In **Norristown, PA**, in the Commonwealth of Pennsylvania District Court for Montgomery County, a criminal complaint was filed charging defendants Anndria Smith Watkins and Christopher Watkins with one count each of conspiracy, eight counts each of theft by unlawful taking or disposition, and eight counts each of theft by deception for receiving more than \$39,000 in public housing assistance to which they were not entitled. Anndria Smith Watkins allegedly failed to report to Montgomery County Housing Authority (MCHA) officials that her husband, Christopher Watkins, was residing with her at her subsidized unit. Christopher Watkins was employed during this time. In addition, Anndria Smith Watkins underreported her own income to the MCHA. While they were receiving rental assistance, the defendants purchased a home in Norristown and sublet the subsidized unit to a relative; they also failed to report this information to the MCHA.

The Watkinses were also charged with an additional nine counts each of theft by unlawful taking or disposition and nine counts each of theft by deception for the unlawful taking of school services valued at more than \$102,000. After the family relocated to the home they purchased, which was in another school district, their children continued to attend school in the district in which the subsidized unit was located. The theft of services related to the defendants' falsifying documents and maintaining the false information for their personal gain.

In **Charleston, WV**, in U.S. District Court for the Southern District of West Virginia, defendant Ramona Taylor-Williams, a local housing activist and chief executive officer (CEO) of a nonprofit organization, was indicted on 40 counts of theft/embezzlement and mail fraud. Taylor-Williams, the CEO of *Realizing Economic Development Through Education, Enterprise and Morals, Inc. (REDEEM)*, an organization established to promote community enrichment, received grants through the West Virginia Department of Health and Human Services to promote AIDS education and awareness, and West Virginia State College's Office of Land Grant Programs. Taylor-Williams also served as a principal for the *Risen Corporation*, a construction/maintenance firm in Charleston. As a principal for *Risen*, she served as the management agent of a duplex apartment building used for housing Section 8 housing voucher holders

through the Charleston Housing Authority. Taylor-Williams had two known associates apply and qualify for housing at the Charleston Housing Authority and used the housing for employees of *REDEEM*. She purposely recruited highly talented and educated employees to work for *REDEEM* with the incentive of free housing benefits. The Section 8 voucher holders who actually qualified for the housing never lived in the units.

Defendant Judith Keally, also known as Judy Deese, a former public housing tenant, was arrested and charged in **Pittsburgh, PA**, in State District Court, Pennsylvania Court of Common Pleas, with one count of theft by deception, two counts of unsworn falsification to authorities, and one count of forgery for participating in a scheme to defraud HUD and the Allegheny County Housing Authority (ACHA) between 1990 and 2001. Keally resided in the Groveton Village housing development in Coraopolis, PA, from 1974 to 2001. She was terminated from the Public Housing Program when ACHA officials found that her husband, Frank Keally, was residing in her unit while he was gainfully employed at a local metal plant. Frank Keally's income was never reported to ACHA. During the time period in question, Judith Keally's daughter, Traci, also resided in the unit while working full-time. Her income information was also withheld from ACHA. Keally is being charged with defrauding the government out of \$32,000 in subsidies and other housing related services.

Defendant Patrick E. McHugh, Jr., pled guilty in **Boston, MA**, in U.S. District Court for the District of Massachusetts, to two counts of theft of government funds. McHugh received housing assistance by failing to claim all of his income. The investigation disclosed a loss to HUD of \$33,341 and an estimated loss to the Social Security Administration of \$65,575.

### *False Statements*

In **Baltimore, MD**, in Federal Court for the District of Maryland, a civil judgment was entered against defendant Harvey Lee Adler, former president and owner of *Adler Services Group, Inc.*, ordering civil damages totaling \$705,000. The civil damages ordered were three times the criminal restitution ordered when Adler was sentenced. Adler was previously convicted on nine counts of a ten-count

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indictment for making false statements and submitting false and/or inflated repair and maintenance invoices to the Housing Authority of Baltimore City (HABC). Adler defrauded HABC by grossly overbilling HABC for technician labor hours, as well as for parts which were never replaced under a purchase order for maintenance and repair services for gas and oil fired furnaces in rental units owned by HABC. In addition, defendant Scott Dower, former vice president of operations, pled guilty to one count of submitting false statements for his role in the scheme. Adler and Dower instructed technicians to bill HABC for non-billable time, such as travel time, to increase the technician hours charged, in addition to altering invoices submitted by technicians to reflect additional billable hours and parts installed to reach a pre-set minimum billing amount. In one case, the additions made by Adler and Dower caused one technician to charge 26 hours of labor for one calendar day. Adler continues to serve his 41-month sentence in connection with this case.

Defendant Sheryl Cannamore was sentenced in **St. Louis, MO**, in Federal Court for the Eastern District of Missouri, to six months home confinement and five years probation, and was ordered to pay \$81,322 in restitution. Cannamore previously pled guilty to making false statements on her housing certifications to the St. Louis Housing Authority. Cannamore reported no earned income when in fact she was a full time employee at the Federal Reserve in St. Louis.

Defendants Dazerine Winter, a Section 8 landlord, and Amos Winter, a management agent, agreed to repay \$15,000 in HUD subsidies they received illegally. Dazerine Winter, while also receiving rental assistance through the Rural Rental Assistance Program (RRAP), purchased a house and rented it to a Section 8 tenant, and created an illegal second apartment. She financed the purchase with a \$221,000 mortgage, while reporting \$18,000 in annual earnings to RRAP. The **East Hampton, NY** Housing Authority terminated the HUD contract with Dazerine Winter upon discovering the illegal apartment and learning that she was receiving rental assistance. Winter had failed to report the property ownership and rental income to RRAP.

In **Lakewood, CO**, defendant Jennifer Verzuh, a former Section 8 tenant, agreed to repay the Jefferson County Housing Authority \$40,950 for ineligible rental assistance paid on her behalf. Verzuh received Section 8 assistance for a unit in which she had an ownership interest. In addition, she is the primary mortgagor on an FHA insured mortgage. Verzuh's ownership interest was never disclosed to the Housing Authority during the certification process. This case was identified as the result of the data match of assisted housing benefits and FHA insured mortgages.

Defendant Robert Freschi pled guilty in **St. Louis, MO**, in Federal Court for the Eastern District of Missouri, to false statements. Freschi received HUD Section 8 assistance from June 1993 to November 2002. From February 1997 to January 2003, he maintained a bank account at the Cumberland County Bank in Crossville, TN. This bank account was used to provide hidden assets and income to Freschi while he continued to claim on his Section 8 annual recertification forms that he had no income or assets other than \$6,500 per year in Social Security disability payments.

In fact, Freschi's bank account had been supplied with a monthly deposit of \$1,666 and an annual deposit of \$8,000. The bank statements reflected a steady flow of ATM withdrawals at bank locations in downtown St. Louis. Freschi had lived in St. Louis at the Centenary Towers Apartments since June 1993. During the time Freschi was receiving Section 8 assistance, HUD's loss amounted to approximately \$50,000.

In **Richmond, CA**, in Federal Court for the Northern District of California, defendant Candy Renee Anderson, a former Section 8 tenant who previously pled guilty to theft of government funds, was sentenced to five years probation and 142 hours of community service, and was ordered to pay \$27,912 in restitution to HUD. Anderson admitted that she knowingly withheld information from HUD and the Richmond Housing Authority about her part-time employment.

In **Alexandria, VA**, defendant Mary Salihi, a Section 8 recipient, executed a repayment agreement

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with the Fairfax County Department of Housing and Community Development (DHCD) to repay \$23,209 in excess rental assistance received on her behalf. She paid \$10,000 upon signing the agreement, with the remainder to be paid at \$500 per month. Salihi was also required to put up her interest in a home that she owns as collateral. An investigation found that Salihi and her family falsely claimed a landlord/tenant relationship that did not exist, and claimed that she and her “landlord,” who was a family member, were co-owners of the property for which rental assistance was being paid on her behalf.

Defendant Valerie Curry was convicted in **Philadelphia, PA**, in Federal Court for the Middle District of Pennsylvania, in connection with her participation in HUD’s Public Housing Program. Curry pled guilty after being charged with falsification of documents used to determine her eligibility to reside in public housing. Curry, who claimed zero income, owned and operated the *Faze One Realty Corporation* from her assisted unit. She bought, resold, and rented out homes. She concealed her business and real estate assets from the Housing Authority. In reality, Curry owned six homes and two vacant lots valued at \$175,000. Disclosure of her assets would have made her ineligible to participate in the Public Housing Program. The local housing authority suffered a \$12,000 loss as a result of her false statements.

In **Jefferson City, MO**, in U.S. District Court for the Western District of Missouri, defendant Donna Marie Sly, a Section 8 tenant at the Columbia Housing Authority, pled guilty to submitting false statements on her annual Section 8 certifications. Sly failed to report her actual household income by omitting the fact that her husband, an employee of the Columbia public schools, was residing with her in the Section 8 unit. HUD overpaid \$22,761 in subsidies on Sly’s behalf.

Defendant Latonya Decker, a resident of the New York City Housing Authority (NYCHA), pled guilty in **Brooklyn, NY**, in Federal Court for the Southern District of New York, to submitting false statements. Decker allegedly provided false statements to NYCHA during the recertification process by failing to dis-

close her true income, causing an overpayment of Section 8 subsidies of more than \$40,000.

Defendant Donna Robertson pled guilty in **Cleveland, OH**, in Cuyahoga County Common Pleas Court, to one felony count of obstructing justice. Robertson admitted that she falsified her identity while responding to a grand jury subpoena for handwriting, photographs, and fingerprints. In exchange for her plea, a second and more serious charge of tampering with records was dismissed. The subject subpoena was issued in relation to an identity used by another defendant, Charlotte Peters, in a separate case. Peters is presently awaiting trial concerning payments in excess of \$90,000 she fraudulently received from HUD via the Section 8 Program and the Social Security Administration (SSA) via Social Security disability payments. This second defendant, Peters, posed as her own landlord, using the false Peters identity, while receiving monthly rental assistance as a tenant in her own house. Again, using the false identity, Peters received additional rental assistance payments as a landlord for her daughter, Falesia Wiley. The daughter, Wiley, is a co-defendant in this matter. The SSA charges stem from Wiley’s failing to report her true assets in real property and income from HUD as well as from a business in which she is co-owner.

In **Topeka, KS**, in Federal Court for the District of Kansas, defendant Melva Fulton, a Section 8 tenant at the Topeka Housing Authority, pled guilty to one count of submitting false statements. Fulton was previously indicted after failing to provide the Housing Authority with true and accurate information pertaining to household income and family composition. She received \$31,550 in housing assistance to which she was not entitled.

A two-count felony complaint was filed by the County of **San Diego, CA** District Attorney’s Office against defendant Dolores Smith alleging that she made false statements and unlawfully obtained Section 8 subsidies. The amount of the loss was calculated at \$22,135. The complaint stemmed from an investigation which disclosed that Smith received Section 8 subsidies from the Department of Housing and Community Development for the County of San

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Diego by making false statements on her Section 8 application.

In a related case, a one-count felony complaint was filed by the County of San Diego District Attorney's Office against defendant Mitchel Snowden alleging that he made false statements to obtain \$43,700 in Section 8 subsidies. Snowden allegedly made false statements on his application in order to receive Section 8 subsidies from the Department of Housing and Community Development for the County of San Diego.

In **Omaha, NE**, in U.S. District Court for the District of Nebraska, defendant David Williams, a former public housing tenant at the Omaha Housing Authority, was indicted on three counts for defrauding HUD out of \$37,149. Williams allegedly failed to report his true household income by omitting his employment during the annual certification for tenant eligibility.

In **Concord, NH**, in Federal Court for the District of New Hampshire, defendant Trudy Goodwin was charged by information with two counts of making false statements. Goodwin allegedly failed to disclose to the Nashua, NH Housing Authority her accurate income from about January 1999 through June 2003, resulting in an overpayment of Section 8 benefits totaling \$24,556. In addition, Goodwin collected Social Security disability insurance benefits to which she was not entitled by failing to notify the Social Security Administration (SSA) of her employment. SSA sustained a loss of approximately \$40,000.

Defendant Laura Freytes, a former Section 8 tenant, was indicted in **Boston, MA**, in Federal Court for the District of Massachusetts, on one count each of false statements, wire fraud, and theft of government funds. A federal arrest warrant was also issued for Freytes. The indictment alleges that Freytes caused false statements to be submitted to HUD relating to her Section 8 housing assistance payments. Freytes failed to report her income to both HUD and the Social Security Administration while she was receiving benefits from both departments. Freytes caused a loss to HUD of more than \$9,000 and a loss to the Social Security Administration of more than \$30,000.

Defendant Linda Marie Corum was charged in **Upper Marlboro, MD**, in the District Court of Maryland for Prince George's County, with five counts of theft and false statements for her role in receiving Section 8 housing assistance to which she was not entitled. Corum was charged with failing to report employment income earned since October 2000 to the Prince George's County Department of Housing and Community Development. Based on her false statements, Corum received \$21,668 in rental assistance to which she was not entitled.

Four former tenants of the Paris Housing Authority were indicted in **Paris, TX**, in the District Court of Lamar County. Defendants Crystle Mooneyham, Hobbie Davis, Ethel Davis, and Teresa Tarkington were each charged with one count of securing execution of a document by deception. This investigation revealed that all four defendants allegedly failed to report their true income to the Paris Housing Authority. As a result, they received a total of \$36,663 in rent subsidies to which they were not entitled.

In **Leonardtown, MD**, in the Circuit Court for St. Mary's County, separate, two-count indictments were returned against defendants Jo Ann Sommerfeld, a tenant, and Richard Quade, a landlord, for making false statements and engaging in a continuing theft scheme involving the Section 8 Housing Choice Voucher Program. This investigation began following a referral from the St. Mary's County Housing Authority. Allegedly, Sommerfeld and Quade had been in the program since 1992 and were cohabitating the entire time. Additionally, Sommerfeld concealed from the Housing Authority considerable income and assets, including employment in a department store and co-ownership of a home in Oklahoma. The estimated fraud against the Section 8 Program was \$77,000. Both Sommerfeld and Quade have been terminated from the program. Program Fraud Civil Remedies Act remedies are being considered.

### *Mail/Bank Fraud*

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, defendants Alicia Riley, a Section 8 tenant, and Ellis Franklin, a Section 8 landlord and Riley's brother-in-law, were sentenced

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after their earlier guilty pleas to mail fraud. Riley and Franklin both falsely certified on Cook County Housing Authority annual applications that Franklin was the true owner of a home in order for Riley to receive Section 8 subsidy as a tenant. Mortgage documents, U.S. Bankruptcy Court records, an inspection of the property, and a report from the local fire department revealed that Riley had in fact been the legitimate owner of the building since 1994, which was the same year she began receiving Section 8 benefits. Franklin only acted in the capacity of owner, but in turn kicked back housing payments to Riley each month. Riley and Franklin received over \$25,000 in Section 8 subsidies to which they were not entitled. Franklin was sentenced to eight months in prison and two years supervised release, while Riley was sentenced to three years probation. Both were ordered to pay \$26,281 in restitution, joint but several, to HUD.

In **St. Louis, MO**, in U.S. District Court for the Eastern District of Missouri, defendant Michele Meekie was sentenced to two months imprisonment, five years supervised release, and 30 days in a drug treatment facility, and was ordered to pay \$15,546 in restitution to the St. Louis County Housing Authority. Meekie previously pled guilty to one count of a four-count indictment charging her with bank fraud. Meekie admitted that she engaged in a scheme to defraud and obtain monies from Union Planters Bank by transacting counterfeit checks drawn on the St. Louis County Housing Authority's Section 8 account. She deposited approximately \$19,000 in counterfeit Housing Authority checks in her personal bank account and contributed to approximately \$32,000 in losses to the Authority.

Also in this case, defendant Dennie Washington was sentenced to six months incarceration and five years probation, and was ordered to pay \$20,433 in restitution. Washington manufactured counterfeit checks drawn on the St. Louis City and St. Louis County Housing Authorities. He previously pled guilty to two counts of bank fraud. Washington admitted engaging in a scheme beginning in October 2002 and continuing until April 2003 to obtain moneys by means of material false and fraudulent pretenses. During that time period, over \$80,000 in fraudulent Housing Authority checks were created and transacted in the St. Louis metropolitan area. Along with losses

incurred by financial institutions, the St. Louis County Housing Authority lost over \$32,000 from its Section 8 account.

### *Embezzlement through Counterfeiting Schemes*

In **Cleveland, OH**, in Federal Court for the Northern District of Ohio, defendant Sharon Smith was sentenced to six months confinement and 36 months supervised release, and was ordered to pay \$6,103 in restitution. Defendants Gregory Carr and Tina Cannon pled guilty to their participation in a scheme to cash counterfeit checks from the Cuyahoga Metropolitan Housing Authority (CMHA). All three defendants were previously charged in a 14-person indictment for their roles in a conspiracy to defraud local banks, merchants, and businesses, including the CMHA, as part of a loosely connected ring formed to counterfeit payroll and business checks. This investigation has shown that defendant Vaden Anderson, who had recently been released from state prison for attempting to cash a counterfeit check using a false identity, sought others, including Smith, Carr, and Cannon, whom he used as "recruiters" who, in turn, would seek out individuals who were willing to provide their identification and in some cases their own bank accounts to deposit counterfeit checks which Anderson made on a home computer. Anderson, the recruiters, and the check "passers" would then split the proceeds; Anderson received the lion's share of the proceeds. Counterfeit check amounts ranged from as little as \$300 to in excess of \$16,000. Loss estimates exceed \$49,500.

In **Canton, OH**, in Stark County State Court, defendant David Barbour pled guilty to one count of engaging in a pattern of corrupt activity and two counts of passing bad checks and was sentenced to 24 months incarceration. Barbour was charged in a January 2004 indictment with counterfeiting checks for cash and merchandise by using the Stark Metropolitan Housing Authority's account number through the use of several aliases and false businesses. Barbour was arrested in November 2003, and at that time, consented to a search. The search yielded evidence relating to his use of the Internet to place orders for products ranging from clothing to household goods.

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In **Indianapolis, IN**, in Marion County State Court, 20 individuals, who comprised a counterfeit check cashing ring that cashed or attempted to cash at least \$75,000 in counterfeit checks, were charged with theft and forgery related charges. Approximately \$10,000 of this amount represents counterfeit checks issued on a bank account of the Indianapolis Housing Agency. The counterfeit checks were made by scanning legitimate checks into a computer and using commercially available software to produce the fraudulent checks. The check software, check paper stock, computer, scanner, printer, and some pre-printed counterfeit checks were previously seized during execution of a search warrant at the residence of the counterfeit check ringleader, Adrian Cole. The fraudulent checks were cashed predominately at grocery and liquor stores in the Indianapolis area. The 20 individuals charged are as follows: Adrian Cole, Kristina Elliott, Adriene McCurtis, Adrina Cole, Ariga Grimes, Brandie Walton, Carrie Colquit, Charles Johnson, Corey Wadlington, Cynthia Scrivener, Erma Johnson, James Dorsey, Jr., James Johnson, Kenneth Canady, Latoria Bowie, Monica Garrison, Montez Craig, Quiana White, Rebbi Smith, and Vanessa Hankins.

### *Identity Theft*

In State Court in **Cleveland, OH**, defendant Gregario Pimental was sentenced to three years incarceration for tampering with records and 11 years for drug trafficking, to be served concurrently. Pimental was previously convicted for his role in a conspiracy with defendant James Smith, a Section 8 landlord, who obtained properties and collected housing assistance payments under false names and Social Security numbers. Smith has already pled guilty to engaging in a pattern of corrupt activity, drug trafficking, and tampering with records. Like Smith, Pimental used different names to obtain properties and vehicles. At the same time, he assisted Smith in laundering drug proceeds in order to purchase additional Section 8 residences.

Other individuals convicted in this case include Linda Bivens, a loan officer, Earl Howard, Lisa Jones, Dennis McKenzie, Damon Berry, and Richelle Spears. Bivens has already been sentenced to one year probation for tampering with records, securing

writings by deception, falsification, an uttering. Among the other State of Ohio counts charged in this case were engaging in a pattern of corrupt activity, conspiracy, taking the identification of another, identity theft, and money laundering. As part of this investigation, two computers, over \$5,000 in cash, one vehicle, about \$25,000 in jewelry, and approximately \$200,000 in real estate and business assets were seized.

In **Albany, GA**, 53 defendants were arrested, 18 of whom were Section 8 recipients, and 27 more arrests are anticipated for multiple counts of identity theft. The subjects are charged with forgery in the first degree in violation of Georgia State Code. Defendant Kwezeta Butler, who has been a participant in the Section 8 Program since October 2001, was the mastermind behind the scheme. Butler scanned the newspapers for obituaries and then paid an Internet search company to check the backgrounds of the deceased. She obtained Social Security numbers and credit information on 80 individuals from five states. Butler then sold the information for \$500 to \$600 to people with bad credit. Many of the subjects used the stolen identities to purchase vehicles from a major car dealership in the South Metro Atlanta area. The dealership has since closed as a result of the fraud. As part of this investigation, an effort is being made to have all Section 8 participants involved in the fraud terminated from the Section 8 Program.

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## **Fugitive Felon Initiative**

Section 903 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), Pub. Law No. 104-193 (Aug. 22, 1996), amended 42 U.S.C. §§ 1437d(1)(9) and 1437f(d)(1)(B)(v), makes being a fugitive felon a ground for the termination of participation in federally funded assisted housing programs. A fugitive felon, for the purpose of this law, is any federally funded assisted housing participant (tenant) who is fleeing to avoid prosecution for a felony, fleeing to avoid confinement for conviction of a felony, or is violating a condition of probation or parole imposed for the commission of a felony.

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On September 25, 2002, the General Accounting Office (GAO) issued GAO Report No. 02-716, Welfare Reform: Implementation of Fugitive Felon Provisions Should Be Strengthened. The GAO Report evaluated several agencies' efforts to implement various PRWORA provisions that related to fugitives receiving benefits from federal assistance programs, and critically noted that HUD had not conducted a data match to identify fugitives receiving rental assistance. GAO further determined that HUD had effectively delegated its responsibilities to public housing agencies (PHAs), and that HUD had not monitored or evaluated the efforts of PHAs in this regard.

To assist HUD in its response to the GAO Report, the OIG began a Fugitive Felon Initiative. The Fugitive Felon Initiative was designed to identify fugitive felons residing in federally funded assisted housing. The OIG recognized that, unlike some other federal agencies, neither HUD nor the OIG is the body that terminates the tenancy of a violator of the PRWORA statute. Rather, a third party, generally a PHA, manages the PRWORA violator's tenancy. In addition, the OIG recognized that once the arrest of the fugitive felon has occurred, the PRWORA fugitive provision making it a ground for tenancy termination has been removed, as the subject is no longer a fugitive.

The OIG Fugitive Felon Initiative began in FY 2003. Initially, the Fugitive Felon Initiative used only U.S. Marshals Service wanted person data in an effort to identify fugitives. The initiative has expanded to include the use of state and local wanted person data in select locations and will soon include the use of National Crime Information Center wanted person data to identify wanted fugitives. To date, 445 fugitives have been arrested as a result of this initiative.



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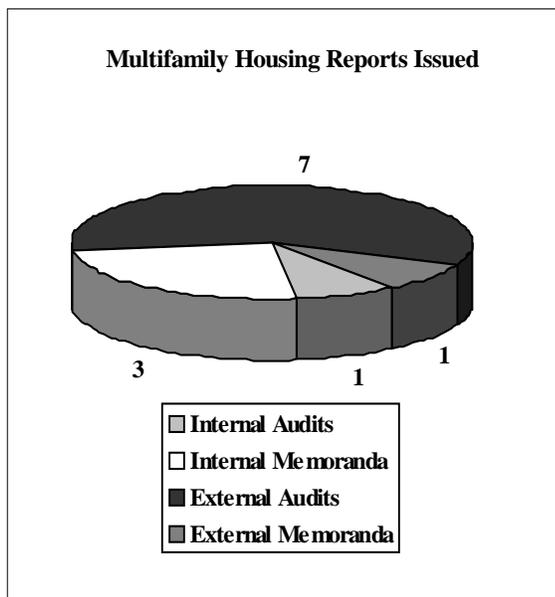
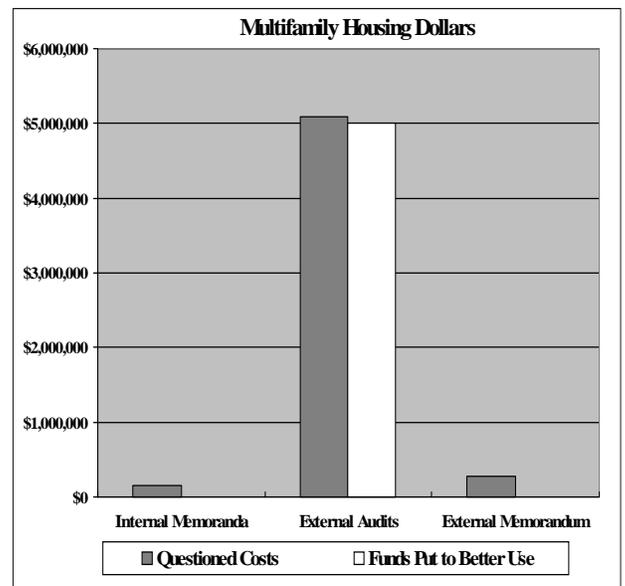
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# Chapter 4 — HUD’s Multifamily Housing Programs

In addition to multifamily housing developments with 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.

## Audits

During this reporting period, the OIG issued 12 reports in the Multifamily Housing Program area: one internal audit, three internal memoranda, seven external audits, and one external memoranda. These reports disclosed over \$5.5 million in questioned costs and over \$5 million in recommendations that funds be put to better use.



Over the past six months, we audited owner and management agent operations at multifamily projects. The results of our more significant audits are described below.

### *Owner and Management Agent Operations*

Our audit of the Family Living Adult Care Center, **Biddeford and Saco, ME**, disclosed that the Family Living project has suffered serious financial problems, including a default on the HUD insured mortgage, and has ceased being a profitable entity. These problems were caused by questionable cash distributions from the project bank accounts by the owner. We consider these distributions, totaling over \$455,000, to be equity skimming. By means of these distributions, the owner diverted project funds from June 2000 to February 2002 to other businesses he owned and for personal expenses.

We recommended that HUD pursue administrative sanctions and recovery from the owner of the difference between the amount owed to HUD on the mortgage and the proceeds from the foreclosure sale of the project (nearly \$2.7 million). We also recommended that HUD pursue recovery from the owner of

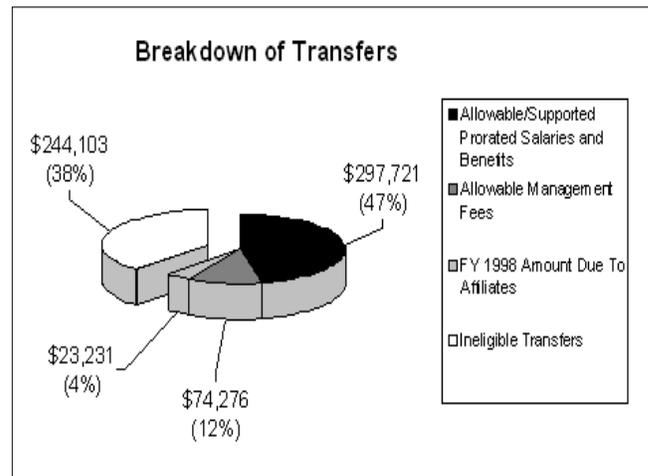
double the amount of the questionable cash distributions totaling over \$390,000, and obtain from the owner justification for cash distributions to unidentified recipients totaling over \$62,000. If the justification is not provided, we recommended recovery from the owner of double the amount of unsupported costs. (Report No. 2004-BO-1002)

In response to a request from the Philadelphia Multifamily Hub Office, we audited the Carbondale Nursing Home, **Carbondale, PA**, a Section 232 multifamily insured project owned by *CNH, Inc.* The audit found that the owner did not comply with the Regulatory Agreement and other HUD requirements in operating the project. In total, the owner made over \$1.2 million of ineligible and unsupported payments from project funds. Specifically, the owner received ineligible salary payments of nearly \$375,000; collected over \$170,000 in ineligible distributions/repayment of advances; paid \$486,000 in ineligible expenses for another company; disbursed ineligible extension fees totaling nearly \$133,000; and paid unsupported loan payments of more than \$97,000. Several staff persons at the project, including the controller and administrator, stated that the owner was not aware of the HUD requirements prohibiting these expenditures. If the owner had complied with HUD requirements and used project funds only for necessary operating expenses of the project, the owner could have used these funds to pay the mortgage costs (principal and interest) for over two years and possibly avoided bankruptcy and default on the HUD insured loan.

The audit recommended that HUD require the owner to repay over \$1.1 million in ineligible expenditures and either support or repay the \$97,000 of unsupported expenditures. HUD should also take appropriate administrative action against the owner. (Report No. 2004-PH-1004)

At the request of HUD's Multifamily Program Center, Hartford Field Office, we audited Nuestra Casa, also known as La Casa Elderly Housing, in **Hartford, CT**. We found that the management agent improperly managed project funds totaling over \$371,000 by improperly transferring over \$244,000 in project funds to affiliates, spending over \$16,000 in project funds on other ineligible, unsupported and unnecessary costs, and circumventing HUD's reserve

for replacement (RFR) requirements, leaving the RFR underfunded by nearly \$111,000. A breakdown of cost transfers by the management agent is shown below.



The management agent also failed to manage the project in compliance with HUD regulations. Specifically, the agent did not keep accounting records current or submit timely annual financial reports; consistently maintain bank statements, invoices, contracts, and supporting documentation for purchases/costs and make them readily available for review; pay utility and other bills timely; put adequate computer controls into practice; carry the required fidelity bond coverage; or implement a capital improvement plan or an effective maintenance program. As a result, the project had a serious cash flow problem, incurred penalty costs, and had liens placed against the property.

The audit recommended that HUD require the management agent to repay the unauthorized transfers of funds to affiliates and any other ineligible costs from non-project funds, and reimburse the RFR. The agent should also bring current all bills exceeding 30 days old and ensure that all liens on the property are satisfied using non-project funds. In addition, HUD should require the project owner to terminate the management agreement because of the agent's failure to comply with the provisions of the Regulatory Agreement and Management Agent Certification. Finally, the audit recommended that HUD program officials and the Departmental Enforcement Center initiate administrative sanctions against the management agent. (Report No. 2004-BO-1006)

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Based on a request from HUD's Cleveland Office of Multifamily Housing Program Center, we completed a review of the books and records of Carter Manor Apartments in **Cleveland, OH**. We found that *J.B. Tipton, Inc.*, and *Carter Manor Apartments Limited Partnership* violated the Regulatory Agreement by improperly disbursing project funds for ineligible and unsupported costs. The inappropriate disbursements occurred when the project was in a non-surplus cash position and/or after the project defaulted on its HUD insured mortgage. As a result, fewer funds were available for the project's normal operations and debt service, resulting in a claim made to the FHA insurance fund.

We referred our draft audit findings to the U.S. Attorney's Office for the Northern District of Ohio. HUD and the U.S. Attorney's Office executed a settlement agreement with the general partner for *Carter Manor Apartments Limited Partnership* and the president of *J.B. Tipton* effective November 24, 2003. Under the terms of the settlement, the general partner and *J.B. Tipton*, without any admission of wrongdoing, paid HUD \$275,000 and agreed not to participate in project activities for a period of five years beginning on July 1, 2004. The settlement agreement permitted the general partner to retain a limited partnership share of no more than one percent in the project. (Report No. 2004-CH-1801)

An OIG audit of Jester Trails Apartments, a Section 221(d)(4) owner managed multifamily project in **Houston, TX**, disclosed that although the owner maintained the property in satisfactory condition, it did not comply with several provisions of the Regulatory Agreement and other HUD regulations. Specifically, the owner failed to maintain the books and records of the project, and could not show that it deposited rental receipts intact. In addition, the owner paid over \$55,000 for ineligible and unsupported personal expenses with project operating funds. The owner also improperly obtained and used project funds to pay over \$42,000 for a personal promissory note. Further, the owner received more than \$32,000 in excess of the allowed management fee, and misused \$24,000 in tenant security deposit funds.

The owner's payments of ineligible and unsupported expenses depleted the project's operating funds. Currently, the project is in default. However,

the lender has indicated it wishes to prepay the mortgage to avoid a claim.

The audit recommended that HUD allow the lender to prepay the mortgage, thus freeing the \$2.13 million loan balance for better use. Further, HUD should require the owner to reimburse the project for the ineligible use of project funds totaling over \$140,000. HUD should also obtain documentation for all unsupported expenses and recover from the owner any project costs determined to be unallowable. If the owner does not repay the project for improper diversions of funds, HUD should take civil action and other prescribed remedies. In addition, HUD should take administrative action against the owner and its members to prevent them from managing this or another HUD property. (Report No. 2004-FW-1002)

We audited Last Star Homes, a 50-unit multifamily housing development in **Browning, MT**, to determine if current conditions involving maintenance, occupancy functions, and project management differ from the conditions identified in HUD's August 2001 Management and Occupancy Review Report. Our review concluded that the significant problems and weaknesses identified in the Review Report still exist, even though the Blackfeet Tribe, owner of the project, promised corrective action in January 2003. The current management and owner were not aware of or familiar with the project's use agreement, Section 8 housing assistance payments contract, and other program requirements, and were therefore not ensuring that these requirements were being met. In addition, they have not requested a housing assistance payment since June 2001. Consequently, adequate funding was not available to fully maintain the property, and the remaining Section 8 housing assistance payments reserve of \$2.8 million was not being used as intended.

We recommended that the Denver Multifamily Hub refer the question of whether the use agreement can be rescinded to HUD's Office of General Counsel and cancel the Section 8 housing assistance payments contract if the use agreement is rescinded. If the use agreement cannot be rescinded, we recommended that HUD provide technical assistance to the project management to bring the project into compliance; require the Blackfeet Tribe to repay ineligible costs of over \$8,000; and determine the appropriateness of questioned costs. (Report No. 2004-DE-1001)

In response to a Congressional complaint of declining and substandard living conditions at Saraland Manor Apartments in **Gulfport, MS**, the OIG conducted an inspection of the complex. Saraland Manor is a multifamily apartment project that serves elderly and handicapped residents, 100 percent of whom are subsidized through the Section 8 Program. The inspection identified numerous deficiencies in building exteriors, common areas, and in the interiors of 32 apartments. Deficiencies in the exteriors and common areas included exposed and loose electrical wires on rooftop air conditioner units, burned out light bulbs in emergency exit signs and stairwells, and pooling water on the roofs due to non-functioning air conditioner condensation lines. In the apartment units, we found severely deteriorated kitchen sink cabinets and countertops, rotting shelves, rusting stove vent hoods with exposed wiring and exposed light bulbs over the cooktops, windows that were too difficult to open and close, windows with missing or damaged seals and broken thermoseals, and water damaged ceilings and walls.

Sink cabinet sides and bottom shelf rotted out at Saraland Manor Apartments.



Moisture damaged drywall at window frame at Saraland Manor Apartments. The age and condition of window units makes them too difficult to operate and subject to moisture intrusion.



Most of the deficiencies were the result of the project's age and inadequate maintenance and repairs. Numerous health (sanitation) and safety deficiencies found in the apartment units were not cited in the last inspection by HUD's Real Estate Assessment Center (REAC). We concluded that the REAC inspection did not identify all significant health and safety deficiencies and that the owner/management agent did not operate an adequate maintenance program.

The audit recommended that HUD's Jackson, MS Multifamily Program Center conduct a management review of Saraland and assess why management has not performed routine maintenance and repairs, and whether management scheduled repairs of deficiencies identified by REAC inspections. The Program Center should also require the owner/management agent to implement adequate management controls to ensure that health and safety hazards and other routine maintenance needs are timely identified and promptly corrected. The audit also recommended that REAC reinspect Saraland Manor to determine whether a revised physical condition score and correlating revisions of the repairs required by REAC are needed, and whether corrective actions to address the contract inspector's performance are warranted. (Report No. 2004-AT-1802)

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In response to a request from HUD's Office of Multifamily Housing, Kansas City Hub, and their concern about unallowable disbursements from project funds, the OIG audited Timberlake Care Center, a nursing home in **Kansas City, MO**. We found that Timberlake made payments for other than reasonable operating expenses and necessary repairs of the project. Timberlake paid over \$76,000 in unsupported and/or unallowable disbursements from the operating account during fiscal years 2002 and 2003. The project's owner did not alter property operations to ensure that HUD rules and regulations were followed after Timberlake obtained HUD insured financing in August 2001. As a result, funds that should have been used to pay the operating expenses of the property were used for unsupported and/or unallowable purposes, contributing to Timberlake's negative surplus cash position.

Timberlake Care Center failed to reconcile its operating account bank statements to the general ledger each month to ensure the amounts balanced. Over the two-year audit period, the operating account general ledger balance was understated by over \$17,000. Timberlake staff were aware that the operating account bank statements did not reconcile to the general ledger balance, but did not know how to correct the problems, and therefore took no action.

The audit recommended that HUD ensure Timberlake Care Center owners develop and implement policies and procedures to control funds in accordance with HUD requirements, and require that Timberlake's operating account be reimbursed \$76,000 for the unsupported and/or unallowable disbursements. We also recommended that HUD ensure Timberlake owners provide adequate support for the adjusting entry to cash made at the end of fiscal year 2002, and properly correct the fiscal year 2003 general ledger, or repay Timberlake's general operating account the amount that cannot be supported. Finally, we recommended that HUD verify that Timberlake owners are correctly reconciling the bank statements to the general ledger each month. (Report No. 2004-KC-1002)

In a related audit, the OIG reviewed the owner's salary at Timberlake Care Center in **Kansas City, MO**. This review was conducted based on a request from HUD's Kansas City Office of Multifamily

Housing that indicated there were unallowable disbursements from project funds. Our review identified an internal deficiency regarding HUD's approval of the project owner's salary. We found that the owner was receiving a substantial salary from the property. We did not take exception to this in our audit report since HUD had previously approved the salary. However, the salary may not be reasonable and necessary because the project's administrator performs many of the normal management functions. We found no indication that the owner was performing any significant management functions that were reasonable and necessary to the operations of the project. Although HUD approved the salary during the loan origination process, paying the salary out of operating funds has further contributed to the project's negative surplus cash position.

The audit recommended that HUD identify the management duties performed by the project owner and determine the appropriate amount of salary the owner should receive from operating funds for performing those duties, and restrict the amount paid for the salary to the determined amount. (Report No. 2004-KC-0803)

At the request of the Seattle HUD Multifamily Hub Office, we audited Uptown Towers Apartments in **Portland, OR**, to determine if the project owner received repayment of ineligible construction loans and capital contributions from project funds; commercial space income has been treated as project income or the owner's contribution; commercial income has been paid out to the project owner; the management agent has been receiving excessive management fees; and certain project expenses were eligible and benefited the project.

Our audit found no repayments of construction loans. We determined that repayments of capital contributions from project surplus cash to the owners were eligible. We also found that the project's commercial income was properly treated as owner contributions or income, and payments to the owner from the commercial income are allowable. However, the management agent received nearly \$15,000 in excessive management fees paid from residential income for the management of the project's commercial income. Further, more than \$43,000 in ineligible and unsupported partnership expenses were paid from project funds.

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We recommended that the project owners take measures to ensure that only proper management fees and allowable expenses are paid, and repay the project for ineligible costs. (Report No. 2004-SE-1003)

During our September 2003 limited review of Shawnee Hills, Inc., a not-for-profit company in **Charleston, WV**, that managed several HUD assisted Section 202/811 properties, we found that HUD did not file Continuation Statements as required under the Uniform Commercial Code to protect all of HUD's financial interests. Under the Uniform Commercial Code, HUD must file a report periodically (every five years or as state law requires) to assure that a lien on chattels remains in effect until the mortgaged property is paid in full or foreclosed. A chattel is any article of tangible property other than land, and buildings such as office furnishings, furniture, or capital equipment.

Our current review found that HUD's West Virginia Field Office was not aware of the process for filing Continuation Statements for Section 202/811 capital advances and direct loans. In part, we attribute this to the fact that the applicable HUD handbooks and related directives are outdated and need to be revised to provide proper guidance to program staff. More specifically, under an internal HUD reorganization in 1998, HUD's Regional Accounting Divisions were eliminated, and the function of maintaining a system to advise the Loan Management Branch of the date when Continuation Statements need to be filed was not assumed by or transferred to another HUD division. As a result, HUD's financial interests in chattels are not fully protected; this problem is not limited to the West Virginia Field Office.

We recommended that HUD's Assistant Secretary for Housing and HUD's Deputy Chief Financial Officer coordinate efforts and take appropriate action to ensure existing policies and procedures for preparing and filing Uniform Commercial Code Continuation Statements are updated and/or consolidated, and ensure that updated procedures are appropriately distributed to responsible field office staff for immediate implementation. (Report No. 2004-PH-0001)

## Investigations

During this reporting period, the OIG opened 158 investigation cases and closed 80 cases in the Multifamily Housing Program area. Judicial action taken on these cases during the period included \$5,235,373 in investigative recoveries, \$3,875,633 in funds put to better use, 71 indictments/informations, 24 convictions, pleas, and pre-trial diversions, 49 administrative actions, five civil actions, and 182 arrests. The results of our more significant investigations are described below.

### *Equity Skimming*

*Unidos Management*, the former managing agent of the Jose DeDiego Beekman housing development in the **Bronx, NY**, agreed to pay over \$690,000 in civil damages to settle multifamily equity skimming violations involving the misuse of project funds. An audit found that the management agent of this 1,200-unit development violated the Regulatory Agreement and HUD rules and regulations by making improper payments of salaries to several on-site supervisory employees. The salaries were paid from Beekman project funds when they should have been paid from the management fees received by the agent to manage the property. The audit also found that *Unidos* repaid loans from Beekman operating accounts while some of the projects had a negative surplus cash balance, and used project income to pay an affiliated entity a fee for investment services. Based on these findings, civil claims were filed against *Unidos*.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, the U.S. Attorney's Office, Civil Division, entered into a settlement agreement with the owners and management of Aurora Woodlands Apartments, a HUD insured multifamily project located in Aurora, IL. An investigation disclosed that the project owners misused property assets by making an unlawful disbursement to themselves, and presented several false claims to HUD for monthly subsidy payments in violation of the False Claims Act. A complaint was not filed because the owners agreed to settle the case. The terms of the settlement include the owners making a lump sum payment of \$301,720, and accepting a three-year voluntary exclusion from

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Executive Branch Programs. The monetary payment consists of \$263,220, which is double damages for a March 2000 unlawful distribution to themselves, and \$38,500, which is a \$5,500 False Claims Act fine for each false monthly housing assistance payment certification submitted between February and August 2000.

Defendant Rodney Myers was indicted in **Fort Smith, AR**, in Federal Court for the Western District of Arkansas, on 22 counts of equity skimming, bankruptcy fraud, money laundering, making false statements to HUD, perjury, and subornation of perjury. Myers is the former owner of Burchwood Harbour Apartments (BHA), a HUD insured multifamily project in Hot Springs, AR. From December 1998 to April 2000, while the project's mortgage was in default and during the period of BHA's Chapter 11 bankruptcy proceeding, Myers allegedly devised a scheme to divert over \$110,000 in project rents and other funds, in violation of the Regulatory Agreement and the bankruptcy court's cash collateral order. After the bankruptcy was dismissed in April 2000 and while the mortgage was in default, Myers diverted over \$40,000 in project rents and other funds. His scheme involved diverting rent checks to his personal bank accounts and writing BHA checks to several contractors, and either receiving cash kickbacks from contractors or forging contractor endorsements, purchasing cashiers' checks, and depositing the cashiers' checks in his personal bank accounts. Myers used inflated and phony invoices and bids for work not performed to conceal his diversions. He committed perjury in a Bankruptcy Rule 2004 Examination relating to the diversions, and he and an attorney, defendant Mike King, also suborned the perjury of two contractors by convincing them to state they received the diverted BHA funds for work performed at BHA, when in fact they did not. Myers also signed and submitted false accounting reports to the bankruptcy trustee and HUD by stating on the reports that the diversions were for legitimate work at BHA.

### *Theft/Embezzlement*

Defendant Teresa Sheppard, a former employee at St. Mary's Episcopal Retirement Homes, Inc., was suspended from further participation in procurement and non-procurement transactions as a participant or principal with HUD and throughout the Executive

Branch of the Federal Government pending debarment actions. In April 2003, Sheppard pled guilty to theft in State Court in **Big Spring, TX**. She admitted embezzling more than \$57,000 in rents from two Saint Mary's projects that were insured by HUD. Sheppard was on probation for a prior embezzlement charge when she committed this crime. She was sentenced to seven years imprisonment and ordered to pay \$50,000 in restitution. She was also fined \$233 in court costs.

Defendant James Caccamo, a former resident property manager at the Butler Family Housing Apartments (BFHA), was sentenced in **Pittsburgh, PA**, in U.S. District Court for the Western District of Pennsylvania, to six months in prison and 36 months supervised release, and was ordered to pay \$7,569 in restitution. Caccamo pled guilty in September 2003 to embezzling funds from the BFHA, an FHA insured, project-based Section 8 property. Caccamo and his wife, Linda Caccamo, also a resident property manager at BFHA, were indicted in June 2003 on charges of theft from a program receiving federal funds. The defendants were terminated from their employment after admitting that they stole nearly \$10,000 in rent proceeds they had collected from Section 8 tenants residing at the BFHA. Linda Caccamo has also pled guilty and been admitted to a court supervised pre-trial diversion program wherein she will also be required to make restitution for her role in this crime.

Defendant Roger Younts was sentenced in State Court in **Lexington, NC**, to 60-81 months incarceration and was ordered to pay \$453,293 in restitution. Younts was previously charged with and convicted on 11 counts of embezzlement. He was the accountant for a property management company that managed HUD insured multifamily complexes. Younts embezzled money from various accounts, including operating accounts.

Defendant Rita Sharn Hye signed a pretrial diversion agreement in **Little Rock, AR**, in U.S. District Court for the Eastern District of Arkansas, admitting to theft of program funds. Hye agreed to perform 180 hours of community service and pay \$7,716 in restitution in return for 18 months of deferred adjudication. From March 2001 to March

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2002, Hye failed to report to Asbury Park Apartments the income she earned working as the manager of a check cashing business. As a result of failing to disclose her income, Hye received \$7,716 in multifamily project-based Section 8 benefits to which she was not entitled.

In **Charlottesville, VA**, in U.S. District Court for the Western District of Virginia, defendant Nancy Besemer pled guilty to one count of federal program fraud in connection with her embezzlement of funds from Blue Ridge Commons Apartments (BRC). Besemer, the former property manager of BRC, and Rodney Crump, the former assistant property manager, embezzled \$23,219 in cash payments and blank money orders from BRC residents. Instead of depositing these funds in a bank account belonging to BRC, Besemer and Crump kept the money for their own benefit. Besemer was previously convicted of embezzling from a separate HUD property and was on probation for that crime at the same time she was embezzling from BRC. She fled Virginia prior to being indicted in June 2002 and after a lengthy search, was apprehended in Savannah, GA, in December 2003. Crump has already been sentenced to 15 months incarceration and 36 months supervised release, and was ordered to pay \$23,219 in restitution.

Defendants Wendy and Brian Schweitzer, who were previously indicted for theft of over \$10,000, pled guilty in State Court in **Franklin, TN**, to theft greater than \$10,000. Wendy Schweitzer, former property manager at Harpeth Hills Apartments and Liberty Oaks Apartments, instructed multifamily residents to leave the “pay to” line on their money orders blank when paying their rent. She deposited the funds in her personal account and concealed the theft by lapping the accounts receivable. In total, she embezzled \$15,012. Brian Schweitzer, a Nashville police officer and Wendy Schweitzer’s former husband, endorsed some of the money orders that were deposited in a joint bank account.

Defendant Patrick Williams, the controller of Esplanade Gardens, was arrested on an outstanding arrest warrant while returning to the United States from the Dominican Republic. He was charged in **New York, NY**, in Federal Court for the Southern District of New York, with aiding and abetting and

theft from a program receiving federal funds. Williams and other employees of the Esplanade Gardens, a multifamily development that receives HUD funds, were allegedly involved in an elaborate scheme to steal funds from Esplanade Gardens. Defendant Mark Bynoe, owner of *Mark Bynoe, PC*, and a sales person for several different companies, has also been arrested in this case.

Defendant Janine Coleman, a multifamily specialist at the Overmont Houses development, was charged in State Court in **Philadelphia, PA**, with felony counts of fraud and theft by deception. The charges stemmed from the investigation of a \$40,000 embezzlement scheme carried out at Overmont Houses, a HUD insured multifamily development. The investigation disclosed that Sandra Pullett, along with Coleman, embezzled rent payments from Section 8 tenants at Overmont Houses for about a year and a half. After receiving the payments, the defendants split the money between themselves for personal use. Pullett was previously sentenced in this case.

### *Conspiracy/Kickbacks/Mail Fraud*

Defendants Marvin and Jeffrey Gold were sentenced in **Central Islip, NY**, in Federal Court for the Eastern District of New York. Marvin Gold was sentenced to 15 months in prison and 36 months supervised release, and was ordered to pay \$965,000 in restitution to the New York City District Attorney’s Office, while Jeffrey Gold was sentenced to 12 months and one day in prison and 36 months supervised release, and was ordered to pay \$100,000 in restitution. The Golds pled guilty in April 2003 to one count each of conspiracy to defraud HUD and the IRS. Marvin Gold was the owner of *Marvin Gold Management*, a real estate management company in Brooklyn, NY, which managed numerous properties that received HUD subsidies and loan guarantees. Jeffrey Gold was vice president of the company. From January 1992 through April 1999, Marvin Gold received at least \$80,000 in kickbacks from vendors for work performed at the buildings managed by his company. He also approved payments of an additional \$210,000 in kickbacks to other individuals. Jeffrey Gold received at least \$17,000 in kickbacks from vendors during the same time period. The kickbacks were included in vendor contracts as a cost of services provided.

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Defendant Angelo Scudiero, a building manager for Taino Towers in Manhattan and Dayton Towers in Far Rockaway, NY, was sentenced in **Central Islip, NY**, in Federal Court for the Eastern District of New York, to 12 months in prison, three years probation, and restitution of \$330,000 for his involvement in a conspiracy to defraud HUD and the IRS. Scudiero received over \$330,000 in kickbacks from vendors for work performed at the two buildings that he managed.

In a similar case, defendant Michael Cantor was sentenced in **Central Islip, NY**, in Federal Court for the Eastern District of New York, to 12 months in prison and three years supervised release on the same charges. Cantor was the owner and president of *Cantor Real Estate*, a management company in Brooklyn, NY, that managed numerous properties in New York. Between January 1992 and April 1999, Cantor received over \$13,000 in kickbacks from vendors for approving work to be done at the numerous buildings that he managed.

In another similar case, defendant Arnold Zabinsky was sentenced in **Central Islip, NY**, in Federal Court for the Eastern District of New York, to six months home detention and 36 months supervised release, and was ordered to pay \$53,000 in restitution to the State of New York. Zabinsky was the president of *Elm Management Company* located in Elmhurst, NY. *Elm* provided building managers for residential buildings throughout the New York area. From January 1992 through April 1999, Zabinsky received over \$11,000 in kickbacks from vendors for work performed at the buildings his company managed.

Defendant Eric Dubbs was sentenced in **Central Islip, NY**, in Federal Court for the Eastern District of New York, to two months in prison and three years supervised release, and was ordered to pay \$20,700 in back taxes to the IRS for his involvement in a conspiracy to defraud both HUD and the IRS. Dubbs was the building manager for the Amsterdam Building which receives HUD loan guarantees. From January 1992 through April 1999, Dubbs received over \$4,700 in kickbacks from vendors for work performed at the buildings his company managed. The kickbacks were disguised in the invoices from the vendors as costs of services provided.

In all four of these cases, the buildings managed by the defendants and/or their companies received HUD subsidies and loan guarantees. The kickbacks were disguised in the invoices from vendors as costs of services provided.

Defendant Murray E. Howell, an employee of *Ham Contracting Inc.*, was debarred from future participation in procurement and non-procurement transactions with Executive Branch of the Federal Government for a three-year period. In December 2002, a bill of information was filed against Howell in **Shreveport, LA**, in Federal Court for the Western District of Louisiana, charging him with one count of conspiracy to commit mail and wire fraud. Howell was subsequently sentenced to five months confinement, 36 months supervised release, and \$60,000 in fines.

Defendants Janet Gaibl and Joseph Cassidy were indicted in **Boston, MA**, in Federal Court for the District of Massachusetts, on one count each of conspiracy. Gaibl was also charged with two counts of making false statements. The indictment alleges that between 1988 and continuing until mid-2000, the defendants, both former employees of *First Realty Management (FRM)*, caused false statements to be submitted to HUD relating to a rent subsidy program at Cummins Towers, a HUD insured multifamily complex managed by *FRM*. Gaibl and Cassidy allegedly identified certain federally subsidized units at the development for their own use, or the use of friends, and then caused false statements to be made on related HUD forms and supporting documents to be fabricated, all for the purpose of obtaining subsidized units for individuals who would not otherwise qualify. Gaibl and Cassidy caused a loss to HUD in excess of \$140,000, and deprived qualified families of use of the units.

### *Drug and Weapons Violations/Fraud*

OIG Agents conducted a sweep of the Englewood Apartments, a Section 8 project-based development in **Kansas City, MO**. Englewood Apartments is a known high-crime area in the Kansas City metropolitan region. It is known as a haven for fraud, drugs, and violence. The apartments are located within one mile of an elementary and an intermediate school. Follow-

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ing this successful sweep, defendants Dolores Mora, Anita Reece, and Valerie Vallier turned themselves over to Platte County authorities for pending State felony charges while defendants Monica Wesley, Tiffany Gee, and Kim Falley turned themselves over to the Kansas City Police Department for outstanding City violations. Defendant Reece was subsequently sentenced in Platte County District Court for felony stealing by deceit for obtaining food stamp benefits for children who were not living in her residence. She was ordered to pay \$9,068 in restitution and placed on probation for five years. HUD records regarding Reece's Section 8 unit provided information proving that her children were not living with her during the time she received benefits for them. This is the first conviction and sentencing stemming from operations at Englewood Apartments.

As a result of the investigation, to date 34 individuals have been criminally charged and one has been sentenced for theft by deceit for failure to accurately report household income and composition to Englewood's management. In addition to the individuals charged with fraud, the investigation has identified 30 persons with outstanding felony warrants. During the sweep, three weapons and marijuana were seized.

In **Omaha, NE**, in Federal Court for the District of Nebraska, defendant Ricky Davis, a convicted felon and an illegal tenant at Wintergreen Apartments, a Section 8 project-based development, was indicted on one count of felon in possession of a firearm. Allegedly, Davis was regularly firing a weapon at the apartment complex.

A warrant sweep was conducted at Brighton Place Apartments, a Section 8 project-based complex in **Kansas City, MO**. Twelve individuals were arrested on outstanding warrants. Of these 12, defendants Gloria Logan, Carla Hubbard, Vanessa McCullough, and Carmeia Rivers were charged in Jackson County District Court, Kansas City, MO, with theft by deceit for failure to report their income to Brighton Place management.

### *False Statements*

In **Topeka, KS**, in Federal Court for the District of Kansas, defendant Cynthia Edwards, a former

multifamily project manager, was sentenced to three months electronic home confinement and six months probation after she pled guilty to a one-count information charging her with making false statements concerning the eligibility of recipients of HUD rental assistance. These false statements included certifications that the recipients were eligible for benefits when they were not. Timberlee owners reimbursed HUD \$90,918 for the losses that transpired from the scheme. Through an agreement with HUD, Timberlee ownership also transferred the management of Timberlee Apartments to a management company to administer its HUD programs.

Defendant Geraldine Thomas, president of the Regional Alliance of HUD Tenants (PRAHT), was sentenced in **Philadelphia, PA**, in Federal Court for the Eastern District of Pennsylvania, to 60 months supervised release and was ordered to pay \$24,910 in restitution to HUD. Thomas pled guilty in November 2003 to one count of making false statements to HUD. An investigation uncovered misappropriation of HUD funds following a review of PRAHT's accounting practices and management of two HUD multifamily Intermediate Technical Assistance Grants (ITAGs) totaling approximately \$500,000. The investigation also disclosed that Thomas submitted false information concerning PRAHT salary expenses to HUD in order to receive ITAG grant disbursements. In addition, she fraudulently used PRAHT issued ATM cards and withdrew up to \$10,000 from ATM machines located in Atlantic City, NJ casinos. In attempt to cover up phony PRAHT salary expenses and fraudulent use of the ATM cards, Thomas created and submitted \$35,000 in fraudulent invoices to OIG Audit officials during a routine audit of PRAHT. Thomas was subsequently suspended by HUD's Enforcement Center.

Defendant Nasser Ahmed Ameri, a citizen of Yemen, was convicted in **Little Rock, AR**, in U.S. District Court for the Eastern District of Arkansas, on 18 counts of unlawful alien in possession of ammunition, production of fraudulent documents, possession of fraudulent documents, possession of document making implements, computer fraud, theft of trade secrets, identity theft, fraudulent use of a Social Security number, and making false statements to the FBI and HUD. Ameri possessed and produced fraudulent Arkansas drivers' licenses and identification

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cards and falsely told Agents he was part of a terrorist plot, thus wasting investigative manpower and expenses. Ameri also received Section 8 rental assistance from May 1997 to March 2002. At the time of his initial application for Section 8 benefits, he was a non-citizen student and ineligible for Section 8 assistance. In May 1997, Ameri falsely stated on his declaration of citizenship form that he was a citizen or national of the United States. As a result of his fraud and false statements, Ameri received \$13,694 in multifamily project-based Section 8 benefits to which he was not entitled.

In **Allen County, OH** State Court, defendant Penny Williams, also known as Penny Schneider, pled guilty to misdemeanor petty theft and was sentenced for her role in occupying two HUD subsidized units, one a public housing unit and the other a privately owned Section 8 unit. Williams used two different last names at each of the properties in order to disguise her residency. She was sentenced to two years probation and was ordered to pay \$1,320 in restitution to the Allen Metropolitan Housing Authority.

In **Detroit, MI**, in Federal Court for the Eastern District of Michigan, defendant Ama Zitaanoff, also known as Jessie Zitaanoff, a Section 8 tenant, was sentenced to 10 months in jail and two years supervised release, and was ordered to pay \$78,168 in restitution. Zitaanoff pled guilty in October 2003 to collecting Social Security supplemental income (SSI) under two different names. She also admitted receiving HUD subsidized housing at two different apartments. The fraud amount for the SSI benefits is \$23,723, while the money paid out for housing assistance to which she was not entitled totals \$54,445.

In **Little Rock, AR**, in Federal Court for the Eastern District of Arkansas, defendant Reuben Bledsoe pled guilty to one count of making false statements to HUD on a tenant certification form. Bledsoe filed a false certification form stating that he was unemployed and had zero income when in fact he was employed as a full time police officer with the Pine Bluff Police Department. The total loss to HUD was \$16,500.

The U.S. Attorney's Office filed an information in **San Francisco, CA**, in Federal Court for the

Northern District of California, charging defendant Albert Boddie, a former Section 8 tenant, with one count of making false statements to HUD. From 1997 to 2001, Boddie allegedly provided false employment verifications and income statements to HUD claiming that he earned between \$7,000 and \$9,000 per year. In fact, Boddie earned \$46,316 in 1997, \$59,154 in 1998, \$55,591 in 1999, \$68,952 in 2000, and \$67,094 in 2001. In 2001, Boddie purchased a home for \$229,000. When he was interviewed, Boddie provided a sworn statement admitting that he failed to report his correct income to HUD in order to continue receiving Section 8 housing benefits. HUD paid \$36,096 in ineligible Section 8 assistance on Boddie's behalf.

The U.S. Attorney's Office filed an information in **San Francisco, CA**, in Federal Court for the Northern District of California, charging defendant Natasha Adams, a former Section 8 tenant, with one count of making false statements to HUD. From 1998 to 2001, Adams allegedly provided false verifications of employment and income to HUD that showed she had little or no income. In fact, Adams was employed by the State of California Department of Motor Vehicles during this period. When she was interviewed, Adams admitted to preparing the false statements that she made to HUD. As a result of her failure to properly report her income, HUD paid \$19,152 in overpaid Section 8 housing assistance on her behalf.

In **Bayamon, PR**, in State Court for the District of Bayamon, defendant Maria D. Sanchez-Ortiz, a former Section 202/Section 8 tenant, was charged with 11 counts of illegal appropriation. Sanchez allegedly withheld income information from Egida del Medico management in order to qualify for rental assistance in the elderly housing project. As a result of her false statements, she received \$6,204 in Section 8 housing assistance to which she was not entitled.

Defendant Mia Shivers, a multifamily Section 8 recipient in the Jersey Park Apartments, was arrested based on an indictment handed down in State Circuit Court, **Isle of Wight County, VA**. The indictment charged Shivers with 33 fraud related counts, including two counts of making false statements to obtain

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housing assistance and 19 counts of grand larceny from HUD. For over a year and a half, Shivers allegedly failed to report over \$20,000 in income from her live-in boyfriend, Charles Faltz. Faltz's unreported income resulted in Shivers receiving \$9,400 in Section 8 benefits to which she was not entitled. This complaint was referred to the OIG by the Virginia Department of Social Services (DSS) in Isle of Wight County. DSS was investigating Shivers for social services benefit fraud. As a result of local media coverage of the social services benefit fraud investigations, many subsidy recipients are voluntarily reporting previously undisclosed employment income.

In **Harrisburg, PA**, in Federal Court for the Middle District of Pennsylvania, defendant Clarissa Taylor was charged with being the principal in the commission of an offense against the United States and making false statements in connection with her participation in HUD's Multifamily Project-Based Section 8 Program. Taylor has resided at the Edison Village development since 1998. Edison Village is owned and operated by the *Wingate Management Company*. Taylor allegedly falsified her annual recertifications to remain eligible for and continue living in subsidized housing. She also failed to declare over \$46,000 in Social Security payments she received on behalf of her daughter between 2000 and 2003. During the same period, HUD made \$33,000 in housing assistance payments to the landlord on behalf of Taylor.

Defendant Robert Freschi was taken into custody in **Knoxville, TN**. This investigation was predicated on an allegation that Freschi received HUD Section 8 assistance from June 1993 to November 2002. From February 1997 to January 2003, Freschi maintained a bank account at the Cumberland County Bank in Crossville, TN. This bank account was used to provide hidden assets and income to Freschi while he claimed on his annual Section 8 recertification forms that he had no income or assets other than monthly Social Security disability payments. Freschi has been receiving \$6,500 per year in Social Security disability payments, which he has verified on his recertification forms as his only source of income. However, monthly deposits of \$1,666 and annual deposits of \$8,000 have been made to his bank account. The bank statements also reflect a steady flow of ATM with-

drawals at bank locations in **St. Louis, MO**, where Freschi has lived at the Centenary Towers Apartments since June 1993. HUD's loss for the time period Freschi has been in the Section 8 Program is approximately \$47,097.

### *Davis-Bacon Violations*

In **Cleveland, OH**, in Federal Court for the Northern District of Ohio, *Gatehouse Building Company*, a general contractor for the construction of FHA insured multifamily developments, reached a settlement to pay \$756,829 to be made available to the Department of Labor, Wage and Hour Division. The money will pay wage restitution to numerous laborers who were paid less than the prevailing wage while working on developments that were insured by FHA for over \$30 million. This investigation has already resulted in the conviction defendants Robert Atkins, Edward Gorges, Robert Gregoric, Avner Leibovitch, and Andrew Sando. Another four defendants, Dennis Breiding, Douglas Lund, Joginder Singh, and Rajinder Singh, are pending trial. The investigation disclosed that multiple subcontractors were paying less than what was required by the Department of Labor and HUD.

### *Insurance Fraud*

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, defendant Ralph Aulenta, former president of American Business Insurance of Illinois, pled guilty to his participation in multiple schemes to inflate insurance proceeds. Aulenta accepted responsibility for inflating insurance proceeds totaling \$288,000 on behalf of the City of Rosemont between 1991 and 1996. In addition, over a nine-year period, Aulenta admitted inflating insurance premiums totaling \$1.7 million for *Boulevard Management*, a corporation which both owned and managed several FHA insured multifamily developments. In the case of *Boulevard Management*, Aulenta inflated insurance premiums on the HUD insured projects and disguised kickback payments made back to *Boulevard* as rebated premiums.

### *Warrant Initiative*

An arrest/interview operation was conducted at the Windridge Apartments, an insured multifamily

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complex in **Wichita, KS**. The Wichita West Police Department previously identified residents with outstanding warrants, while OIG identified tenants working or receiving unemployment benefits in 2003 but who were reporting zero income to management. Seven defendants, representing six households, were arrested. The defendants were Aisha Jones, Anthony Henderson, Christina Clinton, George Davis, III, Brenda Pool, Lakisha M. Ellis, and Jason A. Mims. During interviews of the arrestees, two households admitted that their reported income and composition were not accurate, one admitted that reported household composition was not accurate, and one admitted that reported income was not accurate. An eviction notice was also served to Natalie Willis, a tenant and former Windridge/Insignia manager, for alleged embezzlement of funds. Seven other tenants were also interviewed but did not furnish any additional information not previously provided to management. These arrests are part of the Kansas City Region's Section 8 Warrant Initiative.

deposited the money orders/checks in her personal bank account in Aston, PA. The stolen money orders, totaling \$8,349, represent the tenants' portion of their Section 8 rent payments. The remaining \$794 represents two checks sent to Bentley Woods to assist tenants in temporarily paying their portion of the rent and two checks from vendors paying reimbursements to Bentley Woods.



### *Regulatory Agreement Violations*

As a result of an ongoing series of civil litigation efforts, defendant Morton Sarubin, a multifamily development owner, agreed to a settlement in **Baltimore, MD**, in U.S. District Court for the District of Maryland, by which he will pay \$538,768 to the accounts of two FHA insured Section 8 multifamily projects to provide for their immediate and long-term physical repairs. HUD had declared both developments, Old Towne Manor in Cumberland, MD, and Lansdowne Apartments in Baltimore, in technical default of their Regulatory Agreements in June 1999 due to long-term uncorrected physical deficiencies.

### *Interstate Transportation of Stolen Property*

Defendant Barbara Cooper, former Community Realty Management property manager for the Bentley Woods apartment complex located in Glassboro, NJ, pled guilty in **Philadelphia, PA**, in U.S. District Court for the Eastern District of Pennsylvania, to one count of interstate transportation of stolen property. Cooper's plea stems from allegations that she stole \$9,143 worth of money orders and checks payable to Bentley Woods. She then crossed state lines and

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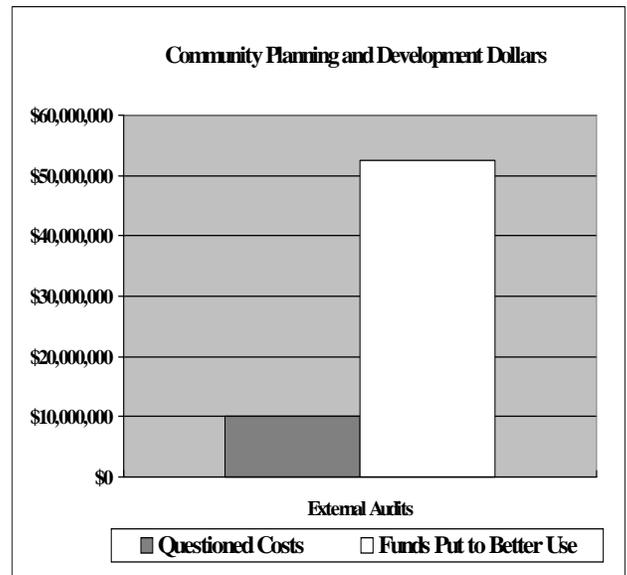
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# Chapter 5 – HUD’s Community Planning and Development Programs

The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, 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.

## Audits

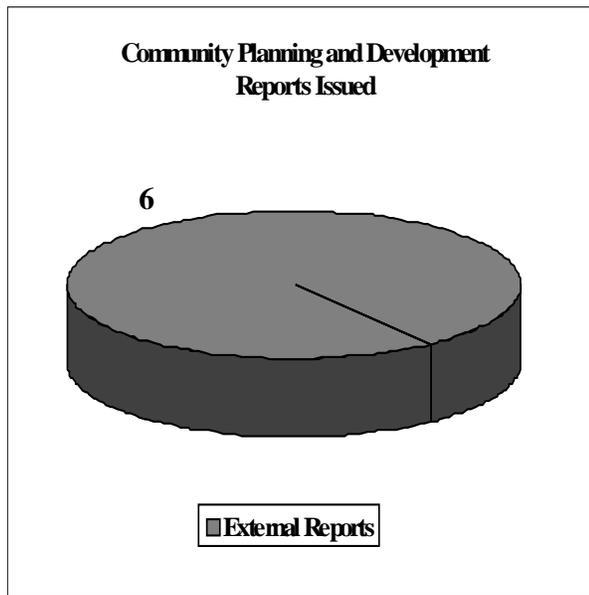
During this reporting period, the OIG issued six external audit reports in the Community Planning and Development Program area. These reports disclosed over \$10 million in questioned costs and about \$52.5 million in recommendations that funds be put to better use.



We audited Community Development Block Grant (CDBG) Disaster Assistance Funds in the State of New York, the Section 108 Loan, CDBG, HOME, Neighborhood Initiative Grant, and HOME Investment Partnership Programs.

## Disaster Assistance Funds – State of New York

We are performing ongoing audits of the administration of the CDBG Disaster Assistance Funds provided to the State of New York as a result of the terrorist attacks on the World Trade Center in New York City. These funds are being administered by two entities, the Empire State Development Corporation (ESDC) and the Lower Manhattan Development Corporation (LMDC). We plan to issue an audit report on each entity every six months and include the results in the Inspector General’s Semiannual Report to Congress in order to comply with Congress’ request that the OIG periodically audit and semiannually report on the expenditure of these CDBG Disaster Assistance Funds. This is the third and final report that we will issue on the CDBG Disaster Assistance Funds directly appropriated to ESDC. The prior audit reports on ESDC were issued on March 25, 2003, and September 30, 2003. This is the second in a series of



reviews that we plan to conduct of LMDC's administration of CDBG Disaster Assistance Funds. We reported on the operations of LMDC on September 30, 2003.

The objectives of both the ESDC and LMDC reviews were to determine whether the entities: (1) disbursed CDBG funds to eligible applicants in accordance with the HUD Approved Action Plans; (2) developed and implemented adequate procedures for monitoring the programs funded with CDBG Disaster Assistance Funds; and (3) had financial management systems that adequately safeguarded the funds. Both reviews covered the period April 1, 2003, to September 30, 2003.

Our audit found that ESDC generally disbursed CDBG Disaster Assistance Funds to eligible applicants in accordance with HUD Approved Action Plans, and has a financial management system that is capable of adequately safeguarding the funds. However, we noted processing deficiencies in its grant programs that need to be resolved to enhance the efficiency of ESDC's administration of the funds. Also, we noted monitoring controls that need to be strengthened so

HUD can readily make compliance determinations regarding ESDC's programs.

ESDC has continued to make substantial progress in developing and implementing programs that address the immediate economic needs of numerous businesses that suffered economic losses and property damages during the September 11, 2001 terrorist attacks. At September 30, 2003, ESDC had disbursed over \$796 million of the \$1.124 billion in CDBG Disaster Assistance Funds it is administering. ESDC had disbursed \$36 million in Small Firm Attraction and Retention Grants (SFARGs) to 1,095 businesses representing over 19,000 employees, \$173 million in Large Firm Job Creation and Retention Grant Program (JCRP) grants to 44 large businesses, and \$543 million in Business Recovery Grants (BRGs) to over 14,000 applicants. In addition, ESDC has implemented several other programs to address the economic needs of the Lower Manhattan area resulting from the terrorist attacks. ESDC's grant and loan programs have contributed significantly to the revitalization of Lower Manhattan. ESDC budget and disbursement amounts on September 30, 2003, were as follows:

<b>Program</b>	<b>Budget as of 9/30/03</b>	<b>Disbursements as of 9/30/03</b>	<b>Balance as of 9/30/03</b>
Bridge Loan Program	\$6,760,000	\$0	\$6,760,000
Business Recovery Loan Fund	\$41,140,000	\$16,285,298	\$24,854,702
Business Recovery Grant Program	\$564,360,000	\$543,993,383	\$20,366,617
Small Firm Attraction & Retention Grants	\$155,000,000	\$36,798,430	\$118,201,570
Grants to Technical Assistance Providers	\$5,000,000	\$2,636,584	\$2,363,416
Large Firm Job Creation & Retention	\$320,000,000	\$173,693,270	\$146,306,730
Compensation for Economic Losses to Other Businesses	\$13,240,000	\$13,240,000	\$0
Business Information	\$5,000,000	\$3,647,153	\$1,352,847
Administration	\$14,000,000	\$6,215,775	\$7,784,225
<b>TOTALS</b>	<b>\$1,124,500,000</b>	<b>\$796,509,893</b>	<b>\$327,990,107</b>

ESDC's Action Plans as Approved by HUD

ESDC has also made significant progress in improving its management controls and internal audit procedures over the disbursement of Disaster Assistance Funds. As a result of actions taken by ESDC, including actions to resolve recommendations in prior OIG audit reports, ESDC identified and recovered \$1.48 million of improper BRG and SFARG grant disbursements.

ESDC does need to improve procedures for documenting its monitoring reviews of the Business Recovery Loan Fund (BRLF) Program and the JCRP. Specifically, we found that ESDC is neither adequately documenting its on-site monitoring of BRLF lenders, nor maintaining written or computerized documentation detailing their monitoring of JCRP. Without adequate documentation of ESDC’s monitoring of these programs, HUD’s ability to make compliance determinations regarding these programs as required by the alternative procedures published in the Federal Register will be limited. We believe these deficiencies occurred because ESDC did not follow procedures that required formal written documentation of on-site monitoring visits of BRLF lenders, and because its written monitoring procedures for JCRP do not require that monitoring reviews be fully documented.

Our review of statistically selected samples of SFARG applications disclosed that ESDC disbursed two grants totaling \$49,000 to applicants who were mistakenly determined to be eligible. This occurred because ESDC did not properly apply certain program guidelines during the processing of the applications. Specifically, we found that one applicant was ineligible because the program’s lease requirement was not met while the other applicant did not meet the program’s full time permanent employee requirement.

We recommended that HUD require ESDC to maintain written or computerized documentation detailing on-site monitoring reviews of BRLF Program lenders to facilitate reviews and audits by HUD, ensure that ESDC reimburses the SFARG Program \$49,000 from non-federal funds to correct improper payments made to ineligible applicants, and instruct ESDC to improve procedures for verifying the eligibility of SFARG applicants. (Report No. 2004-NY-1001)

This second OIG review of LMDC’s operations disclosed that LMDC had drawn down over \$377 million of the \$1.6 billion approved by HUD, as shown below:

LMDC’s Action Plans as approved by HUD LMDC Programs	Budgeted	Draw Downs As of 09/30/03	Balance At 09/30/03
Residential Grant	\$280,500,000	\$143,857,980	\$136,642,020
Employment Training	\$500,000	\$129,017	\$370,983
Interim Memorial	\$350,000		\$350,000
Columbus Park Renovation	\$428,571		\$428,571
Downtown Marketing	\$4,664,000		\$4,664,000
Short-term Capital Projects	\$69,405,000		\$69,405,000
Long-Term Planning	\$13,894,848		\$13,894,848
Business Recovery Disproportionate Loss of Workforce	\$33,000,000		\$33,000,000
Utility Infrastructure Rebuilding	\$735,000,000		\$735,000,000
Programs Initiated by ESDC	\$424,500,000	\$216,995,384	\$207,504,616
Planning & Administration	\$56,802,232	\$16,044,976	\$40,757,256

Funds Drawn Down by LMDC

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LMDC generally disbursed the CDBG Disaster Assistance Funds to eligible applicants in accordance with the HUD Approved Action Plans, implemented adequate monitoring efforts over the Residential Grant Program (RGP), has a financial management system that is capable of adequately safeguarding funds, and complied with its established recertification policies and procedures while recertifying RGP participants. However, we noted processing deficiencies in its RGP that still need to be resolved to further enhance the efficiency of LMDC's administration of funds, and to prevent duplicate payments and other related administrative deficiencies from occurring.

Our audit disclosed that despite correcting processing deficiencies in its RGP through its recertification process and its alternative supporting documentation requirements, LMDC still has some processing deficiencies that need to be resolved. Specifically, during our testing of a statistically selected sample of payments to new RGP recipients, we found that LMDC was unable to provide adequate documentation to fully support the eligibility of some grant recipients. Furthermore, either the documentation supporting the applicants' eligibility was not obtained, or was obtained but not scanned into the Optical Image Technology System. As a result, we concluded that grant payments totaling \$86,000 are questionable since they relate to recipients with questionable eligibility. These deficiencies are attributed to possible omissions by the grant processors in obtaining all required documentation from applicants, and/or possible failures to scan all pertinent documents into the program administrator's computerized processing system.

In addition, our audit disclosed that LMDC continued to issue monthly duplicate grant payment checks either to the same individual or to two individuals residing in the same housing unit. Specifically, duplicate grant payment checks, totaling nearly \$6,000, were issued to eight individuals because each individual was approved to receive a grant check under two different identification numbers. Furthermore, grant payments in the amount of \$11,000 were issued to an individual who resides in a housing unit with another individual who received payments for the same type of grants. Thus, nearly \$17,000 of CDBG Disaster Assistance Funds were improperly used. The duplication occurred because the processing

controls designed to prevent an individual and/or a housing unit from being entered into the program's computerized grant processing system twice were flawed. However, LMDC and its program administrator have instituted procedures to prevent the monthly processing of payment checks, under its two-year grant program, once a duplicate is identified.

Our audit also disclosed weaknesses in LMDC's accounting of funds to be recovered from RGP grant recipients. Specifically, we noted that LMDC has not established a receivable account in its general ledger to record the funds it expects to recover from grant recipients who failed to comply with RGP requirements, and/or received grant payments to which they were not entitled. We believe that collectible amounts should be periodically recorded in LMDC formal accounting records, and that the absence of such records is a weakness in LMDC's accounting controls that could result in a misuse of RGP recoveries. In addition, we believe that the establishment of a receivable account for recoveries will strengthen LMDC's accounting procedures and enhance LMDC's accountability over CDBG Disaster Assistance Funds. At January 23, 2004, the master repayment list reflected over \$690,000 of RGP funds to be recovered.

Finally, our audit disclosed two practices that warrant further examination by HUD management. These issues involve the use of CDBG Disaster Assistance Funds to pay for: (1) annual leave accrued and transferred from various New York State departments and institutions; and (2) the salary and fringe benefits of a part-time employee who does not report to a department head or supervisor employed within LMDC's organizational structure.

We recommended that HUD instruct LMDC and/or its program administrator to obtain and maintain all missing documentation that supports the eligibility of all grant recipients, and continue efforts to pursue reimbursement from recipients who received overpayments and/or duplicate payments. In addition, recoveries received should be refunded to the CDBG Disaster Assistance Fund. Lastly, we recommended that HUD direct LMDC to establish a receivable account for all amounts it expects to recover. (Report No. 2004-NY-1002)

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## *Section 108 Loan Program*

An OIG review of the City of **New Orleans, LA's** \$25.3 million Section 108 loan to assist in the construction of Jazzland Theme Park found that the City did not comply with Section 108 requirements regarding applicant eligibility, loan requirements, grant administration, and performance reviews. We concluded that the City paid over \$7.6 million in ineligible and unsupported expenditures. Nearly \$1.3 million in funds distributed by the City were ineligible because the funds did not have an underlying loan or grant agreement. Of the \$6.3 million in unsupported costs, \$2.4 million related to a drawdown for which the City had no documentation to support the release of the funds. The remaining \$3.9 million related to miscalculations of fees, payments to vendors, and possible duplication of invoices. Further, the City had inadequate controls and management over Jazzland, and did not manage the development of Jazzland. Because Jazzland defaulted on the City's loan, the City will be required to repay HUD from rents it receives from the new owners of the amusement park and from its general fund.

To correct these deficiencies, we recommended that HUD require the City to repay the \$1.3 million in ineligible expenditures and either support or repay the \$6.3 million in unsupported expenditures. The City should also seek recovery from vendors who inappropriately gained from the disbursements. The City needs to implement policies and procedures to ensure compliance with program requirements. In this regard, HUD should assist the City in the development and implementation of the policies and procedures prior to approving any additional Section 108 loans. By doing this, the City could potentially use \$52 million in available Section 108 funds more effectively. Additionally, HUD should evaluate if actions by officials, contractors, and others warrant administrative sanctions. (Report No. 2004-FW-1003)

## *CDBG, HOME, Neighborhood Initiative Grant, and HOME Investment Partnership Programs*

We reviewed 33 loans awarded by the City of **Springfield, MA**, that were funded through Community Development Block Grants (CDBG) and HOME

grants, and miscellaneous income generated by Urban Development Action Grants during the period January 1, 1996 through March 31, 2001. The 33 loans totaled nearly \$692,000. The audit disclosed problems with the City's management of community planning and development funds. The City did not always comply with its own policies and procedures, follow HUD program requirements, or maintain essential documentation. In addition, the City lacked effective internal controls in some areas. Of the approximately \$692,000 reviewed, we questioned over \$674,000.

The City mismanaged its Business Improvement Program (BIP). We reviewed 28 BIP projects involving over \$205,000 and found nearly \$160,000 expended for ineligible projects and nearly \$28,000 expended without sufficient documentation. Additionally, the City had inconsistencies in the processing of loan applications and requests for payments that had the appearance of favoritism.

A review of three community development loans totaling \$360,000 disclosed that the City's files lacked documentation to determine that all the loans met program requirements and national objectives. The loan files did not contain basic documentation such as applications, award determinations, commitment letters, and demonstration of the achievement of national objectives. Because of the nature and extent of the deficiencies, the \$360,000 is ineligible.

Finally, a review of two HOME funded projects totaling nearly \$127,000 disclosed that affordability requirements were not met, the assistance may have unduly enriched the project owner, disbursements were made for ineligible costs and contrary to federal program policy, and there were several unexplained deviations from City policies governing disbursements. Neither of these projects was completed in accordance with the original scope of rehabilitation work. As a result, we consider the costs ineligible.

We recommended that HUD review the questioned costs and determine whether the costs are ineligible; require the City to reimburse HUD from non-federal sources for any costs deemed ineligible; and require City officials to implement adequate internal controls to ensure that City policies and procedures are followed and that HUD requirements are met. (Report No. 2004-BO-1003)

At the request of the HUD Kansas City Office of Community Planning and Development, we audited the East Meyer Community Association, a Community Development Corporation in **Kansas City, MO**. We found that East Meyer mismanaged Neighborhood Initiative and Community Development Block Grant funds by improperly using the funds for purposes other than those specified in the contract and/or grant agreement. In regard to its \$1 million Neighborhood Initiative Grant, East Meyer improperly spent nearly \$727,000 and incurred over \$57,000 of unsupported expenses. For example, instead of using grant money for its intended purpose – beautification and repair, clean-up of dead-end streets, and attraction of new businesses – East Meyer used over \$331,000 of the Neighborhood Initiative Grant funds to purchase and rehabilitate an office building for itself. East Meyer also charged over \$65,000 of unsupported expenses to its Community Development Block Grant.

Building East Meyer purchased for itself with Neighborhood Initiative Grant funds.



East Meyer did not maintain adequate documentation to support the expenditure of another \$123,000 in grant funds. East Meyer's records did not adequately identify the source and application of funds, contain financial records, or contain supporting documents. We believe poor record keeping led to East Meyer's lack of support for their use of grant funds.

Example of how East Meyer maintained its records.



We recommended that the Director, Economic Development Initiative, take administrative action against East Meyer management and the board of directors that will prevent them from participating in future HUD funded activities. Additionally, we recommended that the Director take action to recoup the nearly \$727,000 that was inappropriately spent, and require East Meyer to provide documentation for unsupported costs charged to the Neighborhood Initiative Grant. In addition, the Director, Office of Community Planning and Development, should require East Meyer to provide documentation for unsupported costs charged to the Community Development Block Grant or repay the amounts that cannot be supported. (Report No. 2004-KC-1001)

Based on a citizen complaint, we audited **Waukesha County, WI's** Community Development Block Grant and HOME Investment Partnership Programs. The complainant's specific allegations were: (1) abuse of HUD's HOME Investment Partnership Program in the State of Wisconsin; (2) poorly kept records with the intent of covering up discrepancies in funds given to individuals; and (3) HUD funds distributed to prominent elected officials or their spouses to acquire properties.

Although we were not able to substantiate any of the complainant's allegations, we found that Waukesha County did not follow federal requirements regarding its Block Grant and HOME Programs. Specifically, the County did not ensure that: (1) federal requirements and its agreements with the Waukesha County

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Economic Development Corporation, the County's loan administrator, were followed regarding documentation maintenance for 16 economic development loans; (2) federal requirements and its agreements with the Corporation were followed for two economic development loan agreements, since the agreements either failed to meet HUD's national objective of creating job opportunities for low- and moderate-income persons or permitted Block Grant funds to pay for pre-award costs; and (3) federal requirements were followed to ensure that assisted houses met local building codes and/or HUD's housing quality standards.

The County: (1) lacked adequate documentation to support that nearly \$464,000 in Block Grant loans were used for eligible expenses; (2) allowed two loan agreements totaling \$306,000 to be executed with provisions that violated federal requirements and its agreements with the Corporation; (3) did not include \$650 of housing rehabilitation work in specifications for four houses to ensure they met local codes and/or HUD's standards; and (4) failed to assure that local building permits were issued and assisted houses passed local inspections.

We recommended that HUD's Director of Community Planning and Development, Milwaukee Field Office, assure that the County reimburses its appropriate program for the inappropriate use of HUD funds and implements controls to correct the weaknesses cited in the audit. These improvements should help ensure that the County's annual average of nearly \$473,000 in economic development loans meets federal requirements. (Report No. 2004-CH-1002)

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## Investigations

During this reporting period, the OIG opened 52 investigation cases and closed 30 cases in the Community Planning and Development Program area. Judicial action taken on these cases during the period included \$1,409,681 in investigative recoveries, \$11,446,559 in funds put to better use, 30 indictments/informations, nine convictions, pleas, and pre-trial diversions, 30 administrative actions, and 32 arrests. The results of our more significant investigations are described below.

## *Disaster Assistance Funds – State of New York*

In our last two Semiannual Reports to Congress, we reported on both our audit and investigative work into the misuse of HUD funds provided in the aftermath of the September 11, 2001 terrorist attacks in New York City. During this reporting period, we continued to find instances of fraud and abuse involving these funds. Our results are as follows:

In **New York, NY**, in Federal Court for the Southern District of New York, defendant Allan Klein was sentenced to six months in prison and three years probation, and was fined \$1,000. In September 2003, Klein pled guilty to one count of theft of federal government money and one count of mail fraud. Klein was involved in a scheme to defraud HUD and the Lower Manhattan Development Corporation (LMDC) of federal grant money made available after the September 11, 2001 terrorist attacks. LMDC was created by the State and City of New York to coordinate the rebuilding and revitalization of Lower Manhattan. HUD provided LMDC \$2.7 billion in funding for the grant program.

In **New York, NY**, in Federal Court for the Southern District of New York, defendant Azmay Shahzada was sentenced to two years probation, to be served in Pakistan, fined \$500, and ordered to pay \$250 in restitution. Shahzada is responsible for paying all fines and restitution prior to her departure to Pakistan and must not make application to re-enter the United States during the probation period. Shahzada was previously found guilty of mail fraud. She devised a scheme to fraudulently obtain money from the LMDC.

Defendants Alexander D. Koltovskoy, also known as Alexander Kolt, and Vincent M. Pizzi, III, were convicted in **New York, NY**, in Federal Court for the Southern District of New York, for defrauding various private and government agencies of World Trade Center disaster benefits, including grants and loans. The following agencies were defrauded out of \$349,723: the Small Business Administration, the Empire State Development Corporation, which administers grants received from HUD, the Federal Emergency Management Agency, the American Red

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Cross, the New York City Economic Development Corporation, Safe Horizon, Inc., and Civic Capital Corporation.

Defendant Denise O'Connor pled guilty in **New York, NY**, in Federal Court for the Southern District of New York, to one count of theft of government funds and one count of mail fraud. O'Connor devised a scheme to fraudulently obtain money from the LMDC. Defendant Ivy Horn, who claimed to be a resident of Lower Manhattan, was arrested and ultimately indicted for theft of government funds and mail fraud. Horn also fraudulently obtain money from the LMDC.

In August 2003, LMDC announced an Amnesty Program that will enable individuals who have improperly received Residential Grant Program funds to return them and avoid prosecution. Individuals were required to call the fraud hotline by September 30, 2003, and request amnesty, cooperate fully, and make full and complete restitution of all funds improperly received. As of February 2004, LMDC had received \$58,311 in restitution.

### *Investigations Involving Public Officials*

In **Milwaukee, WI**, in Federal Court for the Eastern District of Wisconsin, defendant LaRosa Roberta Cameron, also known as Roberta Allen, former executive director of the Williamsburg Heights Community Block Club Association (WHCBCA) and the daughter of former City of Milwaukee alderman Rosa Cameron, was sentenced to five years probation, including 60 days home confinement. Allen previously pled guilty to participating in a scheme to conceal a material fact in relation to the award of HUD Community Development Block Grant funds by the City of Milwaukee to WHCBCA. Allen's mother, Rosa Cameron, previously pled guilty and was sentenced in connection with this investigation. The third defendant in this case, LaZanda Moore, another daughter of the former alderman, was found guilty of making false statements.

The original charges in this case related to the operation of the WHCBCA, a nonprofit organization that received HUD funding. Rosa Cameron and her

daughters participated in a scheme to deliberately conceal the fact that Cameron's family members were receiving compensation from WHCBCA as salaried employees. Federal regulations prohibited Rosa Cameron from directing federal grant money to WHCBCA once she was elected alderwoman. In Cameron's case, she was on the City of Milwaukee subcommittee which authorized federal distributions to WHCBCA in both 2000 and 2001. In both of these years, Moore and Allen received compensation from WHCBCA as employees.

In **Tampa, FL**, in Federal Court for the Middle District of Florida, a 60-count indictment was handed down charging defendants Steven Allen Labrake, Paulette Lynne McCarter-LaBrake, Dean Ryan, Chester Maurice Luney, Dean R. Ryan, and Lori A. Roberts with bribery of public officials, conspiracy to defraud the United States, wire fraud, scheming to defraud, theft of federal funds, and embezzlement of public money. The indictment alleges that City officials, employees, and others used Community Development Block Grant, HOME, HOPE 3, and Housing Opportunities for Persons with AIDS funds for their personal gain.

### *Theft/Embezzlement/Forgery*

In Ramsey County State Court, **St. Paul, MN**, defendant Mary Christine Nelson was ordered to pay \$70,163 in restitution. This was the final phase of her sentencing, and a follow-up to the initial sentencing which took place in July 2003. At that time, she was sentenced to community service, probation, and confinement. Nelson, the community organizer for the Capital River Council, pled guilty to one count of theft by swindle. She wrote over 100 checks to herself from an account that contained HUD block grant funds, and deposited them in her personal bank account.

In **Salt Lake City, UT**, in Federal Court for the District of Utah, defendant Christy Marie Martinez was sentenced to five years probation, including six months in a community treatment center, and was ordered to pay \$50,185 in restitution for theft of government funds. Martinez, a former caseworker for the Salt Lake Community Action Program's Housing Opportunities for Persons with HIV/AIDS

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(HOPWA) Program, embezzled program funds by creating false supporting documentation to justify HOPWA payments to “vendors” on behalf of HOPWA clients. Martinez also diverted payments prepared for HOPWA “clients” for her personal benefit, including money for a vacation condominium rental, a car loan, and payments to herself. She was ultimately suspended by HUD from participation in procurement and non-procurement transactions as a participant or principal with HUD and throughout the Executive Branch of the Federal Government.

Defendant Sylvester Holmes, former president of the Black Economic Union, a Community Development Corporation, was sentenced in **Kansas City, MO**, in U.S. District Court for the Western District of Missouri, to five months incarceration and two years supervised release. He was also ordered to pay \$33,045 in restitution and a \$3,200 fine. Holmes previously pled guilty to two counts of theft concerning programs receiving federal funds.

Defendant Mary Long, former managing director of Pahrump Family Resource Center (PHRC), a nonprofit organization that received Housing Opportunities for Persons with AIDS funds from HUD, was sentenced in **Pahrump, NV**, in Nevada State District Court, to 48 months incarceration and was ordered to pay \$102,836 in restitution to PHRC. Long previously pled guilty to two counts of forgery and embezzlement. Between October 2000 and August 2002, Long stole a total of \$175,000 in cash and checks from PHRC, which she deposited in her personal account.

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendant Tony Chisum, Jr., president of *American Philanthropy Association (APA)*, was sentenced to 33 months incarceration and three years supervised probation, and was ordered to pay a total of \$103,569 in restitution (\$43,777 to HUD and \$59,792 to the Federal Emergency Management Agency). He was also ordered to pay a \$1,200 assessment fee. Chisum was found guilty of one count of conspiracy, five counts of making false claims to HUD, five counts of theft of federal government funds, and one count of making false statements to HUD. In the same case, defendant Terry Lee Rhodes, an *APA* employee, pled guilty to one count of theft of government property.

*APA* owned and operated three homeless shelters in Los Angeles. Rhodes and Chisum were responsible for submitting homeless shelter attendance logs that included fraudulent and fictitious names in order to receive federal funds from the Los Angeles Homeless Services Authority’s Winter Shelter Program. The City and County of Los Angeles funded the Winter Shelter Program using Emergency Shelter Program grant funds provided by HUD. *APA* received more than \$500,000 under the Winter Shelter Program between 1994 and 1998.

Defendants Alexander Zakharov, also known as “Sasha,” and Syoma Kaplun surrendered and pled guilty in **New York, NY**, in Federal Court for the Southern District of New York, to one count of conspiracy to commit bribery. Zakharov and Kaplun made arrangements to pay Rabbi Milton Balkany monies to have a Bureau of Prisons inmate relocated to another facility.

Balkany was previously charged with misappropriating \$700,000 in federal grant money. Balkany, president and director of Bais Yaakov, a Jewish day school in Brooklyn, applied for and later received a \$700,000 Economic Development Initiative grant from HUD. He represented to HUD that the entire grant amount would be used to pay off a mortgage on a building located on the Bais Yaakov property for an entity called the “Children’s Center of Brooklyn” to house educational and therapeutic programs for disabled preschool children. An investigation disclosed that Balkany used some of the grant funds for himself and diverted other grant funds to individuals and entities who were not entitled to receive them.

Subsequently, the U.S. Attorneys’ Office issued a deferred prosecution to Balkany, who agreed to pay \$700,000 in restitution, report to pre-trial services for six months, and no longer lobby or apply, on his behalf or on behalf of any others, for government grants from any agency. Balkany was also in line to receive Congressionally earmarked funds amounting to \$1.5 million. Based on the investigation, however, Balkany will not be eligible nor will he meet the requirements for the grant. If Balkany should fail to pay restitution, a lien will be placed on his property in Brooklyn, most recently appraised at \$8 million.

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In State Court in **Callahan, FL**, defendant Barbara F. Boone was indicted on 48 counts including grand theft and theft from the HUD Community Development Block Grant (CDBG) Program. Boone obtained and administered the HUD grants for the Town of Callahan, which received the federal grants through the Department of Community Affairs, State of Florida. Boone's indictment includes additional counts of grand theft from the Florida Department of Environmental Protection, theft against the Town of Callahan, official misconduct, and petit theft. The Town of Callahan entered into an agreement with the State of Florida, Department of Community Affairs (DCA), for the repayment of \$206,086 relating to disbursements on one CDBG grant and \$65,000 relating to disbursements on another. The DCA has responsibility for oversight and accountability for HUD grant money awarded to the Town of Callahan.

In **East Cleveland, OH**, in Federal Court for the Northern District of Ohio, defendants Cecelia George, the former director of the Department of Community Development (DCD), her father, Charles Reed, Sr., her brother, Charles Reed, Jr., and her son, Willie George, were charged in a ten-count indictment. Included in the indictment were one count of conspiracy, three counts of embezzlement, and six counts of wire fraud. Allegedly, Cecelia George, as director for the DCD, orchestrated a scheme to funnel HUD Community Planning and Development funds to her family. The fraud was accomplished by rigging bids, illegally awarding contracts to family members through "sham" or "front" companies, which disguised the family's interest and/or ownership as the contractor, providing false information to HUD regarding the expenditure of funds, forging signatures on checks in order to profit directly from DCD funds, and using DCD funds for office entertainment. The purported fraudulent contracts included the emergency door and lock contract, emergency furnace contract, emergency roof contract, emergency HVAC contract, and HOME fund contracts. In total, approximately \$69,000 in DCD funds were allegedly misappropriated through one or more of these schemes.

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## *Bribery, Conspiracy, and Mail/Wire Fraud*

Defendants James Asselin and James Krzytofik, the former director and deputy director, respectively, of the *Hampden County Employment and Training Consortium (HCETC)* and the *Greater Springfield Entrepreneurial Fund (GSEF)*, pled guilty in **Springfield, MA**, in Federal Court for the District of Massachusetts, to conspiracy to defraud, money laundering, and program fraud. *HCETC* and *GSEF* were established and funded with \$700,000 in HUD funds obtained from the City of Springfield Economic and Community Development Office. Between 1997 and August 2000, Asselin and Krzytofik embezzled \$432,000 in funds provided by the Small Business Administration (SBA) and the Department of Commerce through various consulting schemes. The HUD funds allowed Asselin and Krzytofik to maintain a float for repayment of loans to SBA and Commerce. In addition, Asselin and Krzytofik made small business loans to various associates that were never repaid. Asselin and Krzytofik are scheduled for sentencing on June 14 and July 6, respectively.

In the same case, defendants Gerald A. Phillips, executive director of the *Massachusetts Career Development Institute (MCDI)*, Giuseppe Polimeni, former director of *MCDI*, Jamie Dwyer, former *MCDI* employee, and Luisa Cardaropoli, alleged *MCDI* "no-show" employee, were indicted on 19 counts of defrauding HUD. *MCDI*, which received funds from a number of sources, including HUD and the Department of Education, provided educational and job training programs for income eligible individuals in the Springfield area. The indictment charged the defendants with conspiracy to commit program fraud, aiding and abetting, wire fraud, federal program fraud, obstruction of justice, making false statements to a federal agent, and threatening a witness.

Phillips was the commissioner of the Springfield Police Department until his arrest in March 2003. Allegedly, Phillips, Polimeni, and Dwyer conspired to disburse unauthorized *MCDI* funds to Cardaropoli and other "no-show" employees of *MCDI*, including Polimeni's son-in-law. In addition, two females were paid with *MCDI* funds and received gifts and trips paid for with *MCDI* funds for work not performed at *MCDI* in exchange for sexual favors to Phillips. One of the

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females was 16 years old at the time of the sexual assault. Phillips arranged for the second female to receive a Section 8 voucher in return for the sexual favors provided. The indictment also alleges that there were numerous fraudulent wire transactions involving health insurance and employment benefits illegally awarded to the alleged “no-show” employees. During the course of the investigation, Phillips threatened, intimidated, and persuaded a witness in order to prevent the witness from providing testimony in a Federal Grand Jury proceeding.

Defendant Pedro Octavio Estevez, also known as Peter Estevez, pled guilty in **San Antonio, TX**, in Federal Court for the Western District of Texas, to two counts of mail fraud. Estevez obtained a Rental Rehabilitation Program loan from the City of San Antonio, which received the money from HUD in the form of Community Development Block Grant (CDBG) Program funds. The defendant used the U.S. Postal Service to provide false statements to the City of San Antonio by stating that he had the collateral and remaining proceeds to pay for the CDBG loan to rehabilitate Elmhurst Apartments when in fact he did not. He also used the Postal Service in providing false loan origination documents to fraudulently secure FHA insured loans for the purchase of residential property that was in poor condition and was fraudulently overvalued.

Defendant Anthony Auyer was indicted in **Chattanooga, TN**, in Federal Court for the Eastern District of Tennessee, on one count of wire fraud. Auyer was president of *Anthony’s Construction Company, Inc.*, which in November 1999, purchased a sawmill in Warren County, TN. Auyer applied for and received a \$500,000 loan for the purchase of sawmill equipment through the Tennessee Department of Economic and Community Development. The loan was made through HUD’s Community Development Block Grant Program. When Auyer failed to make the first few payments on the loan, the State of Tennessee, Office of the Comptroller, conducted an inventory of the equipment alleged to have been purchased with the loan proceeds and noted that some of the equipment could not be found on the premises. Further review showed that five equipment purchase invoices in the amount of \$408,000 were fraudulent.

In **Milwaukee, WI**, in Federal Court for the Eastern District of Wisconsin, a six-count superseding indictment charged defendants Muhammad Abu-Shawish, Bassam Abdel Aziz Abu Shawish, and Wafieh Mohammad Abu Jubran with various charges, including one count of conspiracy to commit visa fraud, three counts of visa fraud, and two counts of federal program fraud.

Muhammad Abu-Shawish, who was the executive director of Arabian Fest Arab American Festival, Inc. (Arabian Fest), a nonprofit organization receiving Community Development Block Grant (CDBG) funds through both the City and the County of Milwaukee, was charged with using official Arabian Fest stationery to falsely support the issuance of American visas to foreign nationals by the U.S. Embassy in Amman, Jordan, and elsewhere in order to circumvent U.S. immigration law, including issuing over 40 false formal letters of invitation. The indictment charges that the fraudulent documentation used to obtain these visas included formal letters of invitation to foreign nationals stating that Arabian Fest would be paying the costs of the travel, as required by the types of visas obtained; false statements that Bassam Abdel Aziz Abu Shawish had never applied for, or had been refused, an American visa in the past; and formal letters of invitation which contained other false information, including fabricated job descriptions, expertise, and experience. The indictment also alleges that Muhammad Abu-Shawish and others required payment for the false letters of invitation and that threats were made in connection with the foreign nationals.

The indictment also charges Muhammad Abu-Shawish with program fraud in connection with both City and County block grant programs. The City awarded Arabian Fest \$75,000 in CDBG funds to develop a business plan to recruit new businesses along Muskego Avenue. The indictment charges that he submitted a study stating that it was prepared by Arabian Fest and funded by the City’s Community Block Grant Administrator when in fact the plan was not formulated by Arabian Fest, but was an identical copy of another plan, with minor cosmetic changes, which had been completed by an individual unrelated to Arabian Fest and funded by another unrelated organization at a cost of \$25,000. Allegedly, he fraudulently submitted documentation to the City to

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support \$30,000 in expenses associated with the study. The County awarded Arabian Fest \$15,000 in CDBG funds to pay a portion of salary and fringe benefits of an executive director to operate a business development program to provide technical assistance to a minimum of three small business owners, “micro-enterprise owners,” in a specific low- and moderate-income service area. In support of the costs claimed, Abu-Shawish submitted a document identifying three storeowners to whom he claimed to have provided assistance and two with whom he claimed to have scheduled follow-up meetings. The indictment charges that he submitted multiple fraudulent claims for reimbursement to the County until January 2003 although his contact with all three businesses ended in the summer of 2002 and consisted of less than 50 minutes. The County ultimately spent \$15,000 of CDBG funds for less than 50 minutes of work.

Defendants Joseph Barry and Paul Byrne were indicted in **Newark, NJ**, in Federal Court for the District of New Jersey, on 16 counts of bribery, conspiracy, and mail and wire fraud. An investigation found that Barry, a real estate developer, allegedly bribed a former Hudson County executive to help secure federal and state grants and loans for some of Barry’s development projects. Barry managed to secure HUD grants and loan guarantees under the Community Development Block Grant Program as well as Section 108 loan guarantee(s). Byrne allegedly received checks from Barry and converted some of the checks to cash in order to make payments to further the scheme. The indictment detailed \$8.8 million in federal and state loan grants that Barry and his enterprise, the *Applies Companies*, secured through bribery.

### *Misuse of Funds*

Defendant Kim Parker was sentenced in **Richmond, VA**, in U.S. District Court for the Eastern District of Virginia, to 96 months in prison and three years supervised release, and was ordered to pay restitution to agencies and individuals from whom she obtained funds for an AIDS infected child. Parker previously pled guilty to misusing HUD and Social Security Administration (SSA) funds intended for the child of whom Parker was the legal guardian. Although Parker claimed to have given the child away

three years ago to a couple in another state and to be unaware of the child’s whereabouts, the couple denied ever receiving the child. The child, who would currently be 10 years old, is the subject of a nationwide search. Although the fraud in this case was estimated at only about \$17,000, the Court granted the government’s request for several enhancements to the sentencing guidelines because of Parker’s position as the guardian of a vulnerable victim and her obstruction of the investigation into the child’s whereabouts. The Court also granted the government’s request for an upward departure from the guidelines due to the atypical nature of the case. Parker previously received HUD funding for an organization that she operated called *Rainbow Kids*, which reportedly provided counseling and assistance to families of children with AIDS. However, HUD withdrew funding from *Rainbow Kids* in the late 1990’s when Parker was unable to document how she was spending the funds.

### *Tax Fraud*

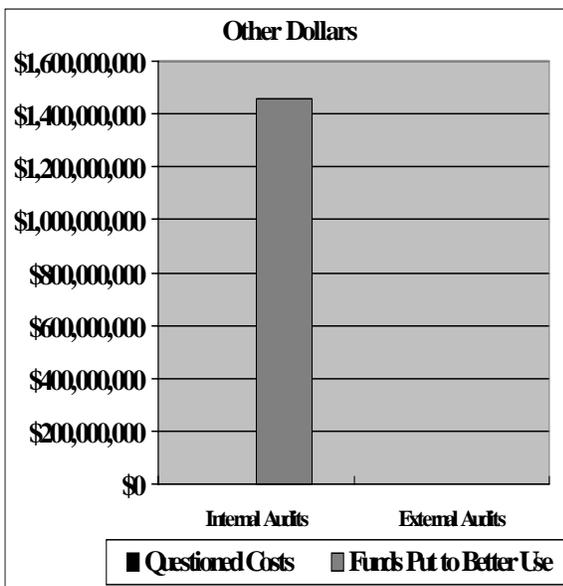
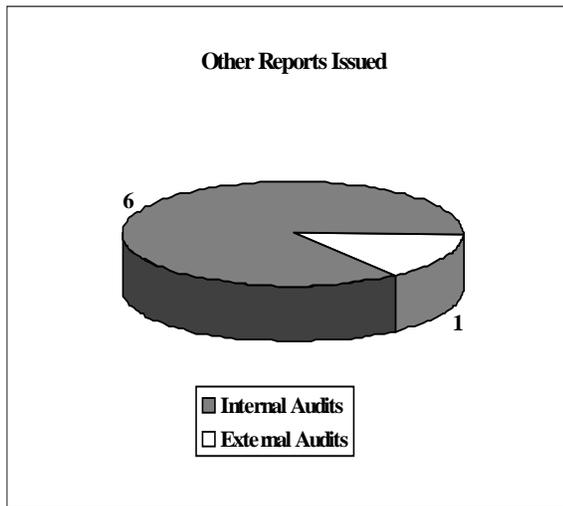
Defendant Johnny Walker, a contractor, was sentenced in **Kansas City, MO**, in Federal Court for the Western District of Missouri, after pleading guilty to two counts of tax fraud. Walker is a contractor for the Housing and Economic Development Financial Corporation (HEDFC), which is commonly referred to as the lending arm for the City of Kansas City. HEDFC has been lending millions of dollars in HUD funds for 20 or more years to individuals, community development corporations, and other entities. Allegedly, HEDFC’s vice president has taken kickbacks from local businessmen associated with organized crime. These monies are payments for information allowing the businessmen to ensure that their bids for contracts are the lowest. Walker acted as a conduit in the bribery transactions. He was sentenced to one year and one day incarceration and 36 months supervised release. Civil actions are also being pursued against him.



# Chapter 6 — Other Significant Audits and Investigations/ OIG Hotline

## Audits

During this reporting period, the OIG issued seven reports: six internal audits and one external audit involving areas of HUD operations that do not fall under major HUD programs reported in previous Chapters. These reports disclosed about \$1.3 million in questioned costs and about \$1.5 billion in recommendations that funds be put to better use.



We audited the HUD and FHA Financial Statements, Office of Healthy Homes and Lead Hazard Control, HUD’s Information Systems Security, and Historically Black Colleges and Universities Grants at Jackson, MS State University.

### *Financial Statement Audits*

We issued our audit of HUD’s financial statements for the FYs ended September 30, 2003 and 2002. In OIG’s opinion, based on our audit and the reports of other auditors, the financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2003 and 2002 and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States.

The report identifies two material weaknesses and seven reportable conditions on internal controls. The material weaknesses in internal controls in FY 2003 related to the need to: (1) comply with federal financial management system requirements, including the need to enhance FHA information technology systems to more effectively support FHA’s business and budget processes; and (2) improve oversight and monitoring of subsidy calculations and intermediaries’ program performance. Reportable conditions in internal controls in FY 2003 related to the need to: (1) improve quality control over performance measures data; (2) improve controls over project-based subsidy payments; (3) strengthen controls over HUD’s computing environment; (4) improve personnel security practices for access to the Department’s critical financial systems; (5) improve processes for reviewing obligation balances; (6) more effectively manage controls over the FHA systems’ portfolio; and (7) place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for FHA single family insured mortgages. In addition, our reportable condition on improving the processes for reviewing obligation balances identified \$1.430 billion in monetary benefits which we reported as “funds put to better use.”

## Office of Healthy Homes and Lead Hazard Control

In response to a Hotline complaint, we audited the grant award and administration process of the Office of Healthy Homes and Lead Hazard Control (OHHLHC). We found that OHHLHC awarded grants without meeting HUD requirements for evaluating unsolicited proposals and without maintaining a complete log of unsolicited proposals submitted for consideration. We attributed these deficiencies to the fact that OHHLHC did not have adequate management controls for evaluating proposals and the Director of OHHLHC had sole responsibility and control over selecting and awarding grants for unsolicited proposals. As a result, OHHLHC awarded five grants, totaling nearly \$3.8 million, for services based on unsolicited proposals that were not evaluated.

Grantee	Effective Date	Original Grant Amount
The Tides Center	9/1/97	\$334,950
University of Cincinnati Medical Center	7/95	300,000
United Parents Against Lead of Michigan (UPAL)	4/1/97	99,650
UPAL	9/1/02	747,963
Alliance to End Childhood Lead Poisoning	1/1/02	2,300,000
<b>TOTAL</b>		<b>\$3,782,563</b>

### Grants Awarded for Unsolicited Proposals Without Evaluations

OHHLHC approved requests for grant amendments for award increases and extensions without adequately evaluating the grantees' requests and documenting the evaluation. Specifically, four grants were increased to more than three times their original grant amounts, and their performance periods were extended significantly. These excessive award increases and extensions occurred because OHHLHC did not have adequate controls for modifying and amending grants. Consequently, OHHLHC had no assurance that the additional \$11.1 million awarded to these grantees was an efficient use of funds.

Most of these control weaknesses were reported in prior efforts to audit HUD's financial statements and represent long-standing problems. Our findings also include the following instance of noncompliance with applicable laws and regulations: HUD did not substantially comply with the Federal Financial Management Improvement Act. In this regard, HUD's financial management systems did not substantially comply with federal financial management systems requirements and applicable accounting standards.

The audit discusses each of these conditions in detail, provides an assessment of actions taken by HUD to mitigate them, and makes recommendations for corrective actions. During the course of the audit, OIG also identified several matters that were not material to the financial statements and were separately communicated to HUD management. (Report No. 2004-FO-0003)

We engaged the independent certified public accounting firm of KPMG LLP to audit the FY 2003 and 2002 financial statements of the Federal Housing Administration. In KPMG's opinion, the financial statements present fairly, in all material respects, FHA's financial position as of September 30, 2003 and 2002, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the years then ended in conformity with accounting principles generally accepted in the United States.

The report identifies one material weakness and two reportable conditions: (1) HUD/FHA's automated data processing (ADP) system environment must be enhanced to more effectively support FHA's business and budget processes; (2) HUD/FHA can more effectively manage controls over the FHA ADP systems portfolio; and (3) FHA must place more emphasis on monitoring lender underwriting and continue to improve early warning and loss prevention for single family insured mortgages. The first of these three items is considered to be a material weakness. KPMG made a series of recommendations for corrective actions. During the course of the audit, KPMG also noted other matters that were not material to the financial statements and were separately communicated to FHA management. (Report No. 2004-FO-0001)

Grantee	Original Grant Award	Grant Increase	Rate of Grant Increase	Original Grant Period (months)	Time Extension (months)	Rate of Time Extension
The Tides Center	\$334,945	\$1,658,971	495 %	36	40	111 %
University of Cincinnati Medical Ctr.	\$300,000	\$1,429,651	476 %	42	36	85 %
UPAL (1997)	\$99,650	\$495,767	498 %	18	47	261 %
National Center for Healthy Housing	\$1,750,000	\$7,549,818	431 %	48	78	163 %
<b>TOTAL</b>	<b>\$2,484,600</b>	<b>\$11,134,207</b>				

**Extensive Award Increases and Time Extensions Awarded Based on Inadequate Documentation**

In addition, because of inadequate oversight, OHHLHC did not ensure that grantees expended funds timely. As a result, grantees had approximately \$27 million in unexpended grant funds that OHHLHC could have put to better use.

The audit recommended, among other things, that the Director of OHHLHC ensure: (1) the implementation of the unsolicited proposal procedures outlined in the Grant Management Desk Guide; (2) that a review panel performs preliminary and comprehensive evaluations of all unsolicited proposals and documents the evaluations in writing; and (3) that all grantees maintain appropriate financial documentation to support costs charged to grants. In addition, the director should require Government Technical Representatives (GTRs) to adhere to the Grants Management Desk Guide on grant monitoring, modifications, and amendments, and ensure that grant officers properly execute the amendments to existing awards. Finally, the Director should ensure that the spend-out schedule used to evaluate the grantees' progress mirrors the time frames outlined in the grant agreement, that unexpended balances that are five years or older be recaptured, and that GTRs and division directors monitor grantees' performance to allow for timely expenditure of funds. (Report No. 2004-AO-0001)

### *Information Systems Security*

We completed an audit of the management, operational, and technical controls over the security of the Tenant Rental Assistance Certification System (TRACS). TRACS is a HUD mission critical financial and program information system that interfaces with other HUD systems. It receives HUD's highest ratings for sensitivity and criticality. Its goal is to collect tenant data for all housing programs and to automatically provide payment for subsidy programs, where HUD is the contract administrator, based on the contract and tenant data resident in the system. We found the following deficiencies and weaknesses over TRACS security: (1) access controls over the TRACS data and resources are inadequate; (2) software configuration management controls are inadequate; (3) adequate security training has not been provided; (4) audit logs are not being utilized to detect security violations or performance problems, or to monitor and log user activities; (5) personnel security practices pose a risk of unauthorized access to TRACS; and (6) segregation of duties performed by key personnel is lacking. The effect of the deficiencies and weaknesses in controls is exposure of TRACS data to unnecessary risk of loss of confidentiality, integrity, and availability.

The Office of Multifamily Housing has taken action to correct some of the weaknesses identified during our review. However, additional corrective action is needed. Our report contains recommendations for the Assistant Secretary for Housing and the Assistant Secretary for Administration/Chief Information Officer to improve controls over the security of TRACS. (Report No. 2004-DP-0002)

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The OIG completed a review of selected information systems' general and application controls in support of the Fiscal Year (FY) 2003 financial statements audit. Our review was based on the General Accounting Office "Federal Information Systems Controls Audit Manual," and information technology guidelines established by the Office of Management and Budget (OMB) and the National Institute of Standards and Technology (NIST). Our review found information systems controls weaknesses that could negatively affect the integrity, confidentiality, and availability of computerized data. We attributed this to HUD's noncompliance with OMB Circular A-130, NIST requirements and standards, and HUD's own internal policies and procedures. These weaknesses are as follows:

- HUD's entity-wide information security planning and management program does not meet the minimum set of controls for automated information resources established by OMB Circular A-130.
- Controls on the IBM compatible Hitachi mainframes and network do not adequately protect data and application programs from potential unauthorized modification, loss, and disclosure.
- Software change management procedures are not being followed, making HUD vulnerable to the introduction of unauthorized programs or changes to application and system software.
- Inadequate segregation of duties exists in system security administration, exposing HUD to increased risk of improper activities.
- HUD has not followed NIST guidelines for the development and testing of contingency related plans, resulting in inadequate assurance that HUD can recover computer processing operations in the event of a disaster or other unexpected interruptions.

We recommended that the Assistant Secretary for Administration/Chief Information Officer ensure that OMB requirements and NIST guidelines, as well as HUD's own internal policies and procedures, are implemented. (Report No. 2004-DP-0001)

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## *Historically Black Colleges and Universities Grants*

An OIG audit disclosed that **Jackson, MS State University's** Historically Black Colleges and Universities grants did not achieve the goal of the Homeownership Program to increase homeownership opportunities for low- and moderate-income individuals in the area surrounding the University. The University spent over \$1.36 million, or 60 percent of its \$2.26 million in grants. Only four of the 30 houses proposed were completely rehabilitated. The University did not perform adequate analytical reviews to determine the feasibility of acquiring and rehabilitating the properties or the financial viability of proposed projects. Because the University was not timely rehabilitating and selling the houses it was acquiring, the University was maintaining an inventory of vacant and boarded up houses that may have contributed to, instead of eliminating, crime and vagrancy in the area.

Two boarded up houses in Jackson State University's inventory.



The University also failed to consider cost estimates or select the most cost effective projects for acquisition and rehabilitation. As a result, grant funds totaling \$10,300 were ineligible and \$129,683 were unsupported. Further, the University's procurement practices did not comply with federal or state procurement and contracting requirements. The University improperly procured over \$765,000 of goods and services without adequately documenting the procurements, or having a contract administration system.

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The audit recommended that HUD suspend disbursements and disallow the use of grant funds until the University can demonstrate accountability and compliance with the grant agreements. In addition, HUD should require the University to reimburse ineligible costs, determine the eligibility of unsupported costs, and recapture the remaining grant balance of \$898,000. (Report No. 2004-AT-1002)

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## Investigations

During this reporting period, the OIG opened eight investigation cases and closed 10 cases involving areas of HUD operations that do not fall under specific program categories. Judicial action taken on these cases during the period included \$23,563,650 in investigative recoveries, \$105,000,000 in funds put to better use, four indictments/informations, two convictions/pleas/pre-trial diversions, four administrative actions, and four arrests. The results of some of these investigations are described below.

### *Ginnie Mae Fraud*

In **Charlotte, NC**, in Federal Court for the Western District of North Carolina, defendants Macy McLean, former vice president of *First Beneficial Mortgage Company (FBMC)*, James McLean, Jr., former president, FBMC, and Paul and Debbie Zimmerman, FBMC officials, were sentenced based on previous convictions for participating in a scheme between 1998 and 2000 to defraud the Government National Mortgage Association (Ginnie Mae). As part of the scheme, the defendants created fraudulent, nonexistent FHA insured mortgage notes totaling \$28 million which were passed through to Ginnie Mae investors and on which Ginnie Mae was required to make good when the fraud was discovered. Macy McLean was sentenced to 10-1/2 years incarceration and five years supervised release. James McLean was sentenced to 48 years incarceration and 177 years supervised release. Paul and Debbie Zimmerman were each sentenced to 11 years incarceration and six years supervised release. In addition, cumulative restitution of \$23.5 million was ordered against all four defendants.

In **Greensboro, NC**, in Federal Court for the Western District of North Carolina, defendant Theodore Peterson, a former certified public accountant (CPA), was convicted for submitting false, fraudulent and material annual financial statements to HUD and Ginnie Mae for FY 1999. Peterson, who was indicted in August 2003, must publicly apologize for his actions in a letter to the local newspaper. According to the plea agreement, Peterson made false statements to HUD in a 1999 audit letter and reports in which he claimed that he was a CPA and had performed certain audits of *First Beneficial Mortgage Corporation's (FBMC)* financial statements in compliance with HUD program requirements. Contrary to Peterson's audit letter and reports, however, Peterson was not a CPA as his staff certification had been suspended. He also failed to perform the tests and verifications as he represented. HUD/Ginnie Mae relied on Peterson's audit letter and reports in extending FBMC's authority to issue up to \$50 million in government guaranteed, mortgage backed securities. Had Peterson conducted the necessary tests and verifications, he would have discovered that FBMC was engaged in a massive fraud by creating fictitious mortgages that it sold on the secondary mortgage market. During the time that HUD/Ginnie Mae relied on Peterson's audit letter and reports, FBMC issued approximately \$10 million in government guaranteed securities backed by fictitious and fraudulent mortgages.

In **Tampa, FL**, in Federal Court for the Middle District of Florida, defendant William Jones was charged with conspiracy to defraud HUD. Forfeitures were also filed against Jones in the amount of \$68.5 million and \$9.5 million. As the general manager of *GreatStone Mortgage Company*, Jones allegedly conspired with several other defendants in defrauding FHA, Ginnie Mae, and warehouse lenders, resulting in one of the largest schemes and financial losses involving the Streamline Refinance Program in HUD's history. The scheme included predatory lending and the use of FHA insured loans that had been packaged and pooled into Ginnie Mae pools. The defendants allegedly altered and changed borrowers' names, FHA loan numbers, and dates, forged signatures on the altered/counterfeit loan documents, and used the fraudulent documents to deceive warehouse lenders by drawing down on their lines of credit. The pro-

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ceeds were then wired to accounts controlled by the defendants and ultimately laundered in the Cayman Islands. The defendants also created fictitious title companies, Ginnie Mae document custodians, and Ginnie Mae security trade tickets. FHA was seriously victimized by this loan origination fraud scheme; FHA endorsed over 10,000 loans, including thousands of loans that did not conform to FHA underwriting guidelines.

*GreatStone Mortgage* provided fraudulent audited annual financial statements to Ginnie Mae that failed to include accurate financial information about the liabilities of *GreatStone*. In total, *GreatStone* packaged and pooled over \$40 million worth of loans that they certified to Ginnie Mae met FHA criteria. These loans were in fact never insured by FHA, and Ginnie Mae was forced to repurchase the loans, suffering a \$40 million loss.

## *Burglary*

Defendant Frank DeMarc pled guilty in **East Brunswick, NJ**, in Middlesex County Court, to third degree burglary and fraudulent use of a credit card. He was sentenced to five years in jail and one year probation, and was fined \$15,000. In April 2003, DeMarc was arrested for breaking into an OIG vehicle and stealing an OIG credit card. He then made several unauthorized purchases with the credit card. One of the merchants had a videotape of DeMarc using the OIG credit card; this videotape was used to identify DeMarc and his accomplice, Christopher Jones. DeMarc and Jones were indicted in May 2003. Jones is currently awaiting trial.

## *Misuse of Official Time*

In **New Orleans, LA**, defendant Cherlyn Wheeler, a HUD supervisory multifamily project manager, entered into an abeyance agreement with HUD. Wheeler agreed to be suspended without pay for seven calendar days for misuse of official time. An investigation found that Wheeler visited a casino to gamble during working hours from May to September 2002. She gambled while on duty and on another occasion while on sick leave.

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## *Obstruction of a Federal Audit*

Defendant Jeffrey Barrett and *Independent Realty Capital Corporation (IRCC)* were indicted in **Los Angeles, CA**, in Federal Court for the Central District of California, on one count of obstruction of a federal audit. Barrett is the owner of *IRCC*, a mortgage brokering company that handles FHA insured home loans. *IRCC* was audited by HUD's Quality Assurance Division in June 2001. Allegedly, Barrett unnecessarily delayed the provision of information and documentation requested by the auditor, including employee lists and verifications of employment. He also provided less information and documentation than what was requested. In addition, Barrett prevented HUD from having access to *IRCC* employees who were knowledgeable about *IRCC*'s violations of HUD's requirements.

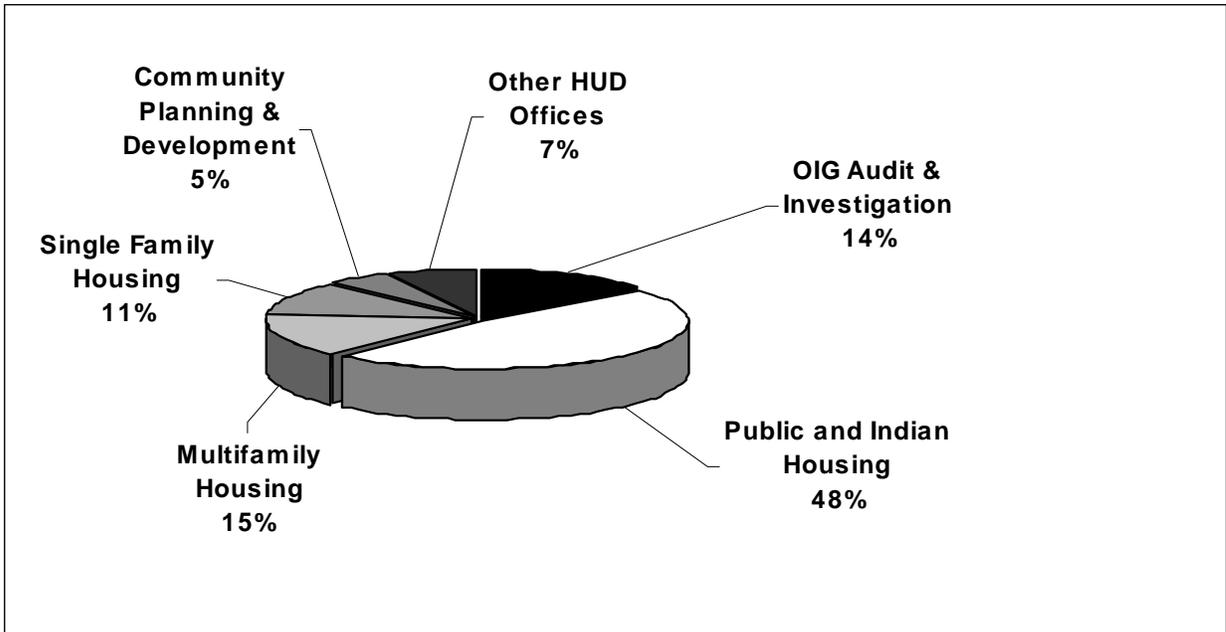
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## **OIG Hotline**

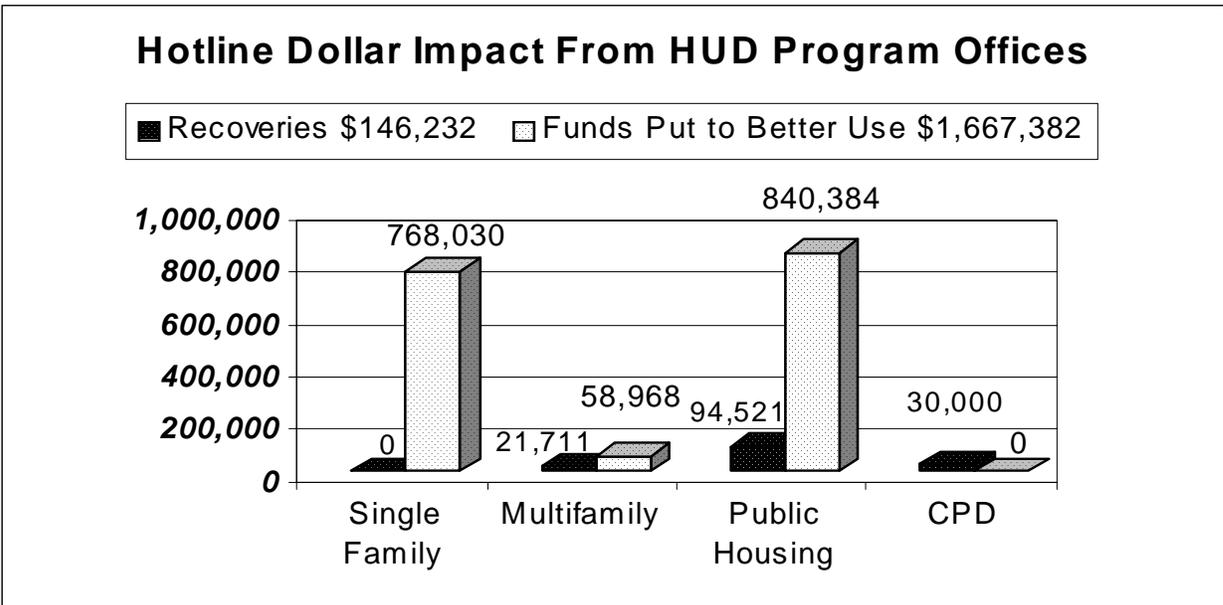
The HUD Office of Inspector General (OIG) Hotline is operational five days a week. The Hotline is staffed by six full-time OIG employees, who receive allegations of waste, fraud, abuse, or mismanagement in HUD or HUD funded programs. These allegations are received from HUD employees, contractors, and the public.

Since October 1, 2003, the Hotline has received 9,120 complaints; 73 percent were received by telephone, 20 percent by mail, and six percent by e-mail. The Hotline also interviewed four individuals who visited HUD Headquarters to register complaints about program operations. Every allegation received by the Hotline is logged in to a database and tracked.

Of the complaints received, 1,019 were related to the mission of the OIG and were addressed as Hotline cases. Hotline cases are referred to OIG's Offices of Audit and Investigation or to HUD program offices for action and response. The following shows the distribution of Hotline case referrals by percentage.



The Hotline has closed 591 cases since October 1, 2003. These closed cases had 135 substantiated allegations, which resulted in 14 administrative sanctions against HUD employees for personnel related violations or investors for improprieties involved in the purchase of a home. The Department also took 121 corrective actions that resulted in cost recoveries and HUD funding that could be put to better use. The following illustrates the impact of the corrective actions that the Department took in response to Hotline case referrals.



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## Chapter 7 — Outreach Efforts

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In order to foster cooperative, informative, and mutually beneficial relationships with agencies and organizations whose intent is to assist in the accomplishment of HUD's mission, the OIG participates in a number of special outreach efforts. These efforts, as described below, are in addition to our regular coordination with federal, state, and local law enforcement agencies, other OIGs, and various Congressional Committees and Subcommittees. During these outreach efforts, we not only present the results of our audit and investigative work and discuss our goals and objectives, but we also provide information about the OIG's role and function.

- Inspector General Donohue spoke at the Mortgage Bankers Association's (MBA) National Servicing Conference in **San Diego, CA**. The IG spoke on two occasions regarding our joint efforts with the Federal Trade Commission on the recent Fairbanks Capital case. The MBA asked to hear from IG Donohue on our unusual involvement in the Fairbanks case, since they are the largest third party servicer in the industry. Executive Assistant John Dupuy, who accompanied IG Donohue, participated on two different panels — one regarding the impact of bankruptcy fraud on single family mortgage servicing and the other on the impact of loan origination fraud and equity skimming. This event was a continuation of our outreach efforts with the mortgage community and the MBA.
- In what was a first contact for the OIG, IG Donohue attended a board meeting of the National American Indian Housing Council (NAIHC) at their annual conference in **Washington, DC**. This organization represents Tribal housing authorities in their efforts to provide decent, safe, and sanitary housing for the Native American community. The OIG's role in combatting fraud and abuse were discussed. As a result of the meeting, the NAIHC invited the OIG to speak at their upcoming National Conference in June 2004, as well as at their regional meetings on fraud awareness.

➤ On the 25<sup>th</sup> anniversary of the Inspector General Act, Headquarters OIG invited clients and colleagues to an Open House. Each functional OIG area set up displays that illustrated the function and purpose of the OIG Offices of Audit, Investigation, Management and Policy, and Counsel. HUD Assistant Secretaries, HUD program staff, criminal justice counterparts, Congressional staff, and staff from other Offices of Inspector General joined in celebrating the anniversary of this important legislation.

➤ IG Donohue hosted a management retreat in **Annapolis, MD**, for the 57 Inspectors General who make up the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. The theme of the retreat was "Returning America's Investment in the IGs." The Inspectors General discussed what they consider to be their measures of success and heard from external stakeholders including the Office of Management and Budget (OMB), the General Accounting Office, the Department of Justice, and Congressional staff. Among the speakers were Clay Johnson, Deputy Director, OMB; James Comey, Deputy Attorney General; and David Walker, Comptroller General. During times of relaxation at the retreat, the U.S. Naval Academy provided tours and held a reception at which Gordon England, the Secretary of the Navy, spoke to the group.

IG Donohue greets Comptroller General David Walker, who addressed the PCIE/ECIE Retreat.



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- At the invitation of John Weicher, Assistant Secretary for Housing-FHA Commissioner, John Dupuy, Executive Assistant (EA) to the Inspector General, spoke at a single family housing lender training program in **Washington, DC**. This marks the first time FHA has conducted a comprehensive single family training program for the mortgage industry. Although HUD Homeownership Centers periodically conduct regional training, this program was the first national level training event. EA Dupuy discussed the role of the OIG in conducting audits and investigations of Single Family Housing Programs. Assistant Secretary Weicher’s invitation reflects an increased and welcome level of cooperation between the two offices.
  - At the Department-wide training on “Managing Compliance and Monitoring” held in **Boston, MA**, and **Seattle, WA**, numerous OIG managers sent a powerful message that communication and coordination between OIG and the Department are valuable tools for both HUD program managers and the OIG in its efforts to identify fraud and abuse. This conference is the only Department-wide training program that focuses on the specific responsibilities of managers in establishing and ensuring compliance and monitoring programs to ensure they are effective as well as consistent with HUD policies.
  - The HUD Committee on Program Integrity was recently established to coordinate the Department’s efforts to minimize the opportunities for the occurrence of fraud, waste, and mismanagement in HUD programs and to advise the Secretary on policy matters relating to improving the quality and effectiveness of all HUD programs and activities. Inspector General Donohue addressed the Secretary’s senior staff and said, “We want to encourage communication and team spirit on problem-solving between OIG and program offices through this committee. It’s important that we have a way to focus managers’ attention on fraud and abuse in their programs.” Committee objectives are to: (1) find common issues and objectives and combine forces to get resolution; (2) raise HUD staff and program administrator knowledge about fraud, and provide practical advice to them about how they can stop or reduce fraud and abuse in HUD programs; (3) strengthen and streamline processes used to take actions against program abusers; and (4) communicate our successes to the public and HUD stakeholders.
  - Assistant Inspector General for Audit (AIGA) Jim Heist represented OIG Headquarters at the field management meeting in **Columbus, OH**. He made a presentation on the OIG’s mission and described the different roles and responsibilities of the Offices of Audit and Investigation. AIGA Heist also provided an overview of current audit work affecting the Columbus Field Office and described ongoing efforts to work more collaboratively with the Department and align the OIG’s strategic plan with the Department’s strategic plan.
  - In **Milwaukee, WI**, Regional Inspector General for Audit (RIGA) Heath Wolfe and Assistant Special Agent in Charge (ASAC) Brad Geary made a joint presentation to an audience of approximately 50 individuals representing Community Planning and Development entitlement grants throughout the State of Wisconsin. The presentation focused on OIG operations and addressed the need for program oversight; ensuring that housing rehabilitation work is done properly and that the work is inspected; and the need to take a proactive approach by contacting the OIG when problems arise that warrant OIG attention.
  - By the close of October 2003, audit resolution training had been provided to HUD Offices in the Chicago Region. RIGA Heath Wolfe and Administrative Officer Jennifer Houghton completed training for the remaining offices by wrapping up their presentations in **Chicago, IL, Columbus, OH, and Cleveland, OH**. The presentations’ focus was the section of the Audits Management System Handbook which provides information on implementing audit recommendations. The audiences, made up of HUD program staff, were able to learn the requirements of the handbook while having an open forum to address questions relating to the audit process. Response was positive and HUD staff were appreciative of the efforts expended in bringing this training to them.
  - Mid-Atlantic Region Special Agent in Charge (SAC) Robert Brickley spoke at the Annual Conference of
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- the Pennsylvania Association of Housing and Redevelopment Agencies in **Uniontown, PA**. The conference was attended by approximately 40 public housing agency executive directors, commissioners, and other officials. The presentation focused on the role of the OIG Office of Investigation, the types of cases that we investigate, the investigative process, and suggestions for preventing and detecting fraud in HUD funded programs.
- **In Concord, NH**, New England SAC Peter Emerzian and Special Agent Edward Redmond attended a Federal Law Enforcement Team meeting sponsored by Thomas Colantuono, U.S. Attorney, District of New Hampshire. SACs and Agents who conduct investigations were present to share ideas, programs, and initiatives related to the missions of their respective agencies. U.S. Attorney Colantuono updated the Attorney General's goals for the year and thanked agencies for their support.
  - **In Waterville, ME**, SAC Peter Emerzian, ASAC Maureen Nelting, Special Agent Brian Gosselin, and Assistant Regional Inspector General for Audit (ARIGA) Cristine O'Rourke made a presentation to executive directors and employees of public housing authorities in the State of Maine. The presentation was sponsored by Residential Initiatives for Maine, a nonprofit group organized by Maine's local housing authorities. OIG staff discussed the role of the OIG, OIG's authority and mission, how subsidized tenants, landlords, and public housing authority employees can perpetrate fraud, and ways to detect the fraud. Over 50 representatives from Maine's public housing authorities attended.
  - Michael Beard and Lester Davis, RIGA and SAC, respectively, made presentations at the **Southwest Region** HUD Program Directors Retreat. HUD program directors meet every two months to discuss HUD program matters and management issues. RIGA Beard discussed issues relating to audit resolution, including management tips on how to respond to audits and how findings are constructed. SAC Davis discussed how HUD program offices and OIG can work together as a team to make HUD a more efficient and productive agency.
  - SAC Peter Emerzian and ASAC Maureen Nelting gave a presentation to members of the Section 8 Administrators Association in **Boston, MA**. They discussed the role of the OIG, OIG's authority and mission, how subsidized tenants, landlords, and public housing agency employees can perpetrate fraud, and ways to detect the fraud. Over 100 representatives from various public housing agencies throughout New England attended the meeting.
  - Southwest Region SAC Lester Davis and Southwest Region HUD General Counsel Bill Daley made HUD Standards of Conduct and Ethics presentations in **New Orleans, LA, Albuquerque, NM, and Fort Worth, TX**. Annual attendance at the Standards of Conduct presentation is mandatory for all HUD employees. SAC Davis and Counsel Daley are scheduled to make this presentation to the 1,000 HUD employees in the 11 Southwest Region field offices. SAC Davis took this opportunity to discuss the close relationship OIG has and wants to continue to develop with HUD program staff. The IG mission and how it ties into HUD's mission were also discussed.
  - SAC Peter Emerzian and ASAC Diane DeChellis from OIG's New England Region made a presentation to the investigative arm of the Massachusetts Inspector General's Office in **Boston, MA**. The presentation provided an overview of OIG's mission and investigative priorities, as well as a discussion of HUD's programs and HUD funding within the State of Massachusetts.
  - **In Boston, MA**, New England Region SAC Peter Emerzian and ASAC Maureen Nelting were invited to become members of the newly formed New England Public Corruption Roundtable sponsored by the FBI. Federal, state and local agencies that investigate public corruption in New England attended the meeting, at which various targets and investigative strategies were discussed.
  - Assistant U.S. Attorney Mary Jane Harmon (Chief of the Fraud Section of the U.S. Attorney's Office), OIG SAC Lester Davis, and ASAC Michael Kepler made a presentation to the **Houston, TX** Area Mortgage Bankers Association on single family mortgage fraud. Approximately 65 individuals were
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- in attendance. The presentation included ways to identify mortgage fraud and detailed a joint OIG/FBI investigation of mortgage fraud in the Houston area.
- In **Dover, NH**, SAC Peter Emerzian and Special Agent Edward Redmond attended a meeting of all employees of the Dover Housing Authority (DHA) as well as two Dover Police Department officers assigned to the DHA. The meeting was held to address the problems of unauthorized individuals residing in DHA subsidized units.
  - Barry McLaughlin, SAC, and Heath Wolfe, RIGA, Chicago Regional Office, made a presentation to all program directors in HUD's **Detroit, MI** Field Office. The presentation covered the mission and functions of both the OIG and the Office of Investigation. RIGA Wolfe also discussed the chapter of the Audits Management System Handbook concerning implementing recommendations. ARIGA Tom Towers of the Detroit Field Office also gave a briefing on how to handle public inquiries for audits and investigations.
  - Special Agents Jeffrey Pittano and Daniel Harding attended a crime awareness and prevention meeting at Brooklyn Homes, a public housing community in the Brooklyn District of **Baltimore, MD**. In attendance were residents from the local community, members of the Housing Authority of Baltimore City, project management, family support services, Baltimore City Police, the District Court for Baltimore City, and the Mayor's Office. The various agencies met to discuss and make plans to resolve rising drug trafficking problems and concerns over unauthorized persons occupying units in the Brooklyn community. Agents Pittano and Harding made a presentation on the mission, goals, and purposes of the OIG. The meeting and presentation gave OIG staff the opportunity to establish a bridge of communication and partnership between the OIG, project management, and the local government.
  - SAC Peter Emerzian and Special Agent Gene Westerlind made a presentation to the **Shewsbury, MA** Housing Authority. They discussed the role of the OIG, OIG's authority and mission, how subsidized tenants and landlords can perpetrate fraud, and ways to detect fraud.
  - At the invitation of the Louisiana Legislative Auditor, RIGA Mike Beard made a presentation to the Louisiana Council of Public Housing Authorities in **Lafayette, LA**. The audience consisted of 130 housing authority executive directors, assistant executive directors, and authority board members. RIGA Beard discussed the Inspector General Act and recent Public and Indian Housing audit reports and investigations, as reported in the September 30, 2003 Semiannual Report to Congress.
  - SAC Peter Emerzian and Special Agent Gene Westerlind met with the executive board of the **Worcester, MA** Housing Authority and public safety officers to discuss the possibility of creating a tenant fraud initiative. During the meeting, SAC Emerzian and Agent Westerlind discussed the role and authority of the OIG and provided guidance in establishing the Worcester Tenant Fraud Task Force.
  - Director of State Operations Derek Gasiorowski hosted a HUD Home Sales Seminar for brokers and lenders in **Detroit, MI**. Field Office Director Toni Schmiegelow made opening remarks and introduced OIG ARIGA Tom Towers, who discussed the OIG's mission and emphasized the current work being done in relation to Single Family Mortgage Insurance Programs. Following his presentation, ARIGA Towers fielded questions from the 90 individuals in attendance.
  - ARIGA Ron Farrell addressed 65 attendees at the fall quarterly meeting of the Ohio Conference of Community Development in **Columbus, OH**. His presentation introduced the group to the OIG's mission and objectives as they relate to community planning and development. He discussed what to expect during the audit process as well as audit planning and selection and the audit resolution process. The group was extremely interested in the findings developed during the three Community Housing Improvement Program audits that were conducted by the Columbus Audit Office a few years ago, the resulting recommendations and how they were implemented, and what has been done to improve the program.
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- Mid-Atlantic Region Special Agents Daniel Ellis and Frank Aeillo and ASAC Rene Febles spoke before the Interstate Realty Management Corporation (IRMC) in **Philadelphia, PA**. IRMC employs hundreds of individuals who work for multifamily developments that are insured by and receive subsidies from HUD. Their presentation consisted of techniques that can be used by IRMC employees to detect fraudulent representations during the recertification process of Section 8 tenants. IRMC employees, site managers, district managers, and maintenance employees who work at various sites around the country attended the presentation.
  - ASAC Herschell Harvell met with **Long Beach, CA** police chief Anthony Batts and Long Beach Housing Authority executive director Lavern Duncan to discuss the proposed Long Beach Section 8 Compliance/Enforcement Initiative. ASAC Harvell gave an overview of OIG's organizational structure and resources, the purpose/mission of the Section 8 Initiative, and the strong interest for a collaborative law enforcement effort in implementing and executing this Initiative. Chief Batts applauded OIG's efforts and promised to utilize all resources available to the Long Beach Police Department to ensure its success. Chief Batts also committed to coordinating a subsequent meeting to include the FBI, DEA, U.S. Marshals Service, Department of Homeland Security, State Probation and Parole, Long Beach Code Enforcement, and the Long Beach Housing Authority to discuss strategies for coordinating the various law enforcement efforts.
  - ASAC Rene Febles and Special Agent Frank Aeillo of the Mid-Atlantic Region conducted a one-day presentation to employees of the **Chester, PA** Housing Authority. Approximately 50 employees were present to hear how the OIG is fulfilling its mission pertaining to Section 8 fraud. The presentation demonstrated some of the common frauds as well as important documents on which OIG Agents rely. The Chester Housing Authority is currently under a court ordered receivership. The Authority's operations are expected to revert back to the board of commissioners and a permanent executive director by July 2004; this presentation was requested in anticipation of the transfer of control.
  - Midwest Region ARIGA Ron Farrell and Special Agent Gary Berry participated in the Ohio Housing Authorities Conference in **Newark, OH**, which was attended by executive directors of Ohio housing authorities. ARIGA Farrell discussed the mission of the OIG and current priority items being undertaken by the Office of Audit. Special Agent Berry discussed the role of the Office of Investigation and the networking OIG Agents do with local police departments.
  - ASAC Lori J. Chan and ARIGA Clyde Granderson made a presentation to Old Republic Title Company, Western Division, in **San Jose, CA**. Approximately 30 individuals were present from their Nevada, California, and Arizona offices. The participants included the company's operations officers, senior vice presidents, and the Office of General Counsel. ASAC Chan and ARIGA Granderson gave an overview of HUD, FHA, the OIG, FHA fraud schemes, and fraud prevention tools.
  - In **New Haven, CT**, ARIGA Cris O'Rourke and ASAC Diane DeChellis of the New England Region attended the winter meeting of the Connecticut National Association of Housing and Redevelopment Officials. The topic of their presentation was identifying and preventing fraud. They also discussed the OIG's mission and audit/investigative priorities.
  - ASAC Anthony Meeks met with Commander Rod Uyeda, **Pasadena, CA** Police Department, and discussed collaborative efforts on behalf of OIG, the Pasadena Police Department, and other state and federal agencies to establish goals and parameters for combating criminal violations being committed in various subsidized housing developments in the Pasadena area. Commander Uyeda was very receptive to OIG's methodology regarding efforts to maintain the integrity of HUD subsidized housing programs. Future meetings between OIG and the Pasadena Police Department are planned to finalize a multi-agency compliance enforcement initiative.
  - ASAC Marc Montague was the guest speaker at the quarterly meeting of the Eastern Washington Escrow Association (EWEA) in **Spokane, WA**. Approximately 50 members of EWEA attended the
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meeting during which ASAC Montague gave a presentation on single family loan origination fraud, predatory lending, and the common schemes used in committing FHA and conventional loan fraud.

- The Chicago Region’s ARIGA Ron Farrell and Special Agent Jennifer Howell from the Columbus Office participated in a HUD meeting with representatives from the Division of Real Estate and Professional Licensing for the **State of Ohio** Department of Commerce. The discussion emphasized the shared concerns of federal and state officials regarding predatory lending and property flipping.
- Kansas City Region ASAC Michael Powell and Special Agent Karen Gleich spoke at the Iowa National Association of Housing and Redevelopment Officials in **Des Moines, IA**. Approximately 75 people attended the presentation and were briefed on current OIG initiatives affecting public housing authorities. Topics included tenant fraud in public housing, Section 8 tenant fraud, and the Fugitive Felon Initiative.
- ASAC Marc Montague was a guest speaker at the 2004 conference of the Cascade Chapter of the National Association of Housing and Redevelopment Officials (NAHRO) in **Clackamas, OR**. Approximately 100 NAHRO members from Oregon and Washington State attended the conference. ASAC Montague made a presentation about combating Section 8 tenant fraud and how public housing agencies can provide quality referrals to the OIG.
- Loretta Burns, a Forensic Auditor in the Fort Worth Region, spoke to the Texas Land Title Association at its Regional Seminar in **Austin, TX**. Approximately 75 title attorneys and escrow officers in the title industry doing business in the Central Texas Region were in attendance. Burns’ presentation on single family fraud schemes was part of a continuing education track entitled “Legalities of Title: Risky Business,” designed primarily for attorneys in the industry.

Forensic Auditor Loretta Burns making presentation at Texas Land Title Association.



- Special Agent David Carter made a presentation to the Riverside Police Department’s Command staff and 60 members of the Riverside Crime-Free Multi-Housing Program who collectively provide housing to several thousand residents of **Riverside, CA**. Agent Carter discussed the OIG’s authority and mission, how subsidized tenants can perpetrate fraud, and ways to detect fraud. He further discussed collaborative efforts to pursue and combat criminal activity and examples of violations taking place within public housing and HUD subsidized facilities.
- In **Arlington, TX**, OIG hosted the quarterly meeting of the Southwestern Region Inspectors General Council. The guest speaker was Gaston L. Gianni, Jr., Federal Deposit Insurance Corporation Inspector General and Vice Chair of the President’s Council on Integrity and Efficiency (PCIE). Among the topics that IG Gianni discussed were performance measurements, return on investment, working with other IG offices, peer reviews based on statutory law enforcement legislation, and future challenges facing the IG community. IG Gianni stressed the importance of performance measurements and return on investment as they relate to the IG community. The Office of Management and Budget and the Bush Administration would like government agencies to be more efficient and productive, using private businesses as examples. He mentioned that as a group, the PCIE has a lot of

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work to do to figure out how to properly measure the work of the various Offices of Investigation.

- In **College Park, MD**, Special Agents Daniel Harding and Jeffrey Pittano attended a crime awareness and prevention meeting in the Lakeland District, a public housing and Section 8 community. In attendance were the Mayor of College Park, the city council, neighborhood watch participants, Prince George’s County Police Department, Prince George’s County Park and Planning Police, residents, University of Maryland students and staff, media, property managers, and owners. The various agencies met to discuss and make plans to resolve the increasing drug trafficking problems and concerns over unauthorized persons occupying units in the Lakeland community. Local authorities believe two recent homicides were committed by subjects that are believed to be unauthorized tenants within the community. Agents Harding and Pittano made a presentation on the mission, goals, and purpose of the OIG. The meeting and presentation gave OIG staff the opportunity to establish a bridge of communication and partnership between the OIG, project management, and the local government.
- Special Agent Glen Wirtanen addressed a HUD sponsored “Home Mortgage Fraud and Foreclosure Prevention Seminar” in **Decatur, GA**, that was attended by approximately 250 local real estate agents, bankers, and mortgage professionals. The seminar addressed the growing problem of loan origination fraud in the FHA mortgage insurance program, and remedies available to reduce this type of fraud. Presentations by the local HUD Homeownership Center staff provided the audience with numerous “red flags” that might be present if a loan is based on false or fraudulent information. In addition, an Assistant U.S. Attorney gave examples of cases that have been successfully prosecuted in the Northern District of Georgia.
- Senior Special Agent Mike Wilson, Criminal Investigation Division, and Executive Assistant John Dupuy conducted a mortgage fraud course held by the MBA in **New Orleans, LA**. They made presentations on the role of the OIG in fighting mortgage fraud and provided case examples. Supervisory underwriting, quality assurance, and fraud control staff from national lenders were in attendance.
- OIG Special Agent Robert Torelli of the **Jacksonville, FL** Field Office addressed approximately 200 members of the Florida Association of Mortgage Brokers and discussed mortgage fraud. The group was comprised primarily of mortgage company owners, loan originators, real estate agents, and mortgage bankers. Specifically, Agent Torelli discussed detailed loan fraud indicators, various fraud schemes, including straw purchases, and criminal penalties for engaging in loan fraud. He also provided members with useful fraud related web sites, and simple and logical ways to determine the veracity of information provided to obtain loans.
- OIG Special Agent Angela Stewart from the Atlanta Office made a presentation to the **Alabama** Association of Housing and Redevelopment Authorities and HUD staff at their Fall Workshop. Agent Stewart gave an overview of tenant fraud and the documentation needed to prosecute false statements, statutory requirements, and the timeframe and loss requirements for presentation to the U.S. Attorney’s Office. She also stressed the need for law enforcement to keep each other informed of successful prosecutions, and how important it is to disseminate this information to the public.
- OIG made a presentation to the Financial Crimes Working Group in **Buffalo, NY**. This group is made up of approximately 75 federal, state, local, private, and Canadian law enforcement agencies and companies that investigate and prosecute individuals and criminal organizations that perpetrate financial crimes. The group was organized to exchange information on these individuals and organizations in an effort to eliminate duplication of investigative efforts and to best utilize investigative resources. The presentation educated the group on the OIG mission and our role in the investigative community. Included in the presentation was a montage of the HBO series “The Sopranos” in which the characters depicted a property flipping scheme that was based on an actual case from the New York/New Jersey Region.
- Fort Worth Region Special Agent Amy Durso spoke at the Missouri Association of Regional Public Housing Authorities at **Bennett Springs, MO**. She discussed the variety of cases worked by OIG and

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went into greater detail about Section 8 tenant fraud.

- The OIG Office in **Phoenix, AZ**, hosted the Regional IG Counsel meeting. Topics included interaction with the Arizona U.S. Attorney's Office and other possible prospective venues. IG Offices from HUD, the Postal Inspection Service, the Departments of Education, Veterans Affairs, Defense, Health and Human Services, and Justice, the Social Security Administration, and the Treasury Inspector General for Tax Administration were present and participated in the meeting.



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## Chapter 8 – Review of Policy Directives

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Reviewing and making recommendations on legislation, regulations, and policy issues is a critical part of the OIG's responsibilities under the Inspector General Act. During this six-month reporting period, the OIG reviewed 124 policy Notices. This chapter highlights some of the OIG recommendations on these Notices as well as other policy directives.

### **Notices of Funding Availability (NOFAs)**

#### *Fiscal Year 2004 SuperNOFA: Community Development Technical Assistance*

HUD issued a SuperNOFA to provide assistance to achieve the highest level of performance and results for four separate community development programs: (1) HOME (Home Investment Partnerships) Program; (2) Community and Housing Development Organization (CHDO) HOME Program; (3) Homeless Program; and (4) Housing Opportunities for Persons with AIDS (HOPWA). The Notice stated that applicants might apply for one, two, three, or all four of the Community Development Technical Assistance Programs. Approximately \$25.1 million was available. We commented on this NOFA because HUD needs assurance that requirements stated under the administrative provisions of the Act are included in the NOFA. Section 209 of the Act states that none of the funds provided in this title for technical assistance, training, or management improvements may be obligated or expended unless HUD provides the Senate and House Committees on Appropriations a description of proposed activity and a detailed budget estimate of the costs associated with each program, project, or activity as part of the budget justifications.

The Department was still reviewing the comments and had not issued the SuperNOFA at the end of this semiannual reporting period.

#### *Housing Choice Voucher Family Self-Sufficiency Program*

The Housing Choice Voucher Family Self-Sufficiency Program NOFA announced the availability of \$48 million to fund counselors to assist families to obtain housing.

We did not concur with this NOFA because Public Law 108-199 provided restrictions on funding with which the NOFA did not comply. The Public Law requires that before any funds are disbursed, a risk assessment must be conducted and appropriate controls implemented to mitigate any identified risks. The Public Law also specifies that the funding announcements must describe the maximum amount of funding available. In addition, the Public Law mandates that the Secretary require housing agencies to submit accounting data for funds disbursed by source and purpose.

The Offices of Public and Indian Housing and the Inspector General mutually agreed to change the NOFA. Public and Indian Housing revised the draft NOFA and mandated that grantees follow the controls needed to mitigate program risks, established accounting controls over reporting, and specified the maximum amount of available funds.

Public and Indian Housing has improved the control structure to obtain a higher probability that housing agencies will use funds to assist the targeted population. The NOFA should be issued in April 2004.

### **Computer Match Agreement**

#### *Computer Match Agreements Between HUD/SSA and HUD/IRS*

HUD issued two Computer Match Agreements to increase the accuracy of tenant reported information. One Agreement was between HUD and the Social Security Administration (SSA), and the other was between HUD and the Internal Revenue Service (IRS). The HUD/SSA Agreement proposed to increase the accuracy of tenant reported income and the validity of

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borrowers obtaining insurance for FHA mortgages. The HUD/IRS Agreement provided HUD with the mailing addresses of taxpayers to assist HUD in its effort to collect debts owed to the United States. The HUD/SSA Agreement would provide indicators of potential under/overreported income that will require additional verification to identify inappropriate (excess or insufficient) rental assistance, and perhaps administrative or legal actions. Both Agreements would assist HUD administrators who rely on the accuracy of tenant reported data to determine applicants' and participants' eligibility for, and level of, housing benefits.

We noted a need for the Computer Match Agreements to include a statement that will allow the Office of Inspector General to have access to test results. The Agreements present the legal authority that permits tax return information disclosed to HUD for use by officers and employees of HUD. We requested the following statement to be added to the Computer Match Agreements: "The results of the match may be used by the Office of Inspector General for investigative/audit matters pursuant to the Inspector General Act."

HUD added our statement to the Agreements and we therefore concurred in their issuance.

## Notices

### *Revision to Notice on Guidance on the Application of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970*

HUD prepared a Notice announcing changes in the Department's policy regarding the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended in HOPE VI projects. The Offices of Public and Indian Housing (PIH) and Community Planning and Development (CPD) determined that changes were necessary to address issues that have arisen regarding implementation of the HOPE VI Program.

We nonconcurred with the Department's decision to make rule changes without providing for public participation. The Department is required to publish

Notices of Proposed Rulemaking in the Federal Register and give interested persons an opportunity to participate in the rulemaking process. These proposed rulemaking changes cannot be made in a change to an internal Notice, but must be made through the Federal Register process described herein and in CFR 24 Part 10, Rulemaking Policy and Procedures (paragraphs 10.1 through 10.3).

HUD's Offices of CPD and General Counsel agreed with our assessment and made the appropriate changes to the Notice to comply with the CFR.

## Congressional Report

### *Report to Congress Regarding Revitalization Area Designations*

HUD prepared a report to Congress regarding revitalization area designations. The purpose of these area designations is to expand affordable homeownership opportunities by offering HUD owned single family properties for sale at a discount price. These properties are located in neighborhoods that either: (1) consist of families with very low incomes; (2) have a disproportionately high concentration of foreclosed HUD held properties; or (3) have a low homeownership rate.

We nonconcurred with this Congressional report because it did not adequately define the term "revitalization area" pursuant to 12 U.S.C. 1710. We found the definition for "high concentration" area failed to address what was considered a high rate of default. Therefore, it was not clear which areas could be designated as revitalization areas.

To improve the process, we recommended that the new definition for "revitalization area" include the statements: "...in comparison with the concentration of such assets in surrounding areas; or being detrimentally impacted by eligible assets in the vicinity of a revitalization area." These statements are key to a proper designation of "revitalization area."

HUD made changes with which we agreed, and the Congressional Report was finalized as of the close of the semiannual reporting period.

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## Chapter 9 — Audit Resolution

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In the audit resolution process, the OIG and HUD management come to an agreement as to the needed actions and timeframes for resolving audit recommendations. Through this process, we hope to achieve measurable improvements in HUD programs and operations. The overall responsibility for assuring that the agreed upon changes are implemented rests with HUD managers. This Chapter describes some of the more significant pending issues where resolution action has been delayed and where management decisions were revised. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996. In addition to this Chapter on audit resolution, see Appendix 2, Table A, "Audit Reports Issued Prior to Start of Period With No Management Decision at 3/31/04," and Table B, "Significant Audit Reports Described in Previous Semiannual Reports Where Final Action Had Not Been Completed as of 3/31/04."

### Delayed Actions

#### *Audits of HUD's FY 1991 through 2003 Financial Statements*

*First issued June 30, 1992.* HUD has been preparing consolidated financial statements under the requirements of the Chief Financial Officers Act for 13 years beginning with Fiscal Year (FY) 1991. Various internal control weaknesses have been reported in these audits. In our most recent audit report for FY 2003, we were able to express an unqualified opinion on HUD's principal financial statements. The results of our FY 2003 report on internal controls were consistent with results reported in Semiannual Reports from prior years. While there has been progress, material weaknesses continue with respect to the need to: (1) complete improvements to financial systems; and (2) improve oversight and monitoring of subsidy calculations and intermediaries' program performance. Corrective action plans to resolve these issues have continued to change over the last decade.

#### *Audits of FHA's FY 1991 through 2003 Financial Statements*

*First issued March 27, 1992.* FHA has been preparing financial statements for 13 years under the Chief Financial Officers Act, beginning with FY 1991. The audit of FHA's FY 2003 financial statements discussed problems similar to those that have been reported since the audit of FHA's FY 1991 financial statements. The audit continues to recognize that FHA needs to: (1) improve its information technology (primarily accounting and financial management systems) to more effectively support FHA's business processes; and (2) continue to improve early warning and loss prevention for single family insured mortgages. A weakness reported since the FY 1992 financial statement audit relates to the need for FHA to enhance the design and operation of information systems' general and application level security controls. FHA's latest action plan continues to report progress toward resolving these remaining long-standing issues, with final actions targeted over the next one to three years.

#### *Housing Authority of the City of Miami Beach, Section 8 and Public Housing Programs*

*Issued October 20, 2000.* The Authority mismanaged its Section 8 and Public Housing Programs and incurred over \$1 million in questioned and ineligible costs. Specifically, the Authority spent over \$795,000 of its Section 8 reserves for questionable public service activities, including police protection, recreation, and code enforcement that the City should have provided from its local tax revenues. Also, the Authority spent over \$2 million in a failed effort to construct a women's and children's housing resource center, including nearly \$210,000 in excessive fees and permits paid to the City. The delayed project put the Authority at risk of losing most of the \$5.8 million in bond funds originally committed to the project, and deprived the low-income community of needed housing and social services. In addition, the Authority

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had not complied with HUD requirements concerning Section 8 rent reasonableness, lease execution, and utility allowance payments, and had not implemented corrective actions to comply with procurement requirements. We recommended that HUD require the Authority to: (1) obtain additional supporting documentation or recover the \$1 million paid to the City; (2) submit evidence that it has the financial capability and commitment to complete construction of the center within a reasonable time; and (3) establish the necessary controls to improve its operations.

On February 13, 2001, the OIG agreed with management decisions proposed by the Florida State Office for the 14 report recommendations. HUD has obtained final action on 10 recommendations. However, HUD did not meet the February 13, 2002 target completion dates for the remaining four recommendations that are now over two years past due.

We referred the audit to the Acting Deputy Assistant Secretary for Administration and Budget/Chief Financial Officer because of the untimely final action. HUD, Authority, and City staff met to discuss the impasse. In March 2004, the City and the Authority reached tentative agreement to offset the questioned and ineligible costs by waiving payments in lieu of taxes, and by credits to future development fees. The Authority still plans to construct the resource center but on a different site, and will obtain an appraisal for sale of the original site. The Authority has also contracted with a consultant to calculate and make the final payments due the tenants. HUD and the Authority have not finalized target completion dates. (Report No. 2001-AT-1001)

## **Significant Revised Management Decisions**

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

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### ***Detroit Housing Commission HOPE VI Program***

*Issued May 16, 2001.* The Detroit Housing Commission did not maintain an effective system of controls over its contracting process for its HOPE VI Program. The Commission improperly used or inappropriately approved payments of over \$12 million in HUD funds (HOPE VI, Development, and Comprehensive Grant Program) for construction or professional services. We recommended that the Commission provide detailed work specifications supporting the work included in 46 unsupported change orders totaling over \$12 million that were identified during the audit. We agreed with HUD's initial management decision that involved reviewing all the change orders to determine the disallowed costs.

Subsequently, HUD proposed that it would procure the services of an independent engineering firm to review the contractors' work, and submit all necessary documentation to support the eligibility of the unsupported change orders. We concurred with HUD's revised proposal; however, we requested a revised management decision because this represented a change to the previously agreed upon management decision to look at all change orders. Under the revised proposal, the engineering firm will only look at all change orders over \$100,000 (18), and prorate the percent unsupported to the remaining change orders under \$100,000 (28). HUD's Office of Public Housing Investments submitted a revised management decision on March 4, 2004, with which we agreed. Based on the engineering firm's results, we agreed with HUD that the final disallowed costs would be \$4,986,619, a reduction of \$7,073,837 from the original questioned amount. HUD will work out a repayment schedule with the Commission. The revised date for completing this action is June 30, 2011. (Report No. 2001-CH-1007)

### ***City of Lynwood, CA Community Development Block Grant (CDBG) and HOME Investment Partnerships (HOME) Program***

*Issued August 19, 1999.* The City of Lynwood did not fully comply with HUD rules and regulations

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regarding its Community Development Block Grants. Therefore, we recommended that the grantee: (1) submit for approval all required documentation to support the eligibility of about \$700,000 paid to the Lynwood Entrepreneur Development Academy (LEDA) for job creation and retention activities; (2) submit for approval the required documentation establishing the eligibility of over \$73,000 paid for trainees that were located outside the grantee's city limits; and (3) return to its letter of credit from non-federal funds the amount that the grantee is unable to support in the two previous recommendations.

On March 11, 2004, the OIG received a revised management decision from the Office of Community Planning and Development (CPD) which states that based on the HUD Office of General Counsel's determination that there is some "evidence that LEDA and Lynwood Business Institute did engage in job creation/retention activities, in an area that was predominantly low- and moderate-income, and achieved some results, we do not believe there is a good likelihood that an enforcement action to reduce the City's CDBG funding would be sustained by a court, based solely on a lack of adequate documentation. Accordingly, we do not believe a viable basis exists to reduce the City's CDBG funding. Instead, we recommend that, if CPD elects to treat the matter as actionable under 24 CFR §570.910(b), it utilize alternative remedies available under that section that would be designed to avoid a repetition of the violation." The revised management decision would be to require the City of Lynwood, in accordance with CFR 24§570.910(b), to submit to CPD for its review and approval, an outline of the City's recordkeeping procedures prior to undertaking any future economic development activities. Such procedures would have to be in compliance with applicable regulations. This submission by the City would have a due date of April 30, 2004. Failure to provide this information in an approvable format, prior to use of funds for future economic development activities, could result in a condition on the use of funds provided. The final action target date is May 31, 2004. The OIG agrees with the revised management decision. (Report No. 1999-SF-1003)

## *Los Angeles Community Development Bank Economic Development Initiative Grant/Section 108 Loan Guarantee Program*

*Issued September 25, 2002.* The Los Angeles Community Development Bank (LACDB) had not fully complied with HUD regulations and Economic Development Initiative (EDI) Agreements. Accordingly, one of our recommendations was that HUD require the City of Los Angeles to require LACDB to restrict any future loans or investments involving the use of EDI grant funds only to businesses within or willing to relocate into the Empowerment Zone (EZ) target area. In January 2003, the Los Angeles Office of CPD agreed with our recommendations and provided documentation showing that the City had instructed LACDB not to approve any loans or investments involving EDI grant funds unless the businesses were within, or willing to relocate to, the EZ target area. Based on this action, the subject recommendation was closed. Subsequent to closing the recommendation, several events, such as the closure of LACDB, transpired. Therefore, in November 2003, OIG requested that CPD reopen the subject recommendation and provide a revised management decision to reflect these events and to ensure the protection of HUD's interests and the integrity of the EZ Program. In February 2004, CPD agreed to reopen the recommendation and provided a revised management decision. Pursuant to the revised management decision, CPD sent a letter to the City of Los Angeles requiring it to submit a strategic plan detailing its intended use for the remaining Section 108 loan guarantee funds for HUD's review and approval. As a result, HUD will be assured that the \$199 million in remaining Section 108 loan guarantee funds will be put to better use, and that the integrity of the EZ Program will not be undermined. We concurred with the revised management decision and closing action. (Report No. 2002-SF-1003)

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# Federal Financial Management Improvement Act of 1996 (FFMIA)

FFMIA requires that HUD implement a remediation plan that will bring financial systems into compliance with federal financial system requirements within three years or obtain Office of Management and Budget (OMB) concurrence if more time is needed. FFMIA requires us to report, in our Semianual Reports to the Congress, instances and reasons when an agency has not met the intermediate target dates established in their mediation plan required by FFMIA. In April 1998, HUD determined that 38 of its systems were not in substantial compliance with FFMIA. At the end of FY 2003, the Department continued to report that four of its 46 financial management systems were not in substantial compliance with FFMIA. Our audit of HUD's FY 2003 financial statements cites additional financial management system weaknesses, which address how HUD's financial management systems remain substantially noncompliant with federal financial management requirements. With the implementation of the FHA Subsidiary System, the Department became substantially compliant with the FFMIA Standard General Ledger provision and is moving in the direction of becoming FFMIA compliant with: (1) federal financial management systems requirements; and (2) federal accounting standards. The FHA Subsidiary General Ledger Project is a multi-phase project to be completed by December 2006.



# **Appendices**

# APPENDIX 1 - AUDIT REPORTS ISSUED

## Internal Reports

### Audit Reports

#### Administration

2004-DP-0001

Fiscal Year 2003 Review of Information Systems Controls in Support of the Financial Statements Audit, 12/01/2003.

#### Chief Financial Officer

2004-FO-0003

Audit of the U.S. Department of HUD's Financial Statements for Fiscal Years 2003 and 2002, 12/19/2003. Better Use: \$1,430,000,000.

#### Government National Mortgage Association

2004-FO-0002

Audit of the Government National Mortgage Association's Financial Statements for Fiscal Years 2003 and 2002, 12/19/2003.

#### Housing

2004-BO-0001

Review of the Home Equity Conversion Mortgage Program, New England Region, 02/10/2004. Better Use: \$221,570.

2004-DE-0001

Nationwide Review of Indemnification for Claims on Single Family Insured Loans, 12/15/2003. Better Use: \$60,200,000.

2004-DP-0002

Application Control Review of the Tenant Rental Assistance Certification System, 02/25/2004.

2004-FO-0001

Audit of the FHA's Financial Statements for Fiscal Years 2003 and 2002, 11/25/2003.

2004-PH-0001

Procedures for Filing Uniform Commercial Code Continuation Statements, 11/26/2003.

2004-PH-0002

Philadelphia Homeownership Center, Quality Controls Over Single Family Loan Insurance Process, Philadelphia, PA, 02/20/2004. Questioned: \$401,959; Better Use: \$144,944.

#### Lead Hazard Control

2004-AO-0001

Award and Administration of Lead-Based Paint Hazard Reduction Grants, 02/06/2004. Questioned: \$385,587; Unsupported: \$385,587; Better Use: \$27,401,989.

Public and  
Indian Housing

2004-AT-0001  
2004-BO-0006  
2004-PH-0003

Public Housing Agency Development Activities, 01/13/2004.  
Portability Features of the Section 8 Housing Choice Voucher Program, 01/15/2004. Questioned: \$8,997.  
HUD's Oversight of the Philadelphia, PA Housing Authority's Moving to Work Program, 03/17/2004. Better Use: \$50,160,000.

Housing

2004-AT-0801  
2004-KC-0801  
2004-KC-0802  
2004-KC-0803

Officer Next Door and Teacher Next Door Programs, 10/07/2003.  
Corrective Action Verification, Housing Subsidy Payments, Office of Housing, Audit Report No. 00-KC-103-0002, 12/22/2003.  
St. Louis Office of Multifamily Housing's Monitoring of its Construction Analyst Contracts, 03/02/2004.  
Owner's Salary, Timberlake Care Center, Section 232 Nursing Home Review, Kansas City, MO, 03/04/2004. Questioned: \$150,000;  
Unsupported: \$150,000.

**Audit Memoranda\***

**External Reports**

Community  
Planning and  
Development

2004-BO-1003  
2004-CH-1002  
2004-FW-1003  
2004-KC-1001  
2004-NY-1001  
2004-NY-1002

City of Springfield, MA, Selected Activities Funded through the CDBG, HOME and UDAG Programs, 11/07/2003. Questioned: \$842,719;  
Unsupported: \$27,905.  
Waukesha County, CDBG and HOME Investment Partnership Programs, Waukesha, WI, 11/26/2003. Questioned: \$573,160; Unsupported:  
\$463,734; Better Use: \$472,800.  
City of New Orleans, LA, Section 108 Loan Program, Jazzland Theme Park, 03/15/2004. Questioned: \$7,685,703; Unsupported: \$6,386,760;  
Better Use: \$52,000,000.  
East Meyer Community Association, Use of HUD Grant Funds, Kansas City, MO, 11/24/2003. Questioned: \$849,693, Unsupported: \$122,843.  
Empire State Development Corporation, CDBG Disaster Assistance Funds, New York, NY, 03/25/2004. Questioned: \$49,000.  
Lower Manhattan Development Corporation, CDBG Disaster Assistance Funds, New York, NY, 03/25/2004. Questioned: \$102,900; Unsupported:  
\$86,050.

**Audit Reports**

## Housing

2004-BO-1002	Family Living Adult Care Center, Biddeford and Saco, ME, 11/04/2003. Questioned: \$3,143,261; Unsupported: \$62,494.
2004-BO-1006	Nuestra Casa, Project Management Operations, Hartford, CT, 02/18/2004. Questioned: \$371,430; Unsupported: \$1,630.
2004-DE-1001	Last Star Homes, HUD Section 8 Project-Based Multifamily Housing, Browning, MT, 01/16/2004. Questioned: \$9,582; Unsupported: \$1,192; Better Use: \$2,874,826.
2004-DE-1002	Treehouse Mortgage, LLC, Non-Supervised Loan Correspondent, Denver, CO, 03/11/2004.
2004-FW-1002	Jester Trails Apartments, Multifamily Project, Houston, TX, 02/26/2004. Questioned: \$154,287; Unsupported: \$14,214; Better Use: \$2,133,843.
2004-KC-1002	Timberlake Care Center, Use of Project Funds, Kansas City, MO, 03/10/2004. Questioned: \$93,782; Unsupported: \$23,113.
2004-LA-1001	Keystone Mortgage and Investment Company, Non-Supervised Loan Correspondent, Phoenix, AZ, 03/24/2004. Better Use: \$4,307,344.
2004-PH-1003	The Congress of National Black Churches, Inc., Housing Counseling Program, Washington, DC, 02/19/2004. Questioned: \$944,646; Unsupported: \$423,584.
2004-PH-1004	Carbondale Nursing Home, Section 232 Project Operations, Carbondale, PA, 03/25/2004. Questioned: \$1,261,301; Unsupported: \$97,631.
2004-SE-1002	Scheller-Hess Yoder and Associates, Non-Supervised Loan Correspondent, Portland, OR, 01/09/2004. Questioned: \$266,619; Unsupported: \$184,232; Better Use: \$6,989,423.
2004-SE-1003	Uptown Towers Apartments, Portland, OR, 03/26/2004. Questioned: \$57,949; Unsupported: \$2,042; Better Use: \$2,880.

## Policy Development and Research

2004-AT-1002	Jackson State University, Historically Black Colleges and Universities Grant, Jackson, MS, 02/18/2004. Questioned: \$905,067; Unsupported: \$894,767; Better Use: \$898,235.
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## Public and Indian Housing

2004-AT-1001	Housing Authority of the City of Cuthbert, GA, Administration of Housing Development Activities, 01/15/2004. Questioned: \$327,326.
2004-AT-1003	Housing Authority of the City of Fort Lauderdale, FL, Administration of Housing Development Activities, 03/19/2004. Questioned: \$249,025; Unsupported: \$86,324.
2004-BO-1001	Housing Authority of the City of Hartford, CT, Disposition of Vacant Land at Charter Oak Terrace, 10/30/2003.
2004-BO-1004	Danbury, CT Housing Authority, Capital Fund Program, 12/05/2003. Questioned: \$1,964,509; Unsupported: \$60,000; Better Use: \$390,681.
2004-BO-1005	Springfield, MA Housing Authority, 12/10/2003. Questioned: \$33,646,616; Unsupported: \$31,479,834; Better Use: \$411,362.
2004-CH-1001	Kankakee, IL County Housing Authority, Section 8 Housing Program, 11/26/2003. Questioned: \$691,514; Unsupported: \$437,117; Better Use: \$2,232,180.
2004-FW-1001	City of Little Rock, AR Housing Authority, Procurement and Asset Control, 01/26/2004. Questioned: \$248,211; Unsupported: \$248,211.
2004-FW-1004	Housing Authority of the City of Corpus Christi, TX, Financial Management of HUD Programs, 03/26/2004. Questioned: \$4,052,302; Unsupported: \$3,020,430.
2004-LA-1002	Housing Authority of the City of Los Angeles CA, Management of Legal Matters, 03/30/2004. Questioned: \$166,667; Unsupported: \$47,227.

2004-PH-1001 Bucks County Housing Authority, Utilization of Tenant-Based Section 8 Funds, Doylestown, PA, 11/13/2003.  
2004-PH-1002 Allegheny County Housing Authority, Public Housing Drug Elimination Grant Program, Pittsburgh, PA, 01/16/2004. Questioned: \$1,377,586; Unsupported: \$761,950.  
2004-PH-1005 Petersburg, VA Redevelopment and Housing Authority, Non-federal Entities, 03/25/2004. Questioned: \$620,236; Better Use: \$1,320,733.  
2004-SE-1001 Complaint Regarding the Seattle, WA Housing Authority's Procurement for Section 8 Project-Based Vouchers, and Conduct Issues Regarding Conflict of Interest and Lobbying, 10/22/2003.

## Housing

## Audit Memoranda\*

2004-CH-1801 Carter Manor Apartments, Multifamily Equity Skimming, Cleveland, OH, 12/05/2003. Questioned: \$275,000.

## Public and Indian Housing

2004-AT-1801 Hialeah, FL Housing Authority, Administration of Housing Development Activities, 02/18/2004.  
2004-AT-1802 Saraland Manor Apartments, Gulfport, MS, 03/05/2004.  
2004-AT-1803 Jacksonville, FL Housing Authority, Administration of Housing Development Activities, 03/09/2004.  
2004-BO-1801 Boston, MA Housing Authority, Capital Fund Program, 12/16/2003.  
2004-FW-1801 Logansport, LA Housing Authority, Louisiana Legislative Auditor's Report, 01/30/2004. Questioned: \$120,440; Unsupported: \$120,440.  
2004-NY-1801 City of Oneida, NY Housing Authority, Citizen Complaints, 11/19/2003.  
2004-PH-1801 Philadelphia, PA Housing Authority, Executive Director's Sick Leave and Annual Leave Conversion, 01/07/2004.

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

# TABLE A

AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH  
NO MANAGEMENT DECISION AT 03/31/04

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE/ TARGET FOR MANAGEMENT DECISION
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Nothing to report.

# TABLE B

## SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WHERE FINAL ACTION HAD NOT BEEN COMPLETED AS OF 03/31/04

REPORT NUMBER	REPORT TITLE	ISSUE DATE	DECISION DATE	FINAL ACTION
1997-CH-1010	Major Mortgage Corporation, Section 203(k) Rehabilitation Home Mortgage Insurance Program, Livonia, MI	09/17/1997	01/06/1998	06/01/2005
1999-FO-0003	U.S. Department of HUD Fiscal Year 1998 Financial Statements	03/29/1999	09/30/1999	Note 1
1999-SF-1003	City of Lynwood, CA, CDBG & HOME Programs	08/19/1999	12/16/1999	05/31/2004
1999-DE-0001	Nationwide Review of HUD's Loss Mitigation Program	09/30/1999	03/31/2000	Note 2
2000-FO-0002	Federal Housing Administration, Audit of Fiscal Year 1999 Financial Statements	02/29/2000	08/09/2000	12/31/2005
2000-FO-0003	Attempt to Audit the Fiscal Year 1999 Financial Statements, U.S. Department of HUD	03/01/2000	09/29/2000	Note 2
2000-SF-0001	Single Family Production	03/30/2000	01/19/2001	Note 1
2000-KC-0002	Housing Subsidy Payments	09/29/2000	02/21/2001	09/30/2005
2000-SE-0003	Final Report of Nationwide Audit, Use and Disposition of Residual Receipts	09/29/2000	08/15/2001	Note 1
2001-AT-1001	Housing Authority of the City of Miami Beach, FL	10/20/2000	02/13/2001	Note 1
2001-SF-1802	Audit of HUD Earthquake Loan Program (HELP) Funds	02/08/2001	06/14/2001	Note 1
2001-FO-0002	Federal Housing Administration, Audit of Fiscal Year 2000 Financial Statements	03/01/2001	07/24/2001	12/21/2006
2001-FO-0003	Audit of HUD Fiscal Year 2000 Financial Statements	03/01/2001	07/18/2001	Note 2
2001-SF-1803	Supportive Housing Program Grant, Los Angeles, CA	03/23/2001	07/24/2001	Note 1
2001-FO-0004	Review of HUD's Internal Controls Over Fiscal Year 1999 Annual Performance Data	03/28/2001	07/24/2001	Note 2
2001-NY-1002	Belmax Management Corporation, Management Agent, Brooklyn, NY	04/17/2001	07/13/2001	Note 1

2001-SF-1804	Supportive Housing Program Grant, County of Orange, Santa Ana, CA	05/09/2001	09/26/2001	Note 1
2001-CH-1007	Detroit, MI Housing Commission, HOPE VI Program	05/16/2001	09/13/2001	06/30/2011
2001-PH-0803	Philadelphia, PA Homeownership Center, Single Family Disposition Activities	06/14/2001	06/14/2001	10/11/2004
2001-AT-0001	Nationwide Audit, Results on the Officer/Teacher Next Door Programs	06/29/2001	01/29/2002	07/30/2004
2001-FW-1005	Harmony House, Inc., Harrison, AR, Supportive Housing Program	08/27/2001	12/21/2001	Note 1
2001-AO-0003	Drug Elimination Funds Used For Creative Wellness Program	08/29/2001	01/22/2002	Note 2
2002-SF-0001	Nonprofit Participation, HUD Single Family Program	11/05/2001	08/30/2002	Note 2
2002-CH-1801	Housing Authority of the City of Evansville, IN	01/29/2002	05/18/2002	05/15/2005
2002-FO-0002	Federal Housing Administration, Audit of Fiscal Years 2001 and 2000 Financial Statements	02/22/2002	05/30/2002	12/31/2006
2002-NY-0001	Nationwide Audit, Asset Control Area Program, Single Family Housing	02/25/2002	06/17/2002	10/15/2004
2002-FO-0003	U.S. Department of HUD, Audit of Fiscal Years 2001 and 2000 Financial Statements	02/27/2002	08/16/2002	07/31/2004
2002-PH-1001	City of Williamsport, PA, CDBG and Home Investment Partnership Programs	03/19/2002	09/04/2002	Note 1
2002-BO-1001	City of Worcester, MA, CDBG Program	03/27/2002	08/29/2002	07/01/2005
2002-BO-1003	Newport, RI, Resident Council, Inc.	04/30/2002	09/16/2002	01/15/2008
2002-AT-1002	Housing Authority of the City of Tupelo, MS, Housing Programs Operations	07/03/2002	10/31/2002	04/30/2010
2002-AT-1003	National Scholarship Service and Veteran's Opportunity and Resource Center, Atlanta, GA, Supportive Housing Program	07/25/2002	10/21/2002	02/28/2005
2002-KC-0002	Nationwide Survey of HUD's Office of Housing, Section 232 Nursing Home Program	07/31/2002	11/22/2002	06/30/2004
2002-SF-0801	Home Investment Partnership Program, City of Stockton, CA, and San Joaquin County, CA	07/31/2002	12/06/2002	Note 2
2002-FW-1002	Houma, LA Housing Authority, Low-Rent Housing Program, Cash and Procurement Controls	09/18/2002	01/16/2003	08/01/2004
2002-AT-1808	Homeless and Housing Coalition of Kentucky, Inc., Frankfort, KY, Outreach and Training Assistance Grant	09/20/2002	03/31/2003	Note 2

2002-NY-1004	Ironbound Community Corporation, Newark, NJ, Outreach and Training Assistance Grant and Public Entity Grants	09/23/2002	03/31/2003	Note 2
2002-NY-1005	The Legal Aid Society, New York, NY, Outreach and Training Assistance Grant and Public Entity Grant	09/23/2002	03/31/2003	Note 2
2002-DE-1005	Crossroads Urban Center, Salt Lake City, UT, Outreach and Training Assistance Grants	09/25/2002	03/31/2003	Note 2
2002-SF-1003	Community Development Bank, Los Angeles, CA, Economic Development Initiative Grant/Section 108 Loan Guarantee Program	09/25/2002	01/27/2003	Note 2
2002-AT-1005	North Carolina Low-Income Housing Coalition, Inc., Raleigh, NC, Outreach and Training Assistance Grant and Intermediary Training Assistance Grant	09/27/2002	03/31/2003	Note 2
2002-AT-1006	Ridgeview Manor Apartments, Hopkins, SC	09/30/2002	11/19/2002	09/30/2004
2002-BO-1004	Anti-Displacement Project, Springfield, MA, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-DE-1002	Affordable Housing and Homeless Alliance, Honolulu, HI, Outreach and Training Assistance Grant and Intermediary Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-FW-1003	New Mexico Public Interest Education Fund, Albuquerque NM, Outreach and Training Assistance Grant and Public Entity Grant	09/30/2002	03/31/2003	Note 2
2002-PH-1002	Virginia Poverty Law Center, Richmond, VA, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-PH-1003	Delaware Housing Coalition, Dover, DE, Outreach and Training Assistance Grant and Intermediary Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-PH-1004	Tenants' Action Group of Philadelphia, PA, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-PH-1006	Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-PH-1007	Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-SF-1004	Low-Income Housing Fund, Oakland, CA, Intermediary Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-SF-1006	Legal Aid Society of Honolulu, HI, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2002-SF-1007	Southern Arizona People's Law Center, Tucson, AZ, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	Note 2
2003-DE-1002	Delta, CO Housing Authority, Low-Rent Housing and Section 8 Housing Assistance Payments Programs	10/07/2002	01/29/2003	12/31/2004

2003-DE-1001	Sicangu Wicoti Awanyakepe Corporation, Rosebud, SD, Indian Housing Block Grant Program	10/08/2002	02/28/2003	07/31/2005
2003-AT-1801	South Carolina Regional Housing Authority No. 3, Barnwell, SC	10/09/2002	02/06/2003	09/30/2004
2003-CH-1003	Tenants United for Housing, Inc., Chicago, IL, Outreach and Training Assistance Grants	10/29/2002	03/31/2003	Note 2
2003-DP-0801	Annual Evaluation of HUD's Information Security Program	10/30/2002	01/21/2003	Note 2
2003-SE-1001	Community Alliance of Tenants, Portland, OR, Outreach and Training Assistance Grant	10/31/2002	03/31/2003	Note 2
2003-KC-1801	University Forest Nursing Care Center, University City, MO	11/14/2002	02/24/2003	Note 2
2003-SE-1002	Tenants Union, Seattle, WA, Outreach and Training Assistance Grant and Intermediary Training Assistance Grant	12/02/2002	03/31/2003	Note 2
2003-AO-1001	National Center of Tenants Ownership, Washington, DC, Intermediary Training Assistance Grant	12/03/2002	03/31/2003	Note 2
2003-CH-1007	City of Minneapolis, MN, Empowerment Zone Program	01/03/2003	08/08/2003	06/08/2004
2003-AT-1001	Northwestern Regional Housing Authority, Boone, NC, Public Housing Programs	01/09/2003	06/02/2003	01/09/2005
2003-FO-0002	Federal Housing Administration, Audit of Fiscal Years 2002 and 2001 Financial Statements	01/21/2003	05/22/2003	Note 1
2003-CH-1008	City of Cleveland Heights, OH, Housing Preservation Program	01/23/2003	06/10/2003	05/15/2004
2003-PH-1002	Philadelphia, PA Housing Authority, Contracting and Purchasing Activity	01/27/2003	06/11/2003	04/30/2004
2003-CH-1009	City of Cincinnati, OH, Empowerment Zone Program	01/28/2003	08/08/2003	05/03/2004
2003-FO-0004	Audit of HUD's Financial Statements, Fiscal Years 2002 and 2001	01/31/2003	05/22/2003	02/28/2005
2003-NY-1001	Marion Scott Real Estate, Inc., Management Agent, New York, NY	02/12/2003	06/13/2003	06/04/2004
2003-FW-1001	Housing Authority of the City of Morgan City, LA, Low-Rent Program	02/21/2003	06/20/2003	08/17/2004
2003-BO-1001	Farmington Health Care Center, Farmington, CT	03/07/2003	07/15/2003	07/15/2004
2003-KC-1005	Choice Enterprises, Inc., Denver, CO	03/10/2003	08/15/2003	08/13/2004
2003-BO-1002	People to End Homelessness, Providence, RI, Outreach and Training Assistance Grant	03/12/2003	03/31/2003	Note 2

2003-KC-0801	Inappropriate Homeownership Center Instructions, Denver, CO	03/18/2003	08/08/2003	05/18/2004
2003-AT-1002	Procurement of Management Agents, Puerto Rico Public Housing Administration, San Juan, PR	03/21/2003	07/17/2003	09/30/2004
2003-CH-1010	Coshocton, OH Metropolitan Housing Authority, Section 8 Housing Program	03/21/2003	05/30/2003	06/30/2011
2003-AT-1003	Fairfield, AL Housing Authority, Housing Programs	03/24/2003	07/22/2003	07/01/2004
2003-KC-1803	Richmond Terrace Retirement Center, Richmond Heights, MO	03/24/2003	06/19/2003	04/30/2004
2003-NY-1003	Empire State Development Corporation, New York, NY, CDBG Disaster Assistance Funds	03/25/2003	07/16/2003	01/15/2005
2003-CH-1014	Coshocton, OH Metropolitan Housing Authority, Public Housing Program	03/28/2003	07/28/2003	04/30/2047
2003-DE-0001	HUD Office of Multifamily Housing Assistance Restructuring's Oversight of the Section 514 Program Activities	03/31/2003	03/31/2003	Note 2
2003-CH-1016	City of Cleveland, OH, Empowerment Zone Program	04/25/2003	09/11/2003	Note 2
2003-FW-1004	Spanish Village Community Development Corporation, Houston, TX, Citizen Complaint, Upfront Grant & HOME Loan	04/28/2003	08/18/2003	02/18/2005
2003-CH-0001	HUD's Oversight of the Empowerment Zone Program	05/07/2003	09/11/2003	09/30/2005
2003-BO-1003	City of Bridgeport, CT, Home Investment Partnership Program	05/16/2003	09/16/2003	09/16/2004
2003-FW-1804	Congressional Request, Housing Authority of the City of San Angelo, TX	05/23/2003	09/05/2003	08/02/2004
2003-SE-1003	Seattle, WA Housing Authority's Administration of the Welfare-to-Work Section 8 Tenant-Based Assistance Program	05/29/2003	09/26/2003	06/30/2004
2003-AT-1004	Historic Westside Village, Section 108 Loan and Economic Development Initiative Grant, Atlanta, GA	06/06/2003	09/26/2003	03/31/2006
2003-CH-1017	Housing Continuum, Inc., Homebuyers Assistance Program, Geneva, IL	06/13/2003	10/10/2003	07/31/2004
2003-KC-0001	Survey of HUD's Administration of Section 3 of the HUD Act of 1968	06/24/2003	07/10/2003	12/31/2004
2003-KC-1006	Horizon Consulting, Inc., Lansdowne, VA	06/24/2003	10/20/2003	05/31/2004
2003-FW-1806	Colonial Oaks Apartments, Houston, TX	07/03/2003	07/03/2003	10/01/2004

2003-BO-1004	Brockton, MA Housing Authority, Review of the Portability Features of the Section 8 Housing Choice Voucher Program	07/17/2003	10/16/2003	09/15/2004
2003-CH-1018	Chicago, IL Housing Authority, Outsourced Property Management Contracts Review	07/18/2003	01/14/2004	12/31/2005
2003-NY-1802	Safe Space, Inc., Housing Opportunities for Persons With AIDS and Supportive Housing Programs, New York, NY	07/24/2003	11/21/2003	05/21/2004
2003-CH-1019	Fayette County Housing Authority, Section 8 Housing Program, Connersville, IN	07/25/2003	11/19/2003	07/23/2004
2003-AT-1006	Puerto Rico Department of Housing, State Home Investment Partnership Program, San Juan, PR	07/30/2003	12/24/2003	06/30/2004
2003-KC-1007	Management Solutions of America, Inc., Atlanta, GA	07/31/2003	10/20/2003	05/31/2004
2003-AO-0004	Review of the Department of HUD's Staffing 9/30 Initiative	08/14/2003	11/03/2003	09/30/2004
2003-DE-1006	Colorado Coalition for the Homeless, Supportive Housing Program Grants, Denver, CO	08/26/2003	12/31/2003	04/15/2004
2003-DP-0001	Public and Indian Housing Information Center (PIC) System	09/10/2003	01/08/2004	10/29/2004
2003-FW-1005	Housing Authority of the Seminole Nation of Oklahoma, Procurement of Housing Rehabilitation Services, Land, and Mobile Homes, Wewoka, OK	09/10/2003	01/08/2004	12/29/2004
2003-DE-1005	MortgageStream Financial Services, LLC, Non-Supervised Direct Endorsement Lender, Greenwood Village, CO	09/15/2003	01/14/2004	04/30/2004
2003-NY-1005	Empire State Development Corporation, CDBG Disaster Assistance Funds, New York, NY	09/30/2003	01/28/2004	03/31/2007
2003-NY-1006	Lower Manhattan Development Corporation, CDBG Disaster Assistance Funds, New York, NY	09/30/2003	01/28/2004	04/30/2004

AUDITS EXCLUDED:

24 audits under repayment plans.  
21 audits under 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 AT 03/31/04  
(DOLLARS IN THOUSANDS)

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	21	30,490	23,070
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	6	13,149	4,799
A3 For which additional costs were added to reports in beginning inventory		5,115	0
A4 For which costs were added to non-cost reports	0	0	0
B1 Which were issued during the reporting period	32	61,997	45,589
B2 Which were reopened during the reporting period	0	0	0
Subtotals (A + B)	59	110,751	73,458
C For which a management decision was made during the reporting period	27 <sup>1</sup>	39,797	23,730
(1) Dollar value of disallowed costs:			
Due HUD	15 <sup>2</sup>	14,801	1,179
Due Program Participants	15	22,690	20,487
(2) Dollar value of costs not disallowed	4 <sup>3</sup>	2,306	2,064
D For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	6	14,046	4,883
E For which no management decision had been made by the end of the reporting period	26 < 77 > <sup>4</sup>	56,908 < 23,329 > <sup>4</sup>	44,845 < 13,337 > <sup>4</sup>

<sup>1</sup> 9 audit reports also contain recommendations with funds to be put to better use.

<sup>2</sup> 3 audit reports also contain recommendations with funds due program participants.

<sup>3</sup> 4 audit reports also contain recommendations with funds agreed to by management.

<sup>4</sup> 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 AT 03/31/04**  
**(DOLLARS IN THOUSANDS)**

<b>Reports</b>		<b>Number of Audit Reports</b>	<b>Dollar Value</b>
A1	For which no management decision had been made by the commencement of the reporting period	9	23,952
A2	For which litigation, legislation or investigation was pending at the commencement of the reporting period	3	520,302
A3	For which additional costs were added to reports in beginning inventory		203,405
A4	For which costs were added to non-cost reports	2	20,120
B1	Which were issued during the reporting period	18	1,642,163
B2	Which were reopened during the reporting period	0	0
Subtotals (A + B)		32	2,409,942
C	For which a management decision was made during the reporting period	14 <sup>1</sup>	766,584
	(1) Dollar value of recommendations that were agreed to by management:		
	Due HUD	9 <sup>2</sup>	539,567
	Due Program Participants	7	226,598
	(2) Dollar value of recommendations that were not agreed to by management	1 <sup>3</sup>	419
D	For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	2	6,302
E	For which no management decision had been made by the end of the reporting period	16 < 24 > <sup>4</sup>	1,637,056 < 752,432 > <sup>4</sup>

<sup>1</sup> 9 audit reports also contain recommendations with questioned costs.

<sup>2</sup> 2 audit reports also contain recommendations with funds due program participants.

<sup>3</sup> 1 audit report also contains recommendations with funds agreed to by management.

<sup>4</sup> 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 take recognition of their efforts.

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

## HUD OIG Operations Telephone Listing

### Office of Audit

Headquarters Office of Audit, Washington, DC	202-708-0364
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Hartford, CT	860-240-4800
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Newark, NJ	973-622-7900
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Baltimore, MD	410-962-2520
Pittsburgh, PA	412-644-6372
Richmond, VA	804-771-2100
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Birmingham, AL	205-731-2630
Miami, FL	305-536-5387
Greensboro, NC	336-547-4001
Jacksonville, FL	904-232-1777
Knoxville, TN	865-545-4400
San Juan, PR	787-766-5540
Region V, Chicago, IL	312-353-6236
Columbus, OH	614-469-5737
Detroit, MI	313-226-6280
Region VI, Fort Worth, TX	817-978-9309
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Oklahoma City, OK	405-609-8606
San Antonio, TX	210-475-6895
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St. Louis, MO	314-539-6339
Region VIII, Denver, CO	303-672-5452
Region IX, Los Angeles, CA	213-894-8000
Phoenix, AZ	602-379-7250
San Francisco, CA	415-436-8101
Region X, Seattle, WA	206-220-5360

## HUD OIG Operations Telephone Listing

### Office of Investigation

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Newark, NJ	973-622-7900
Region III, Philadelphia, PA	215-656-3410
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Pittsburgh, PA	412-644-6598
Richmond, VA	804-771-2100
Washington, DC	202-501-0486
Region IV, Atlanta, GA	404-331-5001
Miami, FL	305-536-3087
Greensboro, NC	336-547-4000
Jacksonville, FL	904-232-1777
Memphis, TN	901-544-0644
Nashville, TN	615-736-1013
San Juan, PR	787-766-5872
Tampa, FL	813-228-2026
Region V, Chicago, IL	312-353-4196
Cleveland, OH	216-522-4421
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Salt Lake City, UT	801-524-6090
Region IX, Los Angeles, CA	213-894-0219
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Sacramento, CA	916-498-5220
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Inspector General Hotline (GFI)  
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Washington, DC 20024

**Emailing** the OIG Hotline: [hotline@hudoig.gov](mailto:hotline@hudoig.gov)

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**All information is confidential and  
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**Semiannual Report to Congress**  
*as of March 31, 2004*

*www.hud.gov/offices/oig*

*U.S. Department of Housing and  
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