



*Office of Inspector General
Semiannual Report to Congress*

October 1, 2002 through March 31, 2003

OIG MISSION STATEMENT AND VALUES

The OIG's mission is independent and objective reporting to the Secretary and the Congress for the purpose of bringing about positive changes in the integrity, efficiency, and effectiveness of HUD operations.

OIG values are as follows:

- ☞ Relationships among OIG components and staff are characterized by teamwork and respect.
- ☞ Diversity is valued and promoted in the workforce.
- ☞ Excellence in the workforce is fostered through continuing concern for professionalism and career development.
- ☞ As a general rule, emphasis is placed on “*doing*” rather than reviewing, by delegating operational authority, responsibility, and accountability to the lowest appropriate level.
- ☞ Identifying and meeting client needs in a timely fashion are a primary concern. Clients are defined as the Secretary, the Congress, HUD managers and employees, and the public.
- ☞ OIG operations are focused on substance rather than process and rely on innovative as well as traditional methods to address issues of significance having potential payback in terms of improved integrity, effectiveness, and efficiency.

If you would like additional information or copies of the Report, please call (202) 708-0614, x 8195.
The Report is also available on our internet site at www.hud.gov/offices/oig

INSPECTOR GENERAL'S MESSAGE

I have just completed my first year as the HUD Inspector General. During this time, I have set a new course based on innovation of ideas, collaboration with program managers, and a challenge to our staff to excel. This Semianual Report describes the results that we are beginning to see from this new direction. I am proud of the efforts of the OIG staff in fulfilling the mandates of the Inspector General Act of 1978.

To start this report, we discuss the most serious challenges facing the Department. HUD is working diligently to address many of these challenges and is making measurable progress. Of note are organizational changes such as the placement of the Departmental Enforcement Center under the direction of the General Counsel and the Real Estate Assessment Center under the Assistant Secretary for Public and Indian Housing. Also of note is a Human Capital Strategic Plan recently issued by the Department's Executive Steering Committee that is a strong step towards better management of its staffing resources. Several other changes are also reported in Chapter 1 of this Report that we see as positive steps towards improved service to HUD's customers. We will continue to carefully monitor the Department's initiatives in this area and report on both progress and shortcomings.

Our audits and investigations continue to reveal fraud and abuse in HUD's Single Family Mortgage Insurance Programs. Abuse in these programs receives significant media attention because of the tremendous economic impact it has on the lives of citizens who are its victims, as well as the devastation it has on the housing markets in many communities. Congress has requested that we allot additional resources for oversight of these programs, which are plagued by various schemes such as "property flipping" and "predatory lending." Our Report highlights numerous investigations around the nation of these types of abuses. We continue to work closely with Departmental managers to eliminate these fraud schemes that are ruining family dreams of home ownership. OIG is committed to working with the Department to identify problems and find systemic solutions to these fraudulent practices. In this regard, we give special recognition to HUD's Office of General Counsel and the HUD Quality Assurance Division in the Home Ownership Centers for their cooperation in Single Family Program investigations.

OIG efforts in Public and Indian Housing Programs center on fraudulent payments of rental subsidies. Studies have estimated about \$2 billion are overpaid for these tenant subsidies because of fraud and error; this problem is also cited in the President's Management Agenda. We are aggressively investigating these crimes, and continue to partner with the Department to find ways to prevent this type of fraud.

We continue to receive and respond to many requests from various Members of Congress. Congress mandates much of our work through legislation or through requests from individual Members or from Committees. Significant results that we have to report for this period include:

- Work completed on Section 514 activities by HUD's Office of Multifamily Housing Assistance Restructuring (OMHAR). Our audit of OMHAR found management weaknesses; subsequent audits of 40 grantees found ineligible and unsupported expenses.

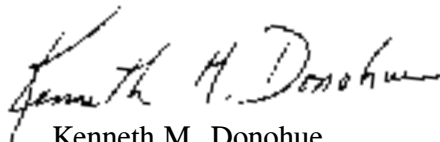


- The first of a series of reviews planned on the use of Disaster Assistance Funds provided to the State of New York following the terrorist attacks on the World Trade Center. Our initial report focuses on \$1.1 million of net overpayments, and \$7.76 million of payments made to grant recipients that did not have federal tax information on their applications that matched Internal Revenue Service records.
- The mandated Financial Statement Audits for HUD, the Federal Housing Administration, and the Government National Mortgage Association. Of note here is that the audits identified \$1.1 billion that could be deobligated and put to better use.

I have made outreach efforts to HUD staff as well as HUD constituent groups, such as the Mortgage Bankers Association and public housing professional associations, a key initiative for our office. We are communicating that OIG can be a useful tool to help accomplish the goals Secretary Martinez has set out. My staff and I are getting the word out through speaking engagements and related training efforts that, although we are independent, we are not precluded from being a partner and coach in improving HUD management and operations.

During my short time at HUD, I have come to appreciate the men and women of the OIG who are consummate professionals. My thanks to them for their belief in, and support for, the mission of the Department.

I pledge to work with Secretary Martinez in an effort to achieve HUD's goals while remaining steadfast in my dedication to rooting out fraud and abuse in HUD wherever it is found.

A handwritten signature in black ink that reads "Kenneth M. Donohue". The signature is written in a cursive style with a large, stylized initial 'K'.

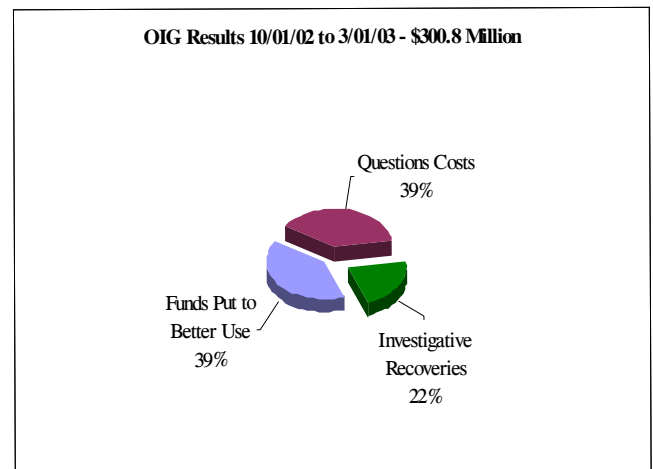
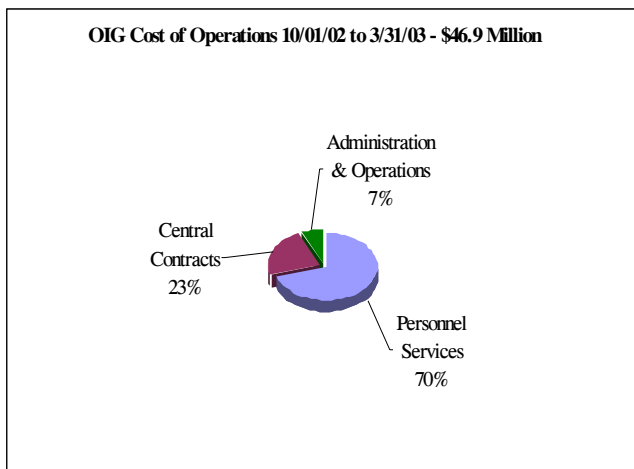
Kenneth M. Donohue
Inspector General

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.



OIG Return on Investment: $\$300.8/\$46.9 = 6.4$ to 1 return

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:

<i>Source/Requirement</i>	<i>Pages</i>
Section 4(a)(2)-review of existing and proposed legislation and regulations.	69-72
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	1-64, 73-75
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	7-64
Section 5(a)(3)-identification of each significant recommendation described in previous Semiannual 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.	7-64
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.	7-64
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 C
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	No instances
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.	75

Chapter 1 – HUD’s Management and Performance Challenges

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 is more than one half trillion dollars. Ginnie Mae, through its mortgage-backed securities program, gives lenders access to capital markets.

While HUD is a relatively small agency in terms of staff, about 9,300 nationwide, it relies on the performance and integrity of many outside entities to administer a large number of diverse programs. Among HUD’s administrators are hundreds of cities that manage HUD’s Community Development Block Grant funds, hundreds of Public Housing Authorities that manage assisted housing funds, thousands of HUD approved lenders that originate and service FHA insured loans, and hundreds of Ginnie Mae mortgage-backed securities issuers.

With hundreds of separate programs, achieving HUD’s mission is an ambitious challenge for its limited staff. HUD management problems associated with program operations have kept two major HUD programs on GAO’s list of 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 addressing HUD’s high risks in the Rental Housing Assistance Programs and Single Family Housing Mortgage Insurance Programs. The inclusion of HUD’s reported management challenges and high-risk areas as part of the President’s Management Agenda is indicative of HUD’s important role in the federal sector. The Federal Government places a high priority on correcting those weaknesses to remove HUD programs from GAO’s high-risk list.

Each year, in accordance with the Reports Consolidation Act of 2000, the OIG is required to submit a statement to the Secretary with a summary assessment of the most serious challenges facing the Department. We submitted our last assessment on December 23, 2002. These reported challenges are the continued focus of our audit and investigative efforts. HUD is working to address these challenges and in some instances has made progress in correcting them. The Deputy Secretary’s monthly 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 and 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 nearly 10 years, the Department has struggled with organizational and management changes in an effort to streamline its operations. These changes were inevitable as HUD struggled to manage more programs and larger budgets with fewer staff. The past Administration made an effort 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. While these organizational changes had good intentions, 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. For example, they found organizational and staffing realignments, such as the Community Builder function, an ineffective use of HUD's human capital. As a result, last year, decisions were made and actions were taken to pursue separate realignments of Headquarters and Field activities to better utilize resources. Changes included:

- The Departmental Enforcement Center (DEC) was placed under the direction of the General Counsel to consolidate legal resources in support of a potentially stronger program enforcement effort. HUD's program enforcement efforts were previously under the Office of General Counsel prior to the creation of a separate DEC.
- The Real Estate Assessment Center (REAC) was placed under the direction of the Assistant Secretary for Public and Indian Housing in order to improve REAC's working relationships with program staff and program partners and strengthen accountability for resource use and results.
- The Office of the Chief Procurement Officer and Office of the Chief Information Officer were placed 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.
- The Office of Field Policy and Management was established 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.
- Substantial numbers of staff in the outreach function were redeployed to understaffed

program delivery and oversight functions, where there was a critical need.

- New regional management positions were created 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. We see these as positive steps in bringing operational activities and authority closer to the customers HUD serves. We continue to see this as a management challenge as Departmental realignments become fully functional.

Financial Management Systems

HUD needs to complete the development of its financial management systems. The lack of an integrated financial system in compliance with federal financial system requirements has been reported in our financial audits as a material weakness in internal controls since FY 1991. Some progress is being made. For example, HUD has made financial management systems improvement a top priority. It has established an Executive Advisory Committee consisting of principals from key offices to direct a HUD Integrated Financial Management Improvement Project. HUD has hired an Assistant Chief Financial Officer for Systems and has reorganized the Systems Office to ensure additional emphasis and attention to the project. However, a number of long-standing deficiencies remain. HUD's most significant financial management system deficiencies exist in FHA, where FHA needs to convert its commercial accounting system to a system that fully supports the federal basis of accounting and budgeting.

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 2002 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 funds controls over public housing operating funds and processes for reviewing outstanding obligations to ensure that unneeded amounts are deobligated in a timely manner. Major deficiencies include:

- The Office of Public and Indian Housing not having an operational information system for monitoring operating subsidy eligibility requirements and obligations during six months in FY 2002; and
- A lack of integration between accounting systems and the need for accurate databases which has hampered HUD's ability to evaluate unexpended obligations.

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 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 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. The next step in development of the Department's resource management strategy is the implementation of the Total Estimation and Allocation Mechanism (TEAM). TEAM is the validation component of REAP and will collect actual workload accomplishments and staff usage data for comparison against the REAP baseline. TEAM implementation began in the spring of 2002. Our audit of the TEAM process found the Department has made significant progress in developing and implementing the key components of its resource management system. The Department is using the results from its TEAM/REAP process to make better informed hiring decisions.

Congressional staff have expressed concern over HUD's hiring practices. While the Department was several hundred staff over its 9,100 FTE staff ceiling, there were no requests for additional FTES. In the Conference Report for HUD's FY 2003 Appropriation, the OIG has been tasked to report to the Conference Committee by August 2003. The report stated, "The Office of Inspector General is also requested to review the Department's hiring decisions to determine whether these decisions have been consistent with the Department's staffing needs, program requirements, and applicable personnel practices."

A HUD Executive Steering Committee has developed a Human Capital Strategic Plan. The Plan includes:

- To become a mission focused agency with work aligned to promote adequate and affordable housing, economic opportunity, and a suitable living environment free from discrimination;
 - To maintain a high quality workforce through recruitment, staff development, and management improvements; and
 - To implement effective succession planning assuring qualified staff backfill for increasing numbers of HUD retirements in the next five years.
-

FHA Single Family Origination and Real Estate Owned (REO) Oversight

Procedures and practices pertaining to HUD's Single Family Loan Origination Program have undergone considerable change, particularly in the last five years. The changes have been both programmatic and organizational, including significant changes in loan underwriting requirements and the transfer of virtually all aspects of single family production and program monitoring from HUD staff to lenders and contractors under the oversight of HUD's Home Ownership Centers.

Consistent with the GAO's identification of Single Family Mortgage Insurance Programs as a high-risk area, the President's Management Agenda has committed HUD to tackling long-standing management problems that expose FHA homebuyers to fraudulent practices. HUD is taking steps to protect homebuyers from a fraudulent practice known as property flipping, changes are underway to strengthen the property appraisal process, and other actions are being proposed to better disclose FHA closing costs. Our investigative efforts during this reporting period continued to uncover widespread instances of schemes in which properties were purchased at undervalued prices, minimal repairs were made, and the properties were resold, sometimes the next day, at inflated values. Numerous cases of fraudulent loan origination were also found in which non-qualified buyers were recruited to purchase properties with FHA insured mortgages, false loan packages were submitted to FHA, and the buyers ultimately defaulted on the mortgages, resulting in millions of dollars in losses to HUD.

The FHA financial audit reported on the need to place more emphasis on monitoring lender underwriting and continuing to improve on early warning and loss prevention for single family. Recommendations were made to increase targeting of high-risk lenders to include the addition of 30- and 60-day delinquencies to the Default Monitoring System. A series of other recommendations were made to target lenders that would benefit from early intervention. FHA needs to increase its use and analysis of other data now available to continue improvements in lender monitoring. Timely identification of lenders with above average early default rates is a

key element of FHA's efforts to target monitoring and enforcement resources to single family insured mortgages and lenders that represent the greatest financial risks to FHA. Potential problem lenders must be identified before FHA can institute loss mitigation techniques and lender enforcement measures that can reduce eventual claims.

During this reporting period, we completed several reviews of lenders that were not prescribing to HUD's criteria in submitting loans for HUD endorsement. Lenders that are late in submitting endorsements must provide evidence to HUD that all loan payments are current. We identified problems with both lenders that did not provide the prescribed paperwork and HUD contractors that were not diligent in questioning lenders with late submissions. We intend to look more closely at late endorsements in the coming months. This year we are also committed to reviewing various risk factors for lenders and targeting high risk lenders for audits.

The Department is taking several steps to improve FHA risk management. An accurate appraisal is critical in protecting FHA's insurance risk. A proposed rule, published in January 2003, would amend HUD regulations to make a lender and appraiser bear equal responsibility for the quality of the appraisal in meeting HUD guidelines. HUD believes this rule would protect the FHA insurance fund, ensure better compliance with appraisal standards, and ensure homebuyers receive an accurate statement of appraised value. The Department believes these controls will help deter the flipping of properties.

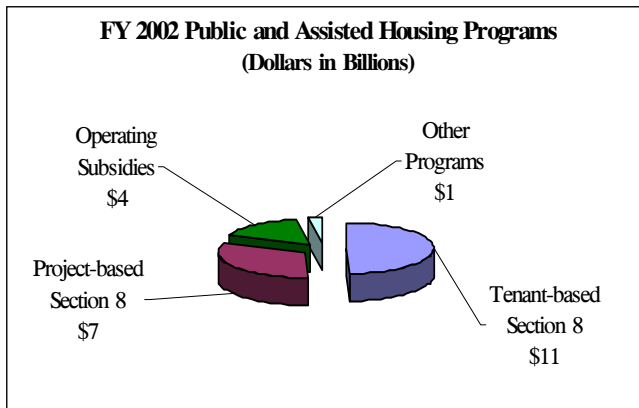
Public and Assisted Housing Program Administration

HUD provides housing assistance funds under various grant and subsidy programs to multifamily project owners (both nonprofits and for-profits) and housing authorities. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. HUD spent about \$23 billion (consisting of Section 8, Operating Subsidies, Housing for the Elderly and Disabled, and Rent Supplement Programs) in FY 2002 to provide rent and operating subsidies that benefited over four

million households. In 2000, a HUD study found that 60 percent of all rent and subsidy calculations performed by administrative intermediaries contained some type of error. Weaknesses exist in HUD's control structure such that HUD cannot be assured that these funds are expended in accordance with the laws and regulations authorizing the grant and subsidy programs.

upcoming months will be concentrated on fraudulent practices in the Section 8 Program.

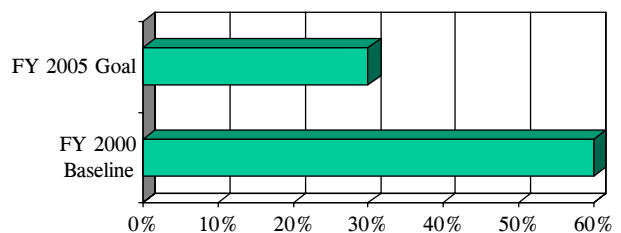
In conjunction with OMB, HUD has established a goal for a 50 percent reduction in both the frequency of calculation processing errors and the amount of subsidy overpayments by 2005. The Rental Housing Improvement Project is a Secretarial initiative designed to reduce errors and improper payments by: (1) simplifying the payment process; (2) enhancing administrative capacity; and (3) establishing better controls, incentives, and sanctions. These improvements are expected to be implemented through a series of actions over the next two years.



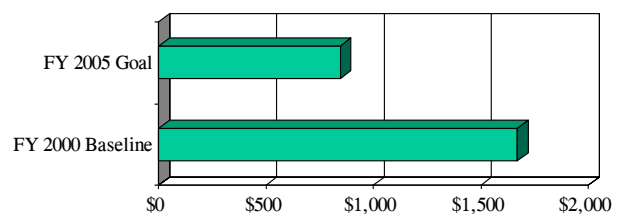
The Office of Public and Indian Housing (PIH) provides funding for rent subsidies through its public housing operating subsidies and tenant-based Section 8 Rental Assistance Programs. These programs are administered by housing authorities who are to provide housing to low-income families or make assistance payments to private owners who lease their rental units to assisted families. The Office of Housing administers a variety of Assisted Housing Programs, including parts of the Section 8 Program and the Section 202/811 Programs. These subsidies are called "project-based" subsidies because they are tied to particular properties; therefore, tenants who move from such properties may lose their rental assistance. This is a significant responsibility because of the sizable number of project owners HUD must monitor.

For many years, we have reported on material weaknesses with the monitoring of housing authorities and multifamily projects. These monitoring weaknesses seriously impact HUD's ability to ensure that its intermediaries are correctly calculating housing subsidies. This material weakness was first reported in our financial audit in 1991 and it has been reported in every audit thereafter. The Secretary has made the reduction of subsidy overpayments a top priority of his Administration. Additionally, our investigative and audit focus in the

Goal to Reduce Frequency of Calculation Processing Errors



Goal to Reduce Amount of Subsidy Overpayments - Amounts Shown in Millions



HUD continues to implement its performance oriented, risk-based strategy for carrying out its housing authority oversight responsibilities. As noted in previous financial audits, further improvements need to be made in the Field Offices' monitoring of their housing authorities in key areas. As in previous years, we could not fully assess HUD's measures aimed at improving oversight of housing authorities since the Department's plans to monitor and improve performance are not yet fully developed and continue to experience delays. Finally, HUD has been slow to implement additional strate-

gies needed to improve quality control over rental assistance subsidy determinations.


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.

Housing staff or their Contract Administrators (CAs) are to perform management reviews to monitor tenant eligibility and ensure accurate rents are charged at multifamily projects. The primary tool is to conduct on-site reviews that assess the owners' 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 of 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.
- Development of an integrated risk reporting system.

We support these efforts.



Chapter 2 – HUD’s Single Family Housing Programs

Audits

Single Family Housing Programs are meant to provide mortgage insurance that enables individuals to finance the purchase, rehabilitation, and/or construction of a home. During this reporting period, we conducted reviews of the activities of various non-supervised direct endorsement lenders, the Denver Home Ownership Center, and a Denver Home Ownership Center contractor.

We completed an audit of *Cendant Mortgage Corporation*, a mortgage lender in **Mount Laurel, NJ**, approved to originate FHA insured loans. Cendant was selected for review because of the high default rate experienced in St. Louis, MO, and Kansas City, KS. Cendant was submitting FHA loans for mortgage insurance untimely. Our audit objective was to determine how many of Cendant’s late requests for endorsement violated HUD’s requirements.

We performed a review of all FHA loans submitted for endorsement by Cendant over a two-year period to ensure that all late endorsement requests included appropriate payment histories to show loans were current. It was concluded that Cendant improperly submitted over 1,300 loans totaling about \$111 million for late endorsement during the two-year period. In addition, a review of 80 FHA defaulted loans totaling about \$5.3 million originated by Cendant under HUD’s Section 203(b) or 234(c) Programs disclosed that Cendant did not originate 73 of the 80 loans in accordance with HUD requirements.

Cendant provided comments in response to the audit that indicated it has planned and initiated corrective actions. If Cendant follows through on these actions, it will prevent recurrence of the problems identified in this report.

We recommended that Cendant indemnify HUD for over \$100 million in loans that were improperly submitted for endorsement. Cendant agreed to indemnify HUD on loans totaling about \$88 million. (Report No. 2003-KC-1001)

Cendant Mortgage Agrees to Indemnify HUD on FHA Losses

MOUNT LAUREL, NJ—Cendant Mortgage Corp. has agreed to indemnify the Department of Housing and Urban Development for actual and future losses on approximately 1,000 Federal Housing Administration loans that were improperly endorsed for federal mortgage insurance.

Cendant’s action stems from a HUD Inspector General audit that found the FHA lender routinely submitted loans more than 60 days late for endorsement between October 1999 and September 2001, and over 1,200 of those loans were delinquent.

Cendant attributed the problems to “unprecedented” loan volume and the Mount Laurel, N.J.-based lender said the problems have been corrected.

Cendant Mortgage president and chief executive Terry Edwards told *NMN*, “We reached an agreement with HUD on what we

needed to do.” A HUD spokesman declined to comment on the company’s statements.

Mr. Edwards indicated that his company would not be subject to any penalties or lose its status as an FHA direct endorsement lender.

He described the matter as a “non-event” and the amount of the indemnification as “immaterial.”

Back in September, Cendant told HUD’s Office of Inspector General that it has improved its origination procedures and it submits over 97% of its closed FHA loans for insurance within 60 days of closing. Cendant also said it would indemnify HUD on certain loans.

“It has never been and will never be our intent to shift losses to FHA by delaying a submission ...” Mr. Edwards said in a Sept. 26 letter to the OIG.

As previously reported, the HUD Inspector General audit found that Cendant Mortgage, a nationwide FHA lender, couldn’t keep up with rapid growth and violated FHA rules by submitting delinquent loans for federal mortgage insurance.

Nearly half of the 44,500 FHA loans Cendant originated in the two-year period (1999-2001) were endorsed late. In addition, 1,307 of those FHA loans, totaling \$110 million, had a delinquent payment at the time of endorsement. The performance of those 1,300 loans has been very poor.

The government auditors initially selected Cendant Mortgage for review in the summer of 2001 because the FHA lender had an early default rate in the St. Louis and Kansas City areas that was twice the average for other FHA lenders.

In reviewing 80 FHA loans that had

defaulted within two years, the IG concluded that Cendant lacked adequate controls in originating 73 of the loans.

The HUD IG recommended that HUD take “appropriate” actions against Cendant Mortgage, according to the OIG report dated Oct. 2, and require indemnification on at least 1,236 loans.

“We also recommend that the Mortgagee Review Board require Cendant and the Office of Housing (FHA) to take actions necessary to protect the insurance fund against future losses,” the IG report says.

National Mortgage News, January 20, 2003, Mount Laurel, NJ

We completed an audit of *First Horizon Home Loans*, a non-supervised direct endorsement lender in **Irving, TX**, approved to originate FHA insured loans. First Horizon was selected for audit because of its high number of late endorsements. Our objective was to determine if First Horizon requested late endorsements for loans that had late payments prior to submission.

We found that First Horizon Home Loans improperly submitted 438 loans totaling over \$48 million for endorsement more than 60 days after closing when the borrowers had delinquent payments prior to submission. Although First Horizon incorporated HUD's late submission requirements into its procedures, it did not ensure that its employees always followed them. Since FHA insures these loans, these late endorsements increase the risk to its insurance fund. As of September 30, 2002, HUD paid claims on 15 of the loans and experienced losses of over \$83,000 on three properties.

We recommended that HUD seek indemnification for the 423 active and claim loans (15 had already been terminated). (Report No. 2003-KC-1004)

We completed an audit of *Choice Enterprises, Inc.*, a **Denver, CO** Home Ownership Center contractor performing insurance endorsement review procedures. Our objective was to determine if Choice followed HUD's regulations and contract terms for reviewing "Late Requests for Endorsement." We found that Choice Enterprises inappropriately recommended endorsing 75 of the 297 loans we reviewed. The 75 loans, valued at over \$6.5 million, did not have the required documentation for processing. The improper late endorsement of the 75 mortgages increases the probability that HUD will have to pay insurance claims for loans that default, thereby increasing the risk to the FHA insurance fund.

We recommended HUD seek indemnification of the 75 improperly endorsed loans from the mortgagees who originated the loans, and take appropriate administrative action against Choice Enterprises. (Report No. 2003-KC-1005)

We also reported on an internal deficiency at the **Denver, CO** Home Ownership Center in conjunction with the audit of *Choice Enterprises*. We discovered that the Denver Home Ownership Center provided instructions to the contractor that were not in accordance with HUD handbook requirements. The Government Technical Representative made several changes to extend the period that determines when a loan is submitted late and is, therefore, subject to additional documentation requirements. As a result, the contractor endorsed 19 loans valued at over \$1.8 million with deficiencies that should have been detected if the HUD handbook rules had been followed.

We recommended that the Director of the Denver Home Ownership Center seek indemnification of the 19 improperly endorsed loans, and instruct contractors to follow the appropriate HUD handbook unless a waiver is obtained from Headquarters. (Report No. 2003-KC-0801)

We completed a review of *Pryme Investment and Mortgage Brokers, Inc.*, an FHA approved non-supervised loan correspondent in **Murray, UT**. We selected Pryme Investment for review because of its high default and claim rates. We found that Pryme Investment had not adequately implemented its quality control process and was deficient in its overall quality control activities. Further, Pryme Investment did not administer or carry out its activities in conformity with FHA mortgagee approval requirements and did not always originate FHA insured loans in accordance with HUD requirements and prudent lending practices.

We recommended that Pryme Investment's participation in the HUD Single Family Mortgage Insurance Programs be discontinued, and that HUD take administrative action(s) deemed appropriate. We also made recommendations to prevent the recurrence of deficiencies should HUD determine that removal of Pryme Investment's approval as a non-supervised loan correspondent is not warranted. (Report No. 2003-DE-1004)

We completed an audit of *Chapel Mortgage Corporation*, a non-supervised mortgagee in **Rancocas, NJ**, to determine whether Chapel

approved loans in accordance with HUD regulations. A review of 25 FHA insured loans valued at over \$2.9 million disclosed that each of the 25 loans had at least one significant processing deficiency. Some of the deficiencies included: (1) inaccurate/excessive debt to income ratios; (2) unsupported employment income; (3) unsupported rental income; (4) understated liabilities; (5) insufficient payroll data; (6) insufficient verification of employment; (7) insufficient banking data; (8) insufficient cash gift information; (9) unexplained derogatory credit; and (10) discrepancies with appraisals. These deficiencies could cause the loans to go into default and subsequently result in mortgage insurance claims to FHA.

We recommended that HUD/FHA take appropriate action against Chapel for not adhering to HUD's underwriting requirements, and require Chapel to indemnify FHA for all future losses pertaining to the 25 loans reviewed. (Report No. 2003-NY-1002)

Investigations

Some of the cases in this report were conducted by the OIG while others were conducted jointly with federal, state, and local law enforcement agencies.

Defendant Graciela Salgado of **Rancho Cucamonga, CA**, was sentenced in Federal Court to 18 months incarceration and five years supervised release, and was ordered to pay \$10,209,000 in restitution to HUD. Salgado previously pled guilty in U.S. District Court, Central District of California, to nine counts of wire fraud. Defendant Sarai Mora pled guilty and was sentenced to five years probation and 2,500 hours of community service, and was ordered to pay a special assessment fee of \$400. Along with Maggie Cuevas, Salgado and Mora participated in a fraud scheme that involved businesses owned and operated by Cuevas, such as *Maggie Cuevas Insurance*, *Serrano Telemarketing*, and *L. Telemarketing*. The businesses were used to help unqualified borrowers obtain approximately \$100 million in fraudulent FHA insured loans. While already on federal probation for a conviction on similar charges relating to a document forging business that she ran, Cuevas continued the scheme by selling forged tax forms, check stubs, and credit documents that were used to obtain FHA loans. She created the fictitious businesses for the sole purpose of providing creditability for the forged documents. The women then sold the documents to real estate brokers and agents for \$75 to \$300. Cuevas previously pled guilty, but has not yet been sentenced.

In **Baltimore, MD**, the following individuals were sentenced or pled guilty for their participation in a property flipping scheme masterminded by

defendant William Otto Schmidbauer. This case involved the real estate activities of Schmidbauer and his 58 Baltimore area real estate transactions whereby \$4.4 million in fraudulent loans were obtained.

Defendants Stephen Todd Schmidbauer and Crystal Perry, both property speculators, were sentenced in Federal Court to eight months incarceration and three years probation, and four years incarceration and four years probation, respectively, for their roles in falsifying documents in order to obtain FHA insured mortgages. In two instances, Stephen Todd Schmidbauer signed falsified documents to obtain FHA insured mortgages arranged by his father, William Otto Schmidbauer. In both cases, Stephen Todd Schmidbauer defaulted on the loans, costing the government over \$161,150. Perry also signed falsified documents in two instances to obtain FHA insured mortgages arranged by William Otto Schmidbauer. Perry defaulted on the loans, costing the government over \$197,000.

Defendant Mary Anne Kintop, who acted as a straw purchaser and admitted signing \$1 million worth of government backed mortgages using different names, was sentenced in Federal Court, District of Maryland, to six months home detention and five years probation, and ordered to pay \$790,744 in restitution to HUD. Kintop pled guilty in June 2001 to conspiracy, admitting that at William Otto Schmidbauer's request, she had signed 15 fraudulent mortgages that would eventually be insured by FHA. Kintop used at least eight names in the scheme, mostly variations on her name. In two cases, Kintop's daughter, then seven years old, was named the borrower on two mortgages. Kintop admitted that William Otto Schmidbauer paid her

\$500 to \$700 each time that she signed a fraudulent mortgage and said that he provided the false identities she used.

Defendant Donna Hart, another straw purchaser, was sentenced in Federal Court, District of Maryland, to five years probation for her role in the property flipping scheme. On three separate occasions, Hart assisted William Otto Schmidbauer by acting as a strawbuyer to obtain three FHA insured mortgages. On the first property, William Otto Schmidbauer provided Hart with a false letter which stated that Hart had received gift funds from her mother. On the other two properties, William Otto Schmidbauer provided false supporting documents for the loans, such as income and employment verification documents, as well as fictitious gift letters. Hart never lived in any of these properties. The loss resulting from Hart's part in the scheme is approximately \$150,000.

Defendant Sharon Sirbaugh, a property speculator, was sentenced in Federal Court, District of Maryland, to five years probation and ordered to pay \$131,478 in restitution to HUD for her role in the scheme. Sirbaugh pled guilty in June 2001 to making false statements in applying for an FHA insured mortgage. She admitted that she used false information supplied by William Otto Schmidbauer to obtain two mortgages insured by FHA. Sirbaugh signed false employment documents at the request of Robert Eshelman.

Defendants Robert Eshelman and Sandra Johnson, both property speculators, were sentenced in Federal Court, District of Maryland, to five years probation and \$82,307 in restitution to HUD, and three years probation and \$70,396 in restitution to HUD, respectively, for their roles in the scheme. Both defendants previously pled guilty to making false statements on loan applications. Eshelman and Johnson were assisted by William Otto Schmidbauer. Since they could not qualify for FHA insured mortgages, William Otto Schmidbauer provided them with false supporting documents for their loan applications, including Social Security numbers, income information, and employment verification. Both of Eshelman's properties went into foreclosure with a loss to HUD of \$205,535, while one of the three properties Johnson purchased

went into foreclosure with a loss to HUD of \$70,396.

Defendant Nancy Franklin, a former loan officer at *First Mariner Mortgage Company*, was sentenced to four months home detention and two years probation, and ordered to pay \$350,000 in restitution to HUD for her role in submitting false statements. Franklin admitted that on at least four occasions, with the assistance of William Otto Schmidbauer, she falsified wage and employment documents to obtain FHA insured mortgages for loan applicants who were not qualified. Eventually, the loans went into default, resulting in over \$919,444 in claims paid by HUD.

Defendant Patricia Ann Robinson, a former loan officer at *First Mariner Bank*, was sentenced to three years probation and ordered to pay \$350,000 in restitution to HUD for her role in submitting false statements. On at least one occasion, with the assistance of William Otto Schmidbauer, Robinson falsified wage and employment documents to obtain FHA insured mortgages for applicants who were not qualified. Subsequently, the loans went into default. Robinson's fraudulent activities resulted in over \$538,550 in claims paid by HUD.

Defendant Donald F. Hanson, a former loan officer at *Baltimore American Savings Bank*, pled guilty in Federal Court to conspiracy for his role in submitting false statements. Hanson admitted that on at least one occasion, with the assistance of William Otto Schmidbauer, he falsified wage and employment documents to obtain FHA insured mortgages for loan applicants who were not qualified. The loans eventually went into default, resulting in over \$1,072,957 in claims paid by HUD.

Defendant Dale Schulz, a former FHA certified appraiser, pled guilty in Federal Court, District of Maryland, Baltimore, to a one-count information charging him with submitting false statements to HUD. In early 1996, William Otto Schmidbauer hired Schulz to prepare and file appraisals for properties which Schmidbauer was buying at low prices and selling at much higher prices. In connection with the appraisals for these FHA insured properties, Schulz falsely represented that he had personally conducted the inspections and appraisals when in fact, on numerous occasions, he had not.

On other occasions, the appraisals were prepared by another individual and Schulz merely signed them. As a result, some of the appraisals contained false information. In some cases where the purchase of a property by William Otto Schmidbauer had occurred and been recorded within the past year, it was falsely reported that there had been no such purchase. On other occasions where Schmidbauer had not yet recorded a deed of purchase at the time of appraisal, it was falsely reported that William Otto Schmidbauer and/or *Schmidbauer Realty* was the current owner of the property. As an example, one property was sold for \$68,700. There were numerous and obvious structural defects in this property at the time of the sale that were not noted on the appraisal. William Otto Schmidbauer had previously purchased this property for \$27,500.

Losses to the government as a result of the false appraisals signed by Schulz on properties that are now in default or have been foreclosed amount to about \$800,000.

Defendant Michael Fanghella, founder and director of *PinnFund, USA, Inc.*, in **Carlsbad, CA**, was sentenced in U.S. District Court, Southern District of California in San Diego, to 10 years in federal prison after he pled guilty to conspiracy to commit wire fraud, conspiracy to commit money laundering, tax evasion, and filing a false entry with HUD. PinnFund USA was a sub-prime lender as well as a HUD approved direct endorsement lender. In a classic Ponzi scheme, Fanghella, with the assistance of other PinnFund officers, concealed from investors the fact that PinnFund lost \$200 million from the mortgage business while, at the same time, soliciting new investor money. From 1997 through 2000, through various partnerships, Fanghella gave investors money contributed by new investors and falsely represented to them that these funds were earnings or returns on capital. Fanghella's illegal income was over \$2.2 million for 1996, over \$6 million for 1997, and over \$5.7 million for 1998. Fanghella also transferred approximately \$17.3 million from PinnFund to Barbados for the eventual benefit of his girlfriend, Kelly Cook. Cook, also known as Kelly Jaye and Kelly Spagnola, was an adult film actress who did not provide any service to PinnFund. Fanghella also falsely reported to HUD that the funds used to meet HUD's net worth re-

quirement for direct endorsement lenders were personal funds. In truth and in fact, in 1998, *Grafton Partners* loaned the funds to PinnFund.

Defendant Kimberly Hulihee, an employee of *PinnLease, USA, Inc.*, pled guilty to perjury in U.S. District Court in **San Diego**. Previously, an information was filed against Hulihee which stated that she knowingly made a false statement while under oath and testifying in a proceeding before the United States. Hulihee's testimony involved the coordination, removal, and destruction of business files from the offices of PinnLease. This took place while PinnFund, USA, Inc., was under a court ordered receivership.

Defendant Keith G. Grubba, former president of PinnFund, pled guilty in U.S. District Court in San Diego to an information charging him with conspiracy to commit wire fraud, money laundering, conspiracy, income tax evasion, and false entries in statements to HUD. In the plea, Grubba stated that he conspired with Fanghella and John Garitta, chief financial officer of PinnFund, USA, to deceive investors and perpetuated the Ponzi scheme by preparing and disseminating false financial statements. Grubba also admitted that he failed to declare his full income on federal income tax returns for tax years 1997 through 2000, when in fact he had taxes due of approximately \$2.5 million.

Defendant Michael A. Trap, former syndication manager of PinnLease, USA, pled guilty in U.S. District Court in San Diego to an information charging him with making false statements regarding files being taken from the PinnLease offices, when PinnFund was taken over by a U.S. District Court appointed receiver. On the same day, two indictments were filed against four individuals in U.S. District Court in San Diego. A 29-count indictment was handed down against James L. Hillman, president of *Peregrine Funding, Inc.*, the business that raised capital for investments in PinnFund's mortgage business, and Piotr Kodzis, director of operations for Peregrine. The indictment charged Hillman and Kodzis with mail fraud, wire fraud, conspiracy to commit mail and wire fraud, and aiding and abetting. The indictment alleges that Hillman and Kodzis intentionally defrauded investors out of millions of dollars by misrepresenting PinnFund's compliance with investor agreements. A

23-count indictment was also handed down against Tommy A. Larsen and Kim A. Larsen for obtaining fraudulent equipment leases and laundering funds for PinnFund through sham transactions and false invoices.

In March 2001, PinnFund was placed into a court ordered receivership based on an enforcement action by the U.S. Securities and Exchange Commission (SEC). The SEC's civil case was considered one of the largest securities fraud cases in San Diego County history, and this investigation is considered one of the largest white collar fraud investigations in California history.

Defendant Palemon Sanchez was sentenced in Federal Court, Central District of California, **Los Angeles**, to 46 months in prison and three years supervised release, and was ordered to pay \$3.9 million in restitution. Sanchez was involved in a fraud scheme in which he would locate residential properties on the market for sale. These properties were then purchased for the purpose of reselling them. Potential buyers were recruited for the properties who often did not qualify for FHA insured mortgage loans due to inadequate income or insufficient assets for down payments. As a recruiter, Sanchez received a commission for every purchaser he located. The buyers were then assisted in finding co-signers for the loans. As a result, fraudulent mortgage applications were completed and submitted in the names of buyers and co-signers that contained false employment documents, false verifications that the down payments were made either with the buyers' personal funds or were gifts, false explanation letters concerning the relationships of the co-signers to the buyers, and false notarizations of the signatures of buyers and co-signers.

Defendant Francisco Arana, a loan officer for *Progressive Loan Funding*, was indicted by a Federal Grand Jury in the Central District of California on charges of wire fraud and aiding and abetting. Arana assisted the Sanchez brothers, Palemon and Luis, in their scheme.

Defendant Alejandro Morales, a loan officer associated with *Trinity Mortgage* located in **Covina, CA**, was indicted by a Federal Grand Jury in the

Central District of California on one count of conspiracy and two counts of wire fraud. Morales' actions resulted in a loss to HUD of \$892,000 and caused at least \$2 million in fraudulent loans to be funded with FHA insured mortgages. Defendant Ala Tabatabaei was charged with a criminal information filed in the same court on one count of conspiracy and one count of wire fraud. While he was the owner of the *Performance Funding Group*, and as a loan representative for *First Prestige Funding*, Tabatabaei assisted homebuyers in fraudulently obtaining mortgage loans. Tabatabaei's actions resulted in a loss to HUD of \$443,680 and caused at least \$2 million in fraudulent loans to be funded with FHA insured mortgages.

Defendants Robert Jordan and Peter Tortorelli, both principals and underwriters of *County Mortgage Company, Inc.*, in **Newark, NJ**, Marlene Schill, a loan officer, Philip Noce, a closing attorney, and Raul Torres, a real estate broker, were each sentenced in Federal Court, District of New Jersey, for mail fraud and conspiracy. Jordan and Tortorelli were each sentenced to 18 months in prison, while Torres was sentenced to 24 months in prison. In addition, Jordan, Tortorelli, and Torres were each sentenced to three years supervised release, each ordered to pay \$2,408,614 in restitution, and fined a total of \$10,100. Schill and Noce were each sentenced to nine months home arrest and five years probation. They were also ordered to pay \$2,408,614 in restitution. All five defendants were ordered not to engage in any real estate or mortgage business for various periods of time.

This investigation disclosed that the defendants engaged in a scheme to fraudulently obtain over 40 FHA insured loans for ineligible borrowers. The scheme, which resulted in over \$2.4 million in losses to HUD, involved the falsification of federal income tax returns, gift letters, attorney gift certifications, verifications of employment and rent documents, and credit explanation letters. Properties were flipped and the proceeds of the sales were divided among the conspirators.

Defendant James E. Golden, Jr., a real estate appraiser, was sentenced in U.S. District Court for the District of Columbia to 88 months in prison and ordered to pay \$1.5 million to the government for

his role in what federal prosecutors described as an extensive mortgage fraud scheme conducted in the District of Columbia. Golden, of **Upper Marlboro, MD**, was convicted by a jury in May 2002 of taking part in a conspiracy to inflate the values of 45 houses in the District that were then insured by FHA. Golden failed to appear in court for his sentencing, but police subsequently arrested him in Texas during a routine traffic stop. He was convicted of inflating appraisals on houses that were sold between 1997 and 2000. Four other people pled guilty to related charges in this case.

Defendant Elena Romero was sentenced in Federal Court, District of Colorado, **Denver**, to five years probation and ordered to pay a \$100 special assessment fee. Romero was also ordered not to seek employment having anything to do with real estate. She previously pled guilty to one count of conspiracy for her part in a real estate scheme involving her son, Andres Torres, her former husband, Gilbert Martinez, Michael Slavens and other strawbuyers. Torres would acquire properties in the Denver metropolitan area, using Romero as the real estate agent. Together they would obtain strawbuyers to purchase properties and provide false information in order to qualify the strawbuyers for the loans. Slavens and Martinez acted as strawbuyers on a number of properties. Martinez also provided false income tax returns/W-2 forms and both Slavens and Martinez provided false income information for the strawbuyers. Once the strawbuyers purchased the properties, Romero would receive a large real estate commission. Torres would then file false release of deeds with the counties, indicating that the mortgages were paid off and that he owned the properties free and clear, when in fact he did not. Following the false filings, Torres would obtain another loan from a different mortgage company via another strawbuyer and begin the process all over again. Slavens pled guilty in April 2002 to one count of aiding and abetting in the commission of mail fraud. He was sentenced in August 2002 to four months home detention and five years probation.

Defendant Gilbert Martinez was sentenced to five years probation and ordered to pay \$128,667 in restitution and a \$100 special assessment fine. Defendant Andres Torres was sentenced in Federal

Court, District of Colorado, in connection with his guilty plea to one count of conspiracy and one count of money laundering. He was sentenced to 60 months confinement for conspiracy and 72 months confinement for money laundering, to be served concurrently, and three years probation. In addition, Torres was ordered to pay \$1,696,520 in restitution and a \$200 special assessment fee, and ordered not to seek employment having anything to do with real estate.

As a result of this investigation, defendant Michael Slavens was notified that HUD is proposing his three-year debarment from future participation in procurement and non-procurement transactions as a participant or principal with HUD and throughout the Executive Branch of the Federal Government. His suspension and proposed debarment are based on his conviction in U.S. District Court, District of Colorado, for mail fraud.

In U.S. District Court, Western District of Washington, **Seattle**, defendant Leslie Charlene Reisig was sentenced to 51 months imprisonment and five years supervised release, and ordered to pay \$330,147 in restitution to HUD and to several lenders who were victimized. Out of the full restitution amount, \$89,696 is payable to HUD. The sentencing followed a two-week jury trial in which three subjects, Leslie Reisig, Mario Cacho Figueroa, and Jaime Abrego, were convicted of conspiracy, mail fraud, wire fraud, and bank fraud in a scheme to defraud HUD, lending institutions, and vulnerable Spanish speaking individuals. The subjects arranged sham sales of single family residences using strawbuyers to obtain the homes for their own personal benefit and/or to obtain a portion of the mortgage proceeds. Reisig and Cacho previously pled guilty to one count of mail fraud committed in the Eastern District of California, where the subjects had relocated to continue the scheme.

Defendant Anietie James Okpon, the president of *Countywide Financial Group* in **Los Angeles, CA**, was sentenced to 78 months incarceration and ordered to pay \$1,076,949 in restitution, \$356,556 of which is owed to HUD. Defendant Oliver Maiben was sentenced to 77 months incarceration and ordered to pay \$1,057,879 in restitution, \$337,486

of which is owed to HUD. In July 2002, following a two-week trial in U.S. District Court for the Central District of California, Okpon and Maiben were found guilty of 21 counts of conspiracy, false statements, wire fraud, and mail fraud. An investigation disclosed that between 1995 and 1998, Okpon, Maiben, and others used straw or fictitious borrowers, forged documents, and false identities to originate mortgage loans in order to receive Title I loan proceeds and broker/agent fees from the origination of the insured single family mortgage loans. The individuals fraudulently originated a total of 22 FHA Title I rehabilitation and Title II single family mortgage loans, which caused approximately \$560,000 in fraudulent loans to be funded. This resulted in a loss to HUD of approximately \$470,000.

An investigation disclosed that the owners of *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 of 24 individuals and sentences totaling 75 months incarceration, 33 years probation, \$750,837 in restitution, and \$22,600 in fines. The following individuals were sentenced or pled guilty during this reporting period.

Defendant Raul Altamirano was sentenced to six months incarceration and three years supervised release, and ordered to pay \$47,527 in restitution to HUD. Altamirano obtained forged employment and income documents in order to make ineligible applicants appear qualified for FHA insured loans. Altamirano, who worked as a real estate agent for *Dynamic Brokers* in **Montebello, CA**, then caused the false documents to be submitted to HUD.

Defendant Emma Barrientes was sentenced in Federal District Court in **Los Angeles, CA**, after pleading guilty to two counts of making false statements to HUD. She was sentenced to four months incarceration and two years supervised release, and was ordered to pay \$125,772 in restitution and a \$200 special assessment. Barrientes obtained forged employment and income documents in order to make ineligible applicants appear qualified for FHA insured loans. As a loan officer at *Star Funding*, Barrientes then caused the false docu-

ments to be submitted to HUD. The loans based on false information from Barrientes have a total value of approximately \$5.2 million.

Defendant Antonio Esquivel was sentenced to 15 months incarceration and one year supervised release, and ordered to pay \$108,580 in restitution to HUD. Esquivel previously pled guilty in U.S. District Court for the Central District of California to two counts of making false statements to HUD. Esquivel, who was a real estate agent for *Coldwell Banker Real Estate* in **Van Nuys, CA**, caused false documents to be submitted to HUD. The loans based on the false information from Esquivel have a total value of approximately \$1 million, and the loss to the government based on these loans is \$89,573.

Defendant Sandra Sansur was sentenced to eight months incarceration and three years supervised release, and ordered to pay \$169,531 in restitution to HUD. Sansur previously pled guilty in U.S. District Court for the Central District of California to two counts of making false statements to HUD. Sansur, who was a real estate agent for *Realty Masters*, caused false statements to be submitted to HUD. The loans based on the false information from Sansur have a total value of approximately \$1.48 million, and the loss to the government based on these loans is \$322,529

Defendant Julio Rocha was sentenced in the same court to six months incarceration and five years supervised release, and was ordered to pay \$89,573 in restitution to HUD. Rocha, who was Antonio Esquivel's assistant at *Coldwell Banker Real Estate* in **Van Nuys, CA**, caused false documents to be submitted to HUD. The FHA insured loans based on false information from Rocha have a total value of approximately \$1 million, and the loss to the government based on these loans is \$89,573.

Defendant Martiza Portillo of *Century 21 Bright Horizons*, was sentenced in U.S. District Court, Central District of California, to three years probation and ordered to pay a one-third portion of \$29,500 in restitution to HUD. Defendant Amelia Arias pled guilty in the same court to five counts of wire fraud and five counts of making false statements to HUD. Arias, a real estate agent for *CR Homes Realty* and *Sunrise Realty & Investments* in **San Bernardino, CA**, caused false documents to be

submitted to HUD concerning FHA insured loans. The loans were originated based on this false documentation. The loans have a total value of approximately \$1.6 million, and the loss to HUD is more than \$206,000.

Defendant Michael Fox pled guilty in the County of **New York**, Supreme Court of the State of New York, to defrauding HUD in connection with a \$1.2 million mortgage fraud scheme involving the HUD Section 203(k) Rehabilitation Home Mortgage Insurance Program. Fox, while he was employed with *Community Home Mortgage Corporation*, assisted real estate investor John Fetkovich in obtaining mortgages by providing false income, asset, and down payment information to HUD, and by structuring many of the transactions as property flips to inflate the mortgage values. They also directed 203(k) fee inspector Gary Westwood to falsely certify that rehabilitation work was completed. All of the properties involved in the fraud scheme have been foreclosed, with HUD losses totaling \$700,000.

Defendant Fetkovich was convicted of conspiring to defraud HUD. He used intermediaries to acquire and flip properties to his wife at falsely inflated prices. He also falsified his wife's income and asset information, and provided FHA 203(k) completion certificates to HUD for work that was not done.

Defendant Westwood was sentenced to six months confinement and five years probation and ordered to pay \$51,120 in restitution to HUD. Westwood was convicted of making a false statement to an OIG Criminal Investigator when he advised that he performed all the physical inspections noted on the FHA 203(k) draw request for multiple properties, and that the rehabilitation work was completed. The investigation disclosed instances where the rehabilitation work was not done. Over \$400,000 in rehabilitation funds were released to a contractor, whose wife was the mortgagor.

Defendant Kasing Cheng, a licensed Long Island real estate agent and mortgage broker, was sentenced in U.S. District Court to seven months confinement and three years supervised release, and ordered to pay \$189,796 in restitution to HUD. Cheng was convicted of conspiring to defraud HUD.

Cheng acted as a middleman and flipped four properties to Fetkovich. The properties were sold at falsely inflated prices, with Fetkovich and Fox providing false income and asset information to HUD. Cheng had fled to the Dominican Republic and Malaysia for nine months upon being indicted. A fugitive investigation was initiated, and Cheng was apprehended on an OIG warrant when he attempted to reenter the United States.

In a related investigation, from September 1997 until November 1999, while Fox was working at *Mortgage Lending of America*, he originated 287 FHA insured loans under the Section 203(k) Program. These loans were obtained by several not-for-profits including, but not limited to, Family Preservation Center, Helpline Soul Rescue Ministries, St. Stephens Baptist Church, St. Stephens Community Development Corporation, St. Stephens Bible College, Word of Life Ministries, Word of Life Community Development Corporation, Advance Local Development Corporation, and Federation of Puerto Rican Organizations. Currently all 287 properties, most of them located within the New York City area, are in default. The default amount for the properties is \$82,613,586. Many of these properties have also been foreclosed. To date, HUD has paid a total of \$35,683,319 in claims to secondary mortgage banks that held these mortgages.

Defendant Lonny Brooks, a self-employed computer technician in **Phoenix, AZ**, was sentenced in Federal Court, District of Arizona, to five years probation and was ordered to pay \$21,469 in restitution to HUD. Brooks previously pled guilty to one count of submitting false statements to HUD. An investigation disclosed that Brooks created falsified W-2 forms and pay stubs and provided them to Marco Vasquez, a former branch manager at *American Financial Resources, Inc.* (AFR), and to other loan officers employed at Vasquez's AFR office. Vasquez and the other loan officers submitted these falsified wage documents to HUD in order to qualify their clients for FHA insured home loans. The investigation further disclosed that Brooks had provided Vasquez with a CD ROM computer disk containing blank templates of W-2 forms and pay stubs, which Vasquez used to create the false wage documents for the clients of his AFR office. Vasquez

pled guilty in the same court to one count of conspiracy.

Defendant Lorena Soledad, a former AFR loan officer, was sentenced to five years probation and ordered to pay \$21,726 in restitution to HUD. Soledad previously pled guilty to one count of submitting false statements to HUD. From late 2000 through early 2001, Soledad prepared four FHA insured home loan packages, with insured mortgages totaling \$353,164, which contained falsified wage documents she received from Vasquez.

Defendant Jose Alvarado, a former AFR loan officer, was sentenced to five years probation and ordered to pay \$35,216 in restitution to HUD. Defendant Sandra Rodriguez, another former AFR loan officer, pled guilty to one count of conspiracy to submit false statements to HUD. Defendant Stacy R. Ghazi, a former branch manager at *Credit Reporters*, was sentenced to five years probation, fined \$2,500, and ordered to pay \$21,726 in restitution to HUD. Ghazi provided Vasquez with falsified credit reports which were used to qualify the clients of Vasquez's branch office for FHA insured loans. Ghazi admitted receiving \$2,000 to \$3,000 from Vasquez for the preparation of 20 to 30 falsified credit reports.

The scheme involved 138 FHA insured home loans with a total value of \$11.9 million that were originated based on fraudulent documentation. Nine loans have gone into foreclosure, and to date, losses to HUD exceed \$100,000.

Defendant Allen Wade Creek was sentenced in U.S. District Court, Middle District of Florida, **Tampa**, to 18 months in prison and three years supervised probation, and ordered to pay \$18,544 in restitution to HUD and a \$100 special assessment fee. Creek's sentencing stemmed from a one-count indictment issued against him in September 2002 for making a false statement to HUD on a uniform residential loan application used to obtain an FHA insured loan. Creek pled guilty the following month.

Defendant Kelvin Barrow was sentenced in U.S. District Court, Northern District of Ohio, for violating the provisions of HUD's Officer Next Door Program. While employed as a Police Officer with

the **Cleveland** Police Department, Barrow participated in the program, which allowed him to purchase a HUD foreclosed property at a 50 percent discount from fair market value on the condition that he reside in the home for at least three years and that he own no other residential property during that time period. Barrow was sentenced to two years probation and 200 hours of community service, and was fined \$500. Barrow previously paid \$12,500 in restitution to HUD when he pled guilty.

Defendant Darrel Lattimore, a real estate investor, was sentenced in District Court, **Chicago, IL**, to eight months in prison and two years supervised release, and ordered to pay \$76,802 in restitution to a conventional lender. Lattimore fraudulently facilitated the purchase, sale, and/or refinancing of eight properties through a real estate land flip scheme. Lattimore and his co-conspirators submitted falsified mortgage loan documentation, which included inflated income figures and falsified appraisals for himself and for other purchasers he recruited. Lattimore shared portions of the land flip proceeds with the other defendants who participated in the fraud. The total losses in this case exceed \$10 million; the HUD losses exceed \$2 million.

Defendant Melva Crittenden-Wynn, an appraiser, was sentenced in District Court, Chicago, to 15 months in prison and two years supervised release, and ordered to pay \$2,402,205 in restitution to conventional lenders. Wynn's prison sentence and restitution amount were based on her conduct in two real estate land flip schemes, one of which was an OIG investigation. Crittenden-Wynn conducted at least 31 inflated appraisals to facilitate the second sale in the fraudulent land flip scheme. Her appraisals were used to over-value properties that were funded by private lenders. In addition to Crittenden-Wynn's standard appraisal fee, she received a bonus kickback check under an alias. In furtherance of the scheme, Crittenden-Wynn also concealed her real identity by using her maiden name to fraudulently appraise a property her husband purchased from another defendant. At least 13 of the properties that she appraised went into foreclosure. Lattimore and Wynn are the 18th and 19th people out of 20 defendants to be sentenced in a 60-property FHA/conventional loan land flipping scheme in Chicago.

Defendant Kevin J. Everson, a real estate broker, property developer, and loan officer in **Boise, ID**, was sentenced in Federal Court, District of Idaho, to 24 months incarceration and ordered to pay \$132,685 in restitution and fines. Defendant Jeanette Espinosa, a former mortgage loan officer and Everson's business partner, was sentenced to three months home detention and three years probation, and fined \$10,000.

In the same case, defendant Clay Preuit, a former supervisor at *Transnation Title and Escrow Company*, pled guilty in Federal Court, District of Idaho, to two counts of making false statements to HUD as part of a plea agreement with the U.S. Attorney's Office in Boise. In July 2002, a Federal Grand Jury indicted Preuit on 18 counts of wire fraud, two counts of mail fraud, and one forfeiture count for his part in the scheme to cause Transnation Title and Escrow to approve numerous fraudulent documents on behalf of unqualified borrowers. Everson was the ringleader in orchestrating 59 fraudulent single family mortgages worth \$5.3 million. Twenty-four of the 59 mortgages were FHA insured. Among the seven co-conspirators, seven have been convicted and were indicted on charges of mail fraud, bank fraud, and conspiracy.

Defendant Preston Randall was sentenced in Federal Court, Eastern District of Missouri, to 12 months in prison and three years supervised release, and ordered to pay \$440,000 in restitution. Randall, operating as a **St. Louis, MO** company called *HyRizing Investments*, purchased dilapidated homes and sold them to strawbuyers and used the identity of individuals with good credit without their knowledge. In April 2002, Randall pled guilty to conspiracy to commit mail fraud. He admitted to illegally flipping properties at inflated values and obtaining loans using false identities and income documentation.

Defendant B.C. Witt pled guilty to an information filed in the Eastern District of Missouri charging him with conspiracy to commit mail fraud. Witt admitted providing false tax returns and other false documents to Randall. Randall paid Witt to provide false tax returns and other false documents to get strawbuyers qualified for loans. The mortgage fraud conspiracy caused losses to mortgage companies in

excess of \$650,000. Along with Witt and Randall, two other individuals have also been charged in this investigation.

Defendant Kenny Shaw, a real estate agent, was sentenced in Federal Court for the Western District of Tennessee, **Memphis**, to 21 months in prison and ordered to pay \$315,042 in restitution and a \$100 special assessment fee. The sentencing is the result of an investigation into a single family property flipping scheme of involving 300 FHA insured and conventional properties. Straw purchasers were used to flip the properties, and the proceeds from the transactions were shared among the defendants. The scheme has resulted in a potential loss to HUD of \$3 million. As a result of the investigation, four defendants have been charged and prosecuted.

Defendant Clyde Pate was sentenced in Federal Court, Eastern District of Missouri, **St. Louis**, to three years imprisonment and three years supervised release, and ordered to pay \$170,126 in restitution. Pate previously pled guilty to a two-count federal information charging him with misuse of a Social Security number and filing false bankruptcy petitions. Pate pled guilty to two different schemes. One of the schemes involved an insurance scam whereby he purchased four properties using false identifications, obtained homeowners insurance on the properties, set the homes on fire, and then filed a claim on each property. He obtained a total of \$170,126 from two insurance companies. The second scheme involved selling properties he did not own via false quit claim deeds. He forged and recorded false deeds at the St. Louis Recorder of Deeds Office and sold the properties without the true owners' knowledge or consent. As part of the scheme, Pate also falsely completed and filed bankruptcy petitions in the names of the true owners in order to keep the City from selling the properties for delinquent taxes.

Defendant Carol Wynona Mercer was sentenced in U.S. District Court, Eastern District of California, **Fresno**, to ten months in a halfway house and one year supervised release, and ordered to pay \$140,850 in restitution. Mercer pled guilty to a one-count information charging her with causing false statements to be made to HUD. Mercer admit

ted the she caused false gift letters to be submitted to HUD and that she provided the funds described as gifts to the borrowers.

Defendant John C. Carlisle, Jr., was sentenced in Federal Court, Southern District of Texas, **Houston**, to 34 months in prison, fined \$10,000, and ordered to pay \$78,000 in restitution. Carlisle was previously charged with mail fraud and conspiracy. The investigation disclosed that Carlisle operated as a home improvement contractor in the Houston area and solicited homeowners, through flyers and newspaper advertisements, to apply for government insured home improvement loans of up to \$25,000 each. Carlisle then conspired with other home improvement contractors, bank lending officers, and homeowners to obtain these loans by using false documentation, including false employment information and fraudulent bankruptcy discharge documents. In many instances, the loan proceeds were shifted between the accounts of co-conspirators to conceal Carlisle's involvement because he was convicted of fraud in November 1996 and barred from engaging in transactions involving HUD insured home improvement loans. The amount of loss to the Department is \$370,150.

Defendant James Weatherly, a former professional football player and an agent of *Allstate Mortgage Company*, was sentenced in U.S. District Court, Central District of California, **Los Angeles**, to six months incarceration and ordered to pay \$70,000 in restitution. Weatherly previously pled guilty to five counts of mail fraud. He located properties for Victor Noval, the owner of Allstate Mortgage Company, and Douglas Estrada, his co-conspirator. These properties were later significantly overvalued and sold to straw borrowers. Weatherly and his co-conspirators attempted to fraudulently originate about 450 FHA Title II single family mortgage loans amounting to \$100 million; however, through early detection only one-third of these loans were insured by HUD. This resulted in a loss to HUD of approximately \$10 million.

Defendant Daniel Rogof, a real estate investor, was sentenced in Federal Court for the Southern District of Florida, **Ft. Lauderdale**, to 21 months in prison and ordered to pay \$27,936 in restitution.

In October 2002, Rogof pled guilty to an information charging him with conspiring to commit mail fraud, loan application fraud, and making false statements to HUD. From September 1996 through August 2001, Rogof conspired with a real estate broker to falsify documents in seven loan files; four of the loans were FHA insured. The false financial documents consisted of verifications of employment, verifications of deposit, W-2 forms, W-4 forms, Form 1040 tax return forms, and payroll stubs. Rogof purchased several of the properties in his true name and used the aliases of Daniel Rokov and Aviv Bachar to purchase others. Rogof also provided false identification documents for strawbuyers whom he paid to purchase properties. He then collected rent from the tenants he placed in those properties, through his corporation, *Aviv Enterprises, Inc.*, and failed to pay the mortgages. Rogof is an Israeli citizen who is also wanted in Israel on land fraud charges and was arrested in South Africa before being extradited to the United States to face these charges.

Defendant Yigal Rappaport, an **Alexandria, VA** real estate agent, was sentenced in Federal Court, Eastern District of Virginia, to 24 months probation, fined \$2,500, and ordered to pay \$8,875 in restitution. Rappaport was involved in a mortgage fraud scheme in which he used fraudulent gift letters that allowed buyers to purchase FHA insured properties with no cash investment. The borrowers defaulted on the loans and the properties subsequently went into foreclosure, resulting in a loss of \$223,000 to FHA. In August 2002, Rappaport pled guilty to a one-count information charging him with submitting a false statement to HUD. One other individual has been charged and sentenced in this case.

Defendant Darrell Hill, a homebuyer/recruiter located in **New York City**, was sentenced in U.S. District Court to 24 months incarceration for his involvement in a scheme to defraud the FHA Section 203(b) Insurance Program. Hill knowingly took false writings and documents to assist unqualified homebuyers in obtaining FHA insured mortgages. He submitted and caused to be submitted loan applications to banks which fraudulently overstated the income of the homebuyers and misrepresented

the sources of funds used for down payments and closing costs. Hill recruited several strawbuyers who purchased a total of 21 homes with FHA insured loans. Of the 21 loans, 16 have already had claims paid out by HUD, and the other five are in default. The total loss to the government is over \$4.2 million.

Defendant Philemon Atugokoh, the owner of a tax preparation company in **Greenbelt, MD**, was sentenced in Federal Court to 12 months incarceration and two years probation for his role in creating fraudulent W-2 forms and accompanying pay stubs for individuals attempting to qualify for FHA insured mortgages. Atugokoh also created fraudulent and fictitious verification of employment forms, certifying that individuals were employees of his company or other companies. In addition, he supplied fictitious employment information to mortgage company personnel seeking to verify the employment of individuals as employees of his company. The loss in this case was approximately \$250,000.

Defendant Mark Carter, a former employee of *Prime Construction*, a Section 203(k) contractor, pled guilty in District Court, Northern District of Illinois in **Chicago**, to one count of mail fraud. From 1994-1997, Carter and others were part of a scheme to defraud lending institutions and the Federal Government by assisting an unqualified buyer in purchasing four FHA insured properties using fraudulent documents. Specifically, Carter admitted that he signed false verifications of employment, thus enabling the unqualified buyer to qualify for the loan. In addition, Carter, while acting as a contractor, falsely certified contractors' affidavits, lien waivers, and draw requests to make it appear that rehabilitation work was completed when in fact no work had been done. Following the closings on these loans, all of the phony rehabilitation money was released from escrow with no repairs ever being completed. After the buyer defaulted on the loans, the properties were demolished by the City of Chicago. The total loss to HUD was \$386,000.

In the same case, defendant Harrison Jeffries was charged by information in District Court, Chicago, with nine counts of bankruptcy fraud

regarding allegations that he filed 16 fraudulent bankruptcy petitions from 1990 to 2000. Specifically, Jeffries was allegedly part of a scheme to defraud two lending institutions and the Federal Government. According to the information, Jeffries filed the voluntary bankruptcy petitions using four different aliases and Social Security numbers in an attempt to stall the foreclosure process on his FHA insured property in Chicago. The property was purchased on two separate occasions with FHA insurance by virtue of Jeffries' using false names and Social Security numbers for each of the loans. He managed to forestall the foreclosure process for several years while filing the bankruptcies. By doing this, Jeffries repeatedly violated the bankruptcy court ban on serial filings.

An investigation discovered a fraud scheme involving former employees of *American International Mortgage Bankers* (AIMB) who assisted in obtaining FHA insured loans from questionable homebuyers located in the **New York City** metropolitan area, including Nassau and Suffolk counties. Over 90 percent of the FHA insured loans from AIMB contained one or a variety of altered documents, including false pay stubs, bank statements, W-2's, rent, employment, and deposit verifications, credit worthiness letters, gift letters, and credit reports. Additional documents were also altered with the help of other individuals outside of AIMB. The Section 203(b) loans were subsequently endorsed; over 400 FHA loans are in question. It is estimated that FHA has insured as much as \$80 million in loans through AIMB that could result in significant losses to the insurance fund.

Defendant William Skinner pled guilty in U.S. District Court, Eastern District of New York, to false statement charges and was sentenced to 18 months in prison. Skinner purchased and sold two properties. Each property, which was bought and sold on the same day, was insured through the FHA Section 203(b) Program.

Defendants Donna Martin, senior underwriter, Lenore Thomas, underwriter, and Emerick Martin, Nicholas Graham, and Matthew Francis, loan officers, all of whom were all formerly employed by AIMB in **Lake Success, NY**, were indicted in U.S. District Court for their alleged involvement in the scheme.

Defendant Javier Jara surrendered in the Eastern District of New York and was charged with conspiracy and mail fraud. Jara was a loan officer at AIMB. Defendants Valerie Vineyard, a former loan processor, and Francine Sweet, a contractor, were indicted and charged with conspiracy to commit offense or defraud and United States, making false statements to HUD, mail fraud, fraud and swindle, and using a fictitious name and/or address.

In Federal Court, District of Nevada, **Las Vegas**, defendants Marisa Perez, Michelle Montano, Andrea Hinojosa, and Karina Delgadillo pled guilty to count one of a criminal information charging them with making false statements to HUD during the origination of FHA insured loans. Perez and Montano, both loan officers, and Hinojosa, a loan processor, worked for *Nevada First Residential Mortgage Company*. Delgadillo worked as an administrative assistant at *General Realty*. Together, they helped provide false Social Security numbers and fraudulent income and employment information to buyers in order to obtain FHA insured loans. Most of the buyers were illegal immigrants from Mexico. This investigation involves 243 FHA insured loans valued at over \$26 million. To date, the loans that have gone into default total over \$3 million.

Defendant Michael Weathersby, an investor/property rehabilitation specialist, pled guilty in Federal Court, Northern District of Illinois, **Chicago**, to one count of wire fraud and one count of money laundering. Weathersby masterminded and participated in a scheme to defraud mortgage lenders of approximately \$2 million. After locating apparently abandoned properties in Chicago and illegally transferring ownership of the properties through the filing of fraudulent deeds, he sold the properties to strawbuyers. Weathersby continued the scheme by directing the title companies to issue the proceeds of the loan closings in various aliases and his company's name in order to launder the profits. Some of these properties were FHA insured. Weathersby later devised a scheme to defraud the Chicago Housing Authority Corporation, a Housing Authority contractor, out of approximately \$28,000 in rent subsidy payments by collecting Section 8

benefits on behalf of properties that, as a result of the fraudulent deeds, he did not actually own.

Defendant Joyce Primous, a notary public, pled guilty to one count of wire fraud. Primous admitted to conspiring with co-defendants Michael Weathersby and Jermaine Weathersby, her nephews, by participating in the fraud scheme. Specifically, following the Weathersbys' successful location of properties in Chicago that appeared to be abandoned, Primous would assist in illegally transferring ownership of the properties through the filing of fraudulent deeds. The properties were subsequently sold to various strawbuyers. Primous improperly notarized the signatures of the co-defendants, who signed the deeds using multiple aliases. She also assumed the false identity of a deceased relative in order to receive a title company's disbursement check during the closing of one of the fraudulent mortgage transactions. Primous negotiated the check for Michael Weathersby, converting part of the proceeds into a bank check made payable to a car dealership, which Weathersby then used to purchase a vehicle.

Defendant Jermaine Weathersby pled guilty to one count of wire fraud. Weathersby obtained fraudulent identification documents and used a false identity to pose as the buyer and/or seller of various properties. He received numerous title company disbursement checks from the closings on these fraudulent mortgage transactions, which he negotiated for his brother, codefendant Michael Weathersby. Cathleen Smith, a strawbuyer and a strawseller, also pled guilty to one count of wire fraud. Like Jermaine Weathersby, Smith obtained fraudulent identification documents and used a false identity to pose as the buyer and/or seller of various properties.

Defendant Steven Johnson, a licensed real estate broker, pled guilty to one count of wire fraud. Johnson conspired with the Weathersbys. Johnson provided appraisals which substantially overstated the values of numerous properties in order to obtain the maximum amount of mortgage proceeds possible.

In **Charlotte, NC**, defendants Willie Green and Alice Green each pled guilty in Federal Court for

the Western District of North Carolina to one count of making false statements to HUD. The Greens were employees of *First Beneficial Homes* (FBH), a subsidiary of *First Beneficial Mortgage Company* (FBMC). While they were employed at FBH, the Greens recruited strawbuyers to sign fraudulent mortgage notes, knowing that the false notes were going to be sold to the government. The notes were sold to Government National Mortgage Association (Ginnie Mae) investors by FBMC. The Greens also received large sums of money for recruiting strawbuyers.

Defendant RichieDean Gess pled guilty to one count of conspiracy to defraud HUD through Ginnie Mae. Gess was employed as the vice president of underwriting for FBMC, and was also approved by HUD for direct endorsement authority. She and her co-conspirators devised and executed a mortgage fraud scheme whereby they obtained millions of dollars from the secondary mortgage market by making and selling fraudulent mortgage notes in the names of fictitious borrowers. Gess used her authority to obtain and assign FHA case numbers to the fraudulent mortgages. These mortgages were sold to investors in the form of mortgage-backed securities guaranteed by Ginnie Mae.

Defendants James McLean, president of *First Beneficial Mortgage Company*, his wife, Macy, and two of their employees, James and Debbie Zimmerman, were convicted in federal court and found guilty. The McLeans were found guilty on 66 counts of conspiracy, wire fraud, bank fraud, making false statements, and money laundering. James McLean was also ordered to forfeit \$8 million in property owned by him and his company. He was ordered held without bail pending his sentencing. The Zimmermans were convicted of one count of conspiracy and three counts of passing counterfeit mortgages. The Government National Mortgage Association suffered a loss of \$28 million as a result of the fraudulent scheme.

In **Cleveland, OH**, defendant Cherese McDowell pled guilty in District Court, Northern District of Ohio, to conspiracy and misuse of a Social Security number. She was charged along with 40 other individuals in the Northern District of Ohio in a 100-count single family indictment. In

McDowell's case, she was a Section 8 tenant at the time she purchased the single family property. Fraudulent statements made by the individuals involved in this case included names, Social Security numbers, employment information, and fabricated down payments.

Husband and wife defendants Deon McAuley and Tryna Wilson-McAuley, **Cleveland, OH** Police Officers, pled guilty in District Court, Northern District of Ohio, to making false statements to HUD in relation to the purchase of each of their homes through HUD's Officer Next Door (OND) Program. Through the program, McAuley received a \$20,500 discount; however, he failed to live in the property pursuant to HUD's three-year occupancy requirement. Additionally, his wife, Wilson-McAuley, also purchased an OND property and received a \$27,500 discount. While married and living together, they rented out each of their OND properties. Both pleas stipulated their acceptance of responsibility, but did not require either termination or resignation. Those actions, according to the plea, were left up to the Police Department.

Earlier, informations were filed against both McAuleys, Kelvin Barrow, another Cleveland Police Officer, and Jerome E. Newby, a former Federal Probation Officer/Auxiliary Police Officer. All were charged with making false statements in transactions involving HUD's OND Program. The "Officer Next Door Program" allows Police Officers to purchase HUD foreclosed properties at a substantial discount (50 percent of fair market value), on the condition that they actually live in the homes for at least three years. A primary purpose of the program is to create a police presence in those residential areas. Allegedly, each of the defendants falsely certified to HUD that they intended to use the property they were purchasing as their residence.

Defendant Javier Estrada pled guilty in Federal Court, Northern District of Texas, **Fort Worth**, to one count of misuse of a Social Security number (SSN). Estrada, an illegal alien, admitted to using another person's SSN to secure an FHA insured loan.

Defendant Thomas Becerra was indicted on one count each of misuse of a SSN. Becerra falsified

loan documents to obtain an FHA mortgage. Becerra is also an illegal alien from Mexico who purchased a SSN 10 years ago and used the false SSN to obtain the FHA loan.

In the same case, defendant Leon Pope, a former HUD closing attorney, signed a pre-trial diversion agreement for charges of mail fraud and agreed to pay the Department \$47,152. Pope admitted involvement in the fraudulent scheme to overcharge HUD for tax certificates. Starting in the early 1990's, Pope entered into an agreement with *Texas Real-Tax, Inc.*, an **Austin** based corporation, to defraud HUD by purchasing tax certificates for single family closings at less than face value. Pope is the second of three closing attorneys to admit to this fraud. This investigation involves approximately \$3 million in loans.

Defendant Lucas Reyes, a co-owner of *Pacific Investment Capital*, a mortgage brokerage company in **Los Angeles, CA**, pled guilty in U.S. District Court for the Central District of California to one count of wire fraud. Reyes and others knowingly obtained fraudulent Title I home improvement loans for properties with fraudulently obtained Title II loans insured by FHA. The Title I loan applications contained false wage and employment information, and falsely represented that the loan proceeds would be used to improve the properties. Instead, portions of the loan proceeds were used to make the mortgage payments on the fraudulently obtained Title II loans. The actions of Reyes and others caused a loss of \$241,000 to HUD. The fraudulently obtained Title II home mortgage loans resulted in losses to HUD of over \$4.5 million.

Defendant Michael Mittler pled guilty in U.S. District Court, Middle District of Florida, **Tampa**, to one count of obstruction of justice. Mittler, a former employee of Great Stone Mortgage Company, made a false statement to OIG. He entered into a plea agreement and was sentenced to 36 months probation and six months home detention, and ordered to pay a \$2,000 fine and a \$100 special assessment fee. Mittler was also ordered to obtain drug rehabilitation counseling. This investigation involves fraud against FHA and the Government National Mortgage Association.

Defendant Michael James Fothergill, also known as Lawrence Thomas, the owner of *Alexandra Financial & Property Management, Inc.*, pled guilty in Federal District Court, Southern District of Florida, **Fort Lauderdale**, to one count of conspiracy to commit bank fraud and money laundering and one count of money laundering. A co-conspirator, Fernando Cazaux, who acted as an investor, pled guilty to one count of conspiracy to commit bank fraud and money laundering and one count of money laundering. A Federal Grand Jury previously returned an eight-count indictment against Fothergill and Cazaux charging them with conspiring to defraud HUD/Wells Fargo and various loan institutions by obtaining loans in fictitious names and creating false documentation to secure loans for 28 properties. Fothergill and Cazaux developed a complex scheme to keep the loan pay-off proceeds received from the loan institutions. These proceeds amounted to over \$2.9 million. The losses to HUD on the FHA insured properties are over \$200,000.

In **Houston, TX**, defendants James Q. Nguyen, branch office manager, and his identical twin brother, Thomas Q. Nguyen, were both charged with one count of conspiracy to commit money laundering, three counts of bank fraud, five counts of laundering criminally derived property, and ten counts of money laundering. A Federal Grand Jury in the Southern District of Texas returned a 19-count indictment charging the two escrow officers of *American Title Company* with engaging in a \$20 million mortgage fraud scheme. The indictment reflected the government's intent to seek the forfeiture of all property traceable to the alleged criminal conduct, and was sealed until the arrests were made the next day. Allegedly, the Nguyens falsely represented to lenders that borrowers had provided down payments to the title company, inducing the lenders to allow funding and disbursement of single family loan proceeds. The Nguyens then issued sellers' proceeds checks to dummy corporations consisting of conspirators who have already been prosecuted. These proceeds checks contained the full loan proceeds from the lenders and the down payment money "fronted" to the conspirators by the title company. The conspirators then took the sellers' proceeds checks to a bank and exchanged them for

cashiers' checks for the down payments. Analysis of bank records revealed that the dummy corporations did not have funds in their accounts to cover the down payments prior to the deposit of the sellers' proceeds checks. The \$20 million in mortgage loans consisted of insured loans (in excess of \$1 million) and conventional loans.

Defendants Ryan Bonneau, a mortgage broker and loan officer, along with Misti Lynn Byrd, Pauline Louise Gentry, Todd Mikal Troen, and Mack James Gentry, were indicted by a Federal Grand Jury in the District of Oregon charging the five **Portland** individuals with real estate fraud. The 28-count indictment charges the individuals with conspiracy and fraud for their part in originating 24 fraudulent mortgages worth an estimated \$10 million. The charges include conspiracy, wire fraud, fraud against HUD, false statements in loan applications, money laundering, and bank fraud, and allege the use of false financial information and falsely inflated appraisals in a complex scheme to defraud HUD, banks, and other lenders. Fifteen of the involved loans were FHA insured. HUD's loss, to date, has been estimated at approximately \$564,000.

A Federal Grand Jury in the Northern District of Georgia returned a 22-count indictment against defendant Sandra Rice, a real estate agent with *Re Max* of **Atlanta, GA**. The charges include conspiracy, wire fraud, mail fraud, HUD fraud, and a forfeiture provision for property obtained as a result of the fraudulent scheme. The indictment alleges that Rice was part of an organization that conspired with other individuals to originate 22 fraudulent mortgages amounting to over \$3.1 million.

On the same day, a Federal Grand Jury returned a 52-count indictment against defendant Glen Allen, a loan officer at *Bankers Financial Group, Inc.* The charges include conspiracy, wire fraud, HUD fraud, and a forfeiture provision for property obtained as a result of the fraudulent scheme. The indictment alleges that Allen conspired with other individuals to originate over 30 fraudulent mortgages amounting to over \$4.3 million.

In **Cleveland, OH**, ten individuals were indicted on the following state charges that total 81

counts: engaging in a pattern of corrupt activity, conspiracy, taking the identification of another, falsification, securing writings by deception, forgery, uttering, possession of heroin, possession of cocaine, identification theft, money laundering, and tampering with records.

In this fraud scheme, defendant Damon Berry sold James Smith the identity of a five-year-old child named Isaiah Campbell. Defendants Errol Howard, Linda Bivens, and Lisa Jones created false tax returns and mortgage documents for Smith so that he could purchase real estate using the name of Isaiah Campbell. Gregorio Pimental, also known as Nino, retained the services of James Smith to receive, hold, and sell illegal controlled substances in Cleveland, with the assistance of Stephanie Walker, Dwight Walker, and Dennis McKenzie. Smith used the proceeds from the sale of the illegal controlled substances to purchase real estate. Richelle Spears aided and abetted James Smith in receiving money from the Cuyahoga Metropolitan Housing Authority as a Section 8 landlord under the identity of Isaiah Campbell, while failing to make mortgage payments on the single family properties.

Additionally, defendants Gregorio Pimental and Carlos Abreu were arrested when they attempted to enter one of the single family properties that was in foreclosure. Pimental was one of the Massachusetts Parole Authority's ten most wanted persons. The value of assets seized exceeds \$220,000.

A Federal Grand Jury in the District of Massachusetts indicted Angel Serrano on one count of conspiracy, one count of mail fraud, and one count of false statements. The indictment is the result of an investigation of property flipping in **Westfield, MA**. Serrano allegedly acted as an unlicensed broker who steered low-income, first-time homebuyers, primarily Hispanics, toward purchasing properties. In order to qualify the buyers, Serrano prepared numerous false gift letters, income statements, lease documents, and credit documents and submitted them to the mortgage lender. In order to continue the scheme, a closing attorney conducted the real estate closing for both sides of the flip and failed to notify the mortgage lender, as required by FHA on a double escrow.

Defendant Barbara Kessinger, also known as Sheila Murphy, was indicted by a Federal Grand Jury in the Northern District of Illinois, **Chicago**, on one count of mail fraud and six counts of bankruptcy fraud. The indictment charges Kessinger with fraudulently obtaining financing to obtain one FHA insured property and two properties that were owned by the Department of Veterans Affairs. The indictment alleges that Kessinger acquired the properties by submitting falsified borrower information that included a false Social Security number, a false name, and fabricated income and employment documentation. As part of the fraud, Kessinger failed to make the required payments on the mortgage loans. In addition, she purposely filed six false Chapter 13 bankruptcy petitions from 1997-1999 in order to halt foreclosure proceedings. Following the dismissal of the bankruptcies, all three properties went into foreclosure. The loss to HUD was \$74,149, while the loss to the Department of Veterans Affairs was \$36,524.

Defendants William E. Fallon and Julie A. Fallon, doing business as *Homeowner Services of Arizona*, **Phoenix, AZ**, and Michael D. Henschel, doing business as *Proserve*, **Van Nuys, CA**, were indicted by a Federal Grand Jury in U.S. District Court, District of Arizona, on five counts of wire fraud. An investigation focused on a scheme in which homeowners, whose mortgages were in default and who were facing foreclosure, were contacted by the Fallons and told that Homeowner Services could delay the foreclosure. The Fallons collected rent and fees from homeowners, while Henschel filed fraudulent bankruptcies in California to delay the foreclosure process. Henschel originated the same scheme in California and the Fallons moved to Arizona to continue the fraud. Over 1,000 property owners in California signed deeds and paid fees to Proserve; this included about 120 properties with FHA insured mortgages and 40 properties with mortgages guaranteed by the Department of Veterans Affairs. In addition, Henschel caused over 200 fraudulent bankruptcies to be filed in California by using fictitious names and Social Security numbers. The Fallons secured deeds from 39 homeowners in Arizona, 18 of whom had FHA insured mortgages. They then collected about \$51,000 in fees/rents from the homeowners during the period they

operated Homeowner Services in Arizona. Losses to the government as a result of this scheme total approximately \$390,000.

In U.S. District Court, Central District of California, defendant Kelli Davis, a loan officer at *RE Mortgage Group, Inc.*, in **Downey, CA**, was indicted on six counts of wire fraud for her involvement in a single family loan origination fraud scheme. Davis, along with other real estate professionals, fraudulently purchased employment, income, and credit documents from a known forger. The forger was convicted in Federal Court in August 2002. Davis then packaged the fraudulent documentation into more than 80 mortgage loan applications for unqualified borrowers. The fraudulent applications were eventually submitted to HUD. Davis was arrested at her place of business, *Pro 1 Mortgage*, as a result of an arrest warrant that was issued in U.S. District Court for the Central District of California. The value of the fraudulently funded loans exceeded \$11.4 million. The resulting loss to HUD exceeded \$5.2 million.

Defendant Waldo Andia, a property speculator in **Rockville, MD**, was arrested at his residence after previously being indicted in Federal Court for the District of Maryland on false statement charges. Andia allegedly flipped approximately 40 single family properties. He typically sold the homes to first-time homebuyers, who purchased the homes using both FHA insured and conventional mortgage loans. Andia created false employment documents for homebuyers, including W-2's, pay stubs, and verifications of employment, to help them qualify for the mortgage loans. The potential loss attributable to the fraudulent documents is \$250,000.

Defendant Brian G. Hoch, sales representative for *Barwood Estates Development* in **Dover, PA**, was debarred from participation in procurement and non-procurement transactions with HUD or the Federal Government for four years. Developer Gary L. Sweitzer and his company, *Gary L. Sweitzer Enterprises, Inc.*, were also debarred from participation in procurement and non-procurement transactions with HUD or the Federal Government for ten years. These debarments are based on information that Hoch and Sweitzer participated in a scheme

whereby they and other conspirators used fraudulent gift letters and sweat equity to provide mortgagors with most or all of the funding required to purchase FHA insured homes, including funds for the down payments and to pay off debts to ensure that they qualified for the mortgages. Hoch helped to originate, and Sweitzer sold up to 110 homes with, FHA insured mortgages in Barwood Estates. Currently, 19 of these loans have gone into foreclosure, totaling over \$1.8 million in potential claims to the FHA insurance fund. Both Hoch and Sweitzer have signed agreements to plead guilty to conspiracy to commit HUD fraud in U.S. District Court for the Middle District of Pennsylvania.

A five-count False Claims Act civil complaint was filed in the Southern District of Texas by the **Houston** U.S. Attorney's Office against Charles Anthony, a deputy with the Harris County Sheriff's Department. An investigation disclosed that Anthony violated the Officer Next Door Program regulations by failing to live in a home which he purchased at a discounted price. Under the False Claims Act, the government is entitled to recover three times the amount of actual damages plus civil penalties and other fees.

In U.S. District Court, Central District of California, defendant Maritza Portillo, a real estate agent at *Century 21 Bright Horizons* in **West Covina, CA**, pled guilty to one count of conspiracy to commit fraud against HUD. Portillo, along with Walter Brent Williams and Heidi Lynn Jackson, employees at *Golden Feather Realty*, devised a scheme to enter "straw" high bids to win the electronic bid process for HUD real estate owned (REO) properties. Golden Feather was the HUD contractor for the marketing, maintenance, and sale of HUD REO properties in California. After all the bids for properties had been entered, some employees at Golden Feather altered the bid sheets to show that certain bids had won the bid process and the properties were sold for amounts far below market value. The fraud resulted in a loss to HUD of approximately \$516,560, with a \$51,000 loss attributed to Portillo. Portillo was sentenced to three years probation and was ordered to pay a one-third portion of \$29,500 in restitution to HUD.

Defendants Williams and Jackson were sentenced in U.S. District Court for the Central District of California for their roles in the scheme. Williams was sentenced to 15 months incarceration and three years probation, and ordered to pay \$465,560 in restitution to HUD. Jackson was sentenced to four months in a halfway house, four months home detention, and five years probation, and ordered to pay \$340,605 in restitution to HUD. This investigation was initiated based on a referral from the HUD Home Ownership Center.

Defendant Ismael Rodriguez, an **Essex County, NJ** Sheriff's Officer, pled guilty in U.S. District Court, District of New Jersey, to knowingly and willfully making a materially false, fictitious, and fraudulent statement and representation relating to the purchase of a residence under HUD's Officer Next Door Program. Under this program, Rodriguez purchased a property at a 50 percent discount and certified falsely that he would reside in the residence for a three-year period. In fact, Rodriguez owned two other residences.

Defendant Kerry Townsend, a Harris County, TX Sheriff's Deputy, agreed in Federal Court, Southern District of Texas, to a financial settlement with the government and provided the **Houston, TX** U.S. Attorney's Office with two cashiers' checks totaling \$40,500 to avoid a federal lawsuit under the False Claims Act. An investigation disclosed that Townsend failed to abide by HUD's requirement that he live in a home, purchased through the Officer Next Door Program, for three years as his primary residence. Instead, he resided at another property and never occupied the house he purchased from HUD at a discounted price.

OIG Offices of Audit and Investigation — Joint Efforts

The joint effort, in which both HUD OIG Investigators and Auditors bring to a case their respective areas of expertise, is an effective means to completing an investigation, and is often the only way to put together the necessary pieces of an investigative case.

Defendant Albert R. Coccia, Jr., former general manager/owner of *Arco Redevelopment Company*, a Title I contractor/dealer in **Philadelphia, PA**, was sentenced in Federal District Court, Eastern District of Pennsylvania, on multiple federal violations. Coccia was sentenced for his role in defrauding the HUD Title I Program and interstate drug trafficking activities after his Title I company went out of business. He received a prison term of 27 months and three years supervised release, and was ordered to pay a \$900 special assessment fee. Coccia was also ordered to forfeit \$5,157 and pay \$14,421 in restitution to HUD. The latter represents one of the Title I claims the government paid as a result of his criminal activities. The sentencing stems from a superseding 41-count Federal Grand Jury indictment returned against Coccia in April 2002 that charged him with wire fraud, false statements to HUD, and money laundering. In May 2002, the Court accepted Coccia's guilty plea to various counts of the indictment.

A Federal Grand Jury in the Western District of Tennessee found defendant Melvin Rice, Jr., guilty on two counts of making false statements. Rice, a **Memphis, TN** Police Officer, purchased a home through HUD's Officer Next Door Program, agreeing to live in the property for three years after purchase. Rice rented the property and falsified certifications as to his residency. When the renters refused to lie for Rice, he had them evicted. Rice was sentenced to two years probation, six months home confinement, 50 hours of community service, fined \$1,000, and ordered to pay \$9,600 in restitution and a \$200 special assessment fee.

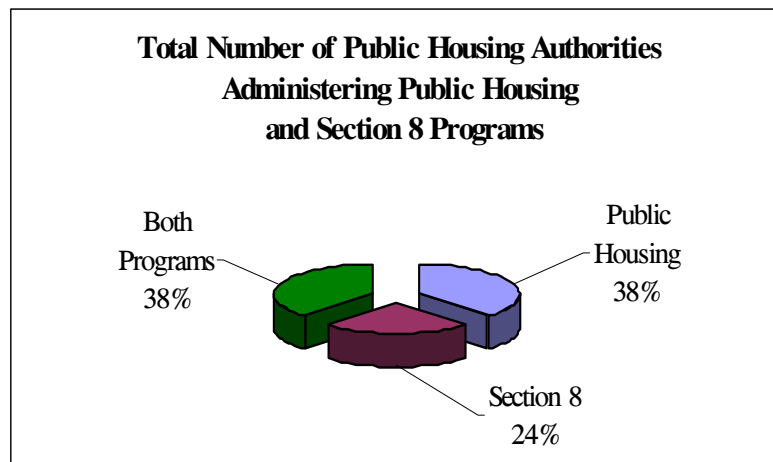
Defendant Julio Hidalgo, Sr., a real estate broker who did business as *Julio and Associates*, entered a plea of guilty in U.S. District Court, District of Arizona, **Phoenix**, to a one-count information charging him with submitting false statements to HUD. In addition, Julio Hidalgo, Jr., a real estate agent, also entered a plea of guilty to one count of submitting false statements to HUD. Hidalgo, Sr., and Hidalgo, Jr., were previously indicted on one count of conspiracy, 12 counts of submitting false statements to HUD, and five counts of mail fraud. An investigation disclosed that the Hidalgos produced numerous W-2's, pay stubs,

letters of credit, and verification of employment forms for the purchase of homes with FHA insured mortgages. In addition, they stole thousands of dollars from homebuyers by claiming additional funds were needed for closing. In one instance, Hidalgo, Jr., received \$20,130 from one homebuyer when the actual closing costs were only \$3,672. About 72 loans originated by the Hidalgos have been identified as fraudulent, with FHA insured mortgages totaling approximately \$6.12 million and losses on 10 of these properties totaling about \$148,000.

Chapter 3 – HUD’s Public and Indian Housing Programs

Audits

HUD provides grants and subsidies to approximately 4,200 housing authorities (HAS) nationwide. About 3,200 HAS manage public housing units and another 1,000 HAS, with no public housing, manage units under Section 8 Programs. (Many HAS administer both Public Housing and Section 8 Programs.) HUD also provides assistance directly to HAS’ 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 HAS 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.



During this reporting period, we conducted reviews of the Puerto Rico Public Housing Administration’s procurement of management agents, the Philadelphia, PA Housing Authority’s contracting and procurement activities, the Public Housing Programs of the Northwestern Regional Housing Authority in Boone, NC, and the Coshocton, OH Metropolitan Housing Authority, as well as the general operations of other HAS.

We completed a review of the **Puerto Rico** Public Housing Administration’s (PRPHA) management agent contracts. We began the review in response to the criminal indictment of the general manager of one of the management agents involving excess charges to the Public Housing Program. Our assessment showed that the former PRPHA administrator failed to ensure that contracts awarded in 1999 were procured in a manner that provided full and open competition consistent with appropriate standards, and were reasonable and beneficial to the PRPHA. The PRPHA disregarded procurement requirements; executed financially burdensome management contracts; paid excessive non-project salaries; and paid excessive overhead and profit. We estimate these five-year contracts to have been awarded at \$35 million more than was necessary.

We recommended that HUD work with the PRPHA to remedy the deficiencies in the contracts, or require the PRPHA to pursue all available options provided by the agents’ service contracts to ensure that the best interests of the PRPHA and HUD are being served, and possibly save \$10.8 million in costs not incurred. We also recommended that HUD require the PRPHA to deduct about \$2 million from one of the management agent’s invoices correct the costs improperly included in the proposal and contract award. In addition, HUD should consider appropriate administrative action against the former PRPHA administrator and others for gross mismanagement of the procurement process. (Report No. 2003-AT-1002)

An audit of the **Philadelphia, PA** Housing Authority's contracting and purchasing activities found that, for the most part, the Authority was soliciting, awarding, and administering construction contracts in accordance with federal procurement requirements. We did find, however, that the Authority did not always comply with federal purchasing requirements or its own procurement policy in awarding service contracts. We identified at least one major deficiency in 12 of the 37 service contracts reviewed (\$2.3 million of \$37 million reviewed). Specifically, contracting officials did not: (1) always advertise solicitations adequately; (2) develop required cost estimates; (3) issue written amendments to all bidders when changes were made after the due date for proposals; and (4) adequately evaluate options as part of the total contract award.

We also found that the Authority frequently split purchases from vendors to avoid obtaining the products and services through the competitive award process. A review of small purchases for 28 vendors that received \$20.1 million during the audit period showed that the Authority frequently split purchases for 15 of the 28 vendors. Since the Authority did not adequately plan its contracting needs, it divided purchases to justify using small purchase procedures (\$10,000 limit on purchases) to obtain the commodities it needed to keep operations running smoothly.

During the audit, the Authority took a number of actions that should improve its vendor payment process. We recommended that the Authority: (1) reimburse nearly \$400,000 of ineligible costs from non-federal funds; (2) provide documentation to support vendor payments totaling nearly \$330,000 or reimburse that amount from non-federal funds; and (3) develop an annual procurement plan. (Report No. 2003-PH-1002)

In **Boone, NC**, our audit of the Northwestern Regional Housing Authority (Authority) was conducted in response to a citizen's complaint. We found the Authority repeatedly violated regulatory requirements and its public housing and Section 8 contracts. Management pledged Authority assets as collateral for unauthorized bank loans, misused over \$580,000 of Section 8 and public housing funds for

private development activities, and guaranteed repayment of private development loans. The Authority incurred unnecessary and ineligible travel and other costs. It paid lavishly for meals, hotels, and tips, made frequent out-of-region trips, and paid travel expenses for family members of management and the board. Also, it spent over \$100,000 for miscellaneous items, half of which were for entertaining and pampering its board members and employees, their spouses, and guests at board meetings, a beach retreat, and a Christmas party. It also purchased theater tickets, jewelry, bath products, libations, and other personal gifts.

The Authority did not maintain its public housing units and grounds in good repair, did not maintain accurate accounting records, and did not follow Section 8 fund requisition requirements, resulting in excess withdrawals. Management did not properly segregate tenant escrow funds, adequately pursue collection of tenant rents, or follow its own policies on nepotism.

Due to the nature and extent of the violations, we recommended that HUD declare the Authority in substantial default, recover \$4.3 million of ineligible costs, and take appropriate administrative and other needed actions. (Report No. 2003-AT-1001)

As part of a comprehensive review of the **Coshocton, OH** Metropolitan Housing Authority, we conducted five audits of five different programs based on a request from HUD's Columbus Field Office Coordinator of the Public Housing Program Center. The five programs audited included the Public Housing Program, Section 8 Housing Program, Comprehensive Improvement Assistance Program, Public Housing Resident Council's Tenant Opportunities Program and Public Housing Drug Elimination Program. All five audits found that management controls over the programs were weak, resulting in questionable costs of about \$670,000.

- Under the Public Housing Program, weak controls over monetary assets, cash and inventory resulted in the Authority's using over \$76,000 for ineligible expenses and being unable to support expenditures of about \$166,000. Areas which lacked adequate proce

dures and controls included personnel, Public Housing Program physical condition standards, cash receipts and disbursements, equipment, procurement, and financial and administrative processes.

- Under the Section 8 Program, Section 8 units contained health and safety violations (521 violations in 33 of the 34 units inspected) and the Authority could not document how utility allowances or rent reasonableness were determined.
- Under the Comprehensive Improvement Assistance Program (for FYs 1997, 1998, and 1999) the Authority did not: (1) ensure that about \$290,000 was used according to HUD regulations; (2) ensure that over \$36,000 was used in accordance with its board approved operating budget; (3) procure goods and services in accordance with HUD regulations; and (4) perform contractor employee wage surveys for its program.
- Under the Resident Council's Tenant Opportunities Program (FY 1998), the Authority: (1) requested about \$42,000 from HUD without supporting documentation to show that funds were for reasonable and necessary program expenses; and (2) drew down about \$5,000 in excess of actual program expenses.
- Finally, under the Public Housing Drug Elimination Program (FY 1998), the Authority: (1) drew down about \$15,000 in excess of actual program expenses; (2) used about \$6,000 to pay two resident security guards who had criminal histories, had no previous experience providing security services and did not receive any security services training; and (3) failed to monitor and evaluate the program's activities to ensure that they achieved their intended objectives.

In all the audit reports, we recommended that HUD's Acting Director of the Troubled Agency Recovery Center, Cleveland Field Office, assure that the Authority implements procedures and controls to correct the weaknesses cited in the



Split entry door trim.



Missing cover plate caused exposed wires of electrical outlet.

reports. We also recommended that the Acting Director: (1) take administrative actions against the Authority's former executive director, current director, and its board of commissioners for failing to administer the Authority according to federal, state, and its own requirements; (2) take appropriate action against the Authority for its default on its Annual Contributions Contract; (3) conduct an election to determine whether the public housing residents want a transfer of management to another entity, as permitted by the Housing Act of 1937; and (4) determine the feasibility of combining the Authority with another public housing authority, as permitted by the Housing Act of 1937. (Report Nos. 2003-CH-1010, 2003-CH-1011, 2003-CH-1012, 2003-CH-1013, and 2003-CH-1014)

As a result of a citizen's complaint, we audited the Housing Authority of **Champaign County, IL**. The complainant's specific allegations were that the Housing Authority: (1) inappropriately used monies from its Comprehensive Improvement Assistance Program, Public Housing Drug Elimination Grant, and Resident Opportunities for Self Sufficiency Grant Programs; and (2) did not maintain its units in a decent, safe, and sanitary condition. We found that the Housing Authority charged its HUD funded grants (Public Housing, Drug Elimination, and Comprehensive Improvement Assistance) over \$27,000 in ineligible and unsupported expenses. The ineligible expenses totaling about \$24,000 consisted of stipends paid to the Authority's residents who were not eligible to receive them because they were not officers of the Authority's Resident Council.

We recommended that HUD's Director of Public Housing Hub, Chicago Field Office, assure that the Housing Authority reimburses its Public Housing Program for the inappropriate use of grant funds. (Report No. 2003-CH-1001)

We audited the Housing Authority of the City of **Morgan City, LA**'s Low-Rent Program. The audit concluded that the Authority did not follow either procurement requirements or policies regarding the

use of its credit cards and the performance of travel. Specifically, the Authority: (1) inappropriately procured over \$900,000 in contracts; (2) paid about \$22,000 in ineligible and unsupported procurement expenditures; (3) paid nearly \$4,000 in ineligible and unsupported travel expenditures; (4) paid about \$33,000 to an Authority contractor in violation of conflict-of-interest requirements; and (5) did not monitor its budget. Further, the Authority did not have procedures that adequately addressed outside employment and businesses. As a result of poor management, lax oversight, and a failure to follow requirements, the Authority discouraged procurement competition and mismanaged HUD funds.

We recommended that the Authority either support or repay the unsupported expenditures discussed in the audit, and repay all ineligible amounts. Further, we recommended the Authority follow regulations and procedures to ensure it properly expends funds and that HUD take administrative actions against the parties involved in the conflict of interest. Generally, the Authority agreed to implement our recommendations. The Authority and its board have been reorganized and its former executive director has been terminated. (Report No. 2003-FW-1001)

An audit of the **Fairfield, AL** Housing Authority found that the Authority: (1) improperly provided conventional and Section 8 assistance to individuals; (2) had continuing problems in procuring goods and services; (3) did not maintain an adequate system of controls over its general accounting and disbursements; and (4) did not have adequate controls to ensure that travel expenses were necessary, reasonable, adequately supported,

and recorded, resulting in questionable costs totaling over \$560,000.

We recommended that HUD require the Authority to: (1) recover about \$70,000 in overpaid Section 8 assistance payments; (2) justify or reimburse nearly \$440,000 in unreasonable and unsupported disbursements from non-federal funds; (3) seek repayment of a \$50,000 receivable owed by a nonprofit corporation; and (4) reimburse over \$400 of ineligible travel expenditures and justify or reimburse nearly \$4,000 charged as travel or sundry expenditures. We also recommended that that Authority be required to implement basic controls to ensure its activities are in accordance with applicable HUD requirements. (Report No. 2003-AT-1003)

At the request of the HUD Atlanta Office Director of Public Housing, the OIG audited the South Carolina Regional Housing Authority No. 3 and the associated nonprofit, Southeastern Housing Foundation, **Barnwell, SC**. We found that the Authority's executive director (ED) and director of management (DM) took advantage of inadequate oversight by the Authority's board and the Foundation's board to financially benefit themselves, their families, and friends at the expense of both entities. The ED and DM violated the Annual Contributions Contract with HUD by executing an illegal agreement between the Author-

ity and the Foundation that provided financial and administrative support to the Foundation, including the use of Authority funds to finance the Foundation's operation. The Foundation owed the Authority over \$200,000 for operating costs as of January 31, 2002. Furthermore, the ED and DM collected over \$950,000 in development and other fees on Founda

HUD audit blasts authority

Fired directors redirected money meant to be spent on housing for the poor

STEPHEN GULFOYLE
Managing Editor

Two fired directors of the S.C. Regional Housing Authority No. 3 took more than \$900,000 from the Authority and a related Foundation for their personal use, a federal audit report released last week says.

Second Circuit Solicitor Barbara Morgan received a copy of that report and is examining it for possible charges. She said Monday evening the issue is extremely complex, perhaps involving more than one jurisdiction, and she couldn't make any additional comment. She received a draft copy of the report about two weeks ago, and said she received the final report when it went public last week.

The full report is available on the website for the U.S. Department of Housing and Urban Development.

One director denied the validity of the report, another is unavailable for comment.

The report says in a

summary on a webpage that "The Authority's Executive Director (ED) and Director of Management (DM) took advantage of their positions, and inadequate oversight by the Housing Authority Board and a related non-profit Foundation Board, to financially benefit themselves, their families, and friends at the expense of both entities."

Barnwell lawyer Pat Smith is the former executive director. Steve Nettles of Barnwell is the former director of management. The 21-page report mentions the two only by their titles.

According to a Charleston lawyer representing the Housing Authority, Smith and Nettles worked together, but had a falling out. The Housing Authority said both Nettles and Smith issued complaints against the other. The board placed both on leave while it investigated. That happened in February.

On Feb. 15, the board

See **Authority**, Page 12A

tion property purchases. As a result, the financial positions of the Authority and Foundation were materially weakened.

We recommended HUD monitor board of commissioners' actions to ensure adequate oversight of the Authority, and require the Authority to recover over \$1.1 million including, amounts owed the Authority by the Foundation, amounts improperly collected by the ED and DM, and other improper payments. We also recommended the Authority improve procedures for documenting certain expenditures, ensure proper acquisition procedures are followed, and sever ties with the Foundation or develop a plan to absorb the Foundation and its known liabilities. (Report No. 2003-AT-1801)

We performed an audit of the **Delta, CO** Housing Authority to determine whether complainants' allegations about the Authority's operations were valid and to determine whether Authority funds were used in accordance with applicable HUD policies and procedures. Specifically, we reviewed procurement activities, selection of applicants from the waiting lists, Section 8 voucher payments for tenants previously residing in Authority owned units after moving out, allocation of costs to the Authority's housing programs and activities, and maintenance activities. We found that the Authority had deviated from its own policies and procedures in some areas and was not conforming to HUD requirements in carrying out its HUD funded housing programs. As a result, HUD funds were used to pay ineligible expenses totaling over \$100,000; procurement policies were circumvented to provide contracts to favored contractors; admission policies were ignored to facilitate favoritism on the public housing waiting lists; excess Section 8 voucher payments and administration fees were collected for Authority owned housing units; and unrecorded tenant fees and deposits were used for unallowable activities. (Report No. 2003-DE-1002)

An OIG audit of the **Key West, FL** Housing Authority's (KWA's) procurement activities found that management did not ensure that procurement activities complied with HUD or local procurement policies and procedures. Our review found that: (1) cost estimates and cost/price analyses were not conducted; (2) the contract register was inaccurate;

(3) records lacked sufficient documentation of procurement histories; and (4) contracts were awarded when conflict-of-interest relationships existed. These deficiencies occurred because there was no clear responsibility for the management, oversight, and review of procurement activities.

The KWA also needs to improve the administration of its Section 8 Program. Specifically, KWA: (1) did not recognize conflict-of-interest situations; (2) did not establish reasonable contract rents and incorrectly calculated housing assistance payments to landlords; and (3) did not conduct proper housing quality standards inspections. These weaknesses occurred because the KWA staff lacked knowledge of HUD requirements and had not established adequate controls to administer the program.

The KWA agreed with our findings and indicated they have taken or will take a number of corrective actions to address the findings. (Report No. 2003-AT-1802)

An OIG review of the **Fort Pierce, FL** Housing Authority (FPHA) disclosed that the Authority's system of accounting and management controls was weak. FPHA lacked controls to assure that it adhered to HUD and its own policies and procedures concerning cash disbursements, credit card and travel expenditures, procurement activities, purchases, and equipment inventory. As a result, HUD and the FPHA lacked assurance that its assets were properly safeguarded against waste, loss, and misuse. The FPHA also failed to adhere to HUD requirements designed to prevent conflicts of interest, assure the reasonableness of Section 8 rents, obtain third party verification of program participants' income, and calculate rents correctly. In addition, the FPHA used Section 8 reserve funds without approval from the board of commissioners, as required by FPHA procedures. These weaknesses occurred because the FPHA had not established adequate or effective controls to administer its Section 8 Program.

Among other things, we recommended that HUD require the FPHA to document the eligibility of expenditures cited in the audit or reimburse the Section 8 Program from non-federal funds, termi

nate or transfer existing contracts with Section 8 landlords having conflicts of interest, and implement controls to ensure that costs are properly supported. (Report No. 2003-AT-1803)

Investigations

In **McAllen, TX**, defendants Ovidio Ramirez, former Section 8 director at the Housing Authority of the City of La Joya, and Jose Trevino, former executive director, were sentenced in U.S. District Court, Southern District of Texas. The defendants previously pled guilty to conspiracy to embezzle and steal public funds. They conspired to embezzle \$194,814 of Section 8 Pprogram funds by engaging in a scheme of duplicating Section 8 participant landlord checks, forging landlords' signatures, cashing and depositing the duplicate checks in various financial institutions, and using the proceeds for their personal benefit. Ramirez was sentenced to four months imprisonment, two months home confinement with electronic monitoring, and three years supervised release. Trevino was sentenced to 15 months imprisonment and three years supervised release. Both defendants were also ordered to pay half each of the \$194,814 loss and assessed a special \$100 fee.

Defendant Maria Suarez, the former director of Section 8 Programs for the **Newburgh, NY** Housing Authority, was ordered to surrender to the Bureau of Prisons on January 3, 2003, to begin serving a six-month sentence. Suarez was also ordered in U.S. District Court, Southern District of New York, to serve three years probation, 10 months of which will be served as home confinement with an electronic monitoring device, and to pay \$170,000 in restitution. She was previously arrested and pled guilty to one count of theft from programs receiving government funds.

The same court also ordered defendant Derrick Riullano, a Section 8 landlord, to surrender to the Federal Bureau of Prisons within 45 days to begin serving a 12-month term of incarceration. Riullano was also ordered to serve three years supervised release and to pay \$171,000 in restitution. Riullano was previously arrested and pled guilty to one count

of theft or bribery concerning programs receiving federal funds. Riullano and Suarez participated in an embezzlement scheme involving the creation of fictitious Section 8 tenants at the Newburgh Housing Authority. The scheme resulted in a loss to HUD of approximately \$220,000.

The following actions are the result of an investigation at the Parkhill Apartments in **Staten Island, NY**. The investigation developed into a multi-faceted Section 8 lower-income rental assistance case involving a dozen or so individuals who were suspected of providing false statements to a management company during the annual recertification process. The investigation disclosed that a number of lower-income rental assistance recipients were in fact homeowners who lived in other parts of the country and traveled back to Staten Island once a year to assist in the recertification process. All the defendants appeared before the U.S. District Court, Eastern District of New York.

Defendant Joseph Adams, a former tenant of Parkhill, was sentenced to five months incarceration and two years supervised probation, and was ordered to pay \$89,851 in restitution. In August 2002, Adams pled guilty to conspiracy to defraud the Federal Government.

Defendant Bamidele T. Lawal pled guilty to one count of submitting false statements involving HUD and FHA transactions and one count of mail fraud. Defendant Presley A. Hanson pled guilty to one count of conspiracy to commit offense against or to defraud the United States. The fraud committed by these two subjects resulted in an estimated overpayment of Section 8 subsidies in the amount of \$133,674. The investigation also disclosed that the defendants owned real property and were unlawfully subletting the subsidized units to third parties.

Defendant Stephen Freeman, a resident at Parkhill, was sentenced on charges of conspiracy to commit fraud against the government. Freeman was sentenced to 36 months supervised probation and was ordered to pay restitution of \$44,604 and a \$100 special assessment fee. Freeman also received Section 8 benefits as a resident of Parkhill Apartments while registered as another individual.

Defendant Edwin Erhabor pled guilty to mail fraud. Erhabor was actually a homeowner and did not live in the Parkhill Apartments; he provided false statements to the management company during the recertification process, including failing to disclose that he worked for the New York City Transit Authority.

Defendant Odiokosa Ofili, a resident at Parkhill, pled guilty to submitting false statements to HUD. The investigation found that Ofili was actually a homeowner and lived outside of Parkhill. Ofili also failed to disclose that he worked for the New York City Human Resources Administration.

Defendant Ndubuishi A. Ukoha, a resident at Parkhill, pled guilty to mail fraud. In addition to providing false statements to the management company, the investigation disclosed that Ukoha was subleasing his Section 8 apartment.

Defendant Bobby Ross was sentenced in Federal Court, Eastern District of Missouri, **St. Louis, MO**, to serve three months probation and ordered to pay \$86,058 in restitution. Ross previously pled guilty to a two-count indictment charging him with Social Security fraud and false statements. He admitted illegally obtaining Social Security benefits by using two different Social Security numbers and falsifying Social Security applications. Ross obtained Social Security disability while at the same time working for General Motors, resulting in an \$86,058 loss to the government. The illegal acts were discovered after Ross applied for Section 8 housing assistance.

In **Cleveland, OH**, defendant Samuel Dabney was sentenced in Federal Court in the Northern District of Ohio after pleading guilty to theft of government funds and making false statements. Dabney was sentenced to five months in a halfway house, five months of electric monitoring, and three years probation, and was ordered to pay \$80,708 in restitution to the Social Security Administration (SSA) and \$35,994 in restitution to HUD. Dabney was indicted in September 2002 for defrauding SSA and HUD's Section 8 Program. He failed to report the death of his mother, Aggie M. Lee, in order to continue receiving both SSA and HUD benefits. Dabney received and negotiated these benefits

beginning in August 1987, the month after her death, through February 2002.

Defendant Sandra Napua Clarke, the former vice president and community representative of the Waimanalo Housing Resident Association (WHRA) in **Honolulu, HI**, was sentenced in U.S. District Court in Honolulu. She received 15 months in prison and three years supervised probation, and was ordered to pay \$25,800 in restitution and a \$300 special assessment fee. Clarke embezzled funds from a Tenant Opportunity Program grant. HUD awarded the funds to WHRA in 1995 to promote and encourage tenant opportunities in public housing, such as training and technical assistance. Clarke was previously found guilty on one count each of theft from a government program and conspiracy.

In **San Diego County, CA** Superior Court, defendant Patricia Wylie was sentenced to five years of summary probation and ordered to pay \$25,693 in restitution. In the event that Wylie violates probation, she will be sentenced to 365 days of custody. Previously, Wylie pled guilty to three counts of a seven-count felony complaint that was filed by the County of San Diego District Attorney's Office. The complaint alleged that Wylie made false statements and unlawfully obtained \$25,693 in Section 8 subsidies. Wylie pled guilty to grand theft of real property from the County of San Diego, grand theft of money and personal property of the County of San Diego, and forgery of checks. This sentencing was the result of an investigation that revealed that Wylie was receiving funds from Child Development Associates, Inc., an agency funded by the State of California, and making false statements regarding this income on a Section 8 application.

Carmen Luna, also known as Carmen Colon, a former public housing resident in **Lawrence, MA**, was sentenced in U.S. District Court, District of Massachusetts, to 36 months probation, the first six months of which will be served as home confinement, and ordered to pay restitution totaling \$55,760 — \$24,988 to HUD and \$30,772 to SSA. Luna has already repaid \$19,000 of the amount she owes to SSA. She was also ordered to pay a \$300 special assessment fee. The sentence follows Luna's

July 2002 guilty plea to two counts of theft of government funds and one count of false statements.

In **Eugene, OR**, defendant Larry Dale Johnson was sentenced to serve 33 months incarceration, pay HUD \$21,820 in restitution, and forfeit 58 firearms following his guilty plea in Federal Court, District of Oregon, to fraudulently obtaining HUD funded rental assistance. This sentence resulted from an investigation which disclosed that Johnson was financing a substantially large marijuana grow operation from fraudulently obtained HUD rental assistance. The investigation led to a 12-count indictment of Johnson for mail fraud, theft of government monies, and false statements. As part of his plea agreement, Johnson admitted to having concealed the ownership of his residence by claiming to be a renter so he could obtain HUD rental assistance totaling \$21,820 between April 1998 and March 2001. When arrested, Johnson was in possession of 50 firearms that he utilized to protect his illegal narcotics business.

The OIG was notified by the HUD Office of General Counsel that Ralph P. Mayes, a Section 8 landlord residing in **Point Pleasant, WV**, was issued a “Final Notice of Debarment” from participation in procurement and non-procurement transactions with HUD and throughout the Executive Branch of the Federal Government for three years. The debarment follows a December 17, 2002 “Notice of Proposed Debarment” and a November 7, 2002 “Notice of Immediate Suspension.” These notices were issued based on Mayes’ November 4, 2002 sentencing to 60 months probation and restitution to HUD totaling \$20,100. Mayes pled guilty in U.S. District Court, Southern District of West Virginia, on August 19, 2002, to one count of mail fraud for his role in a fraud scheme wherein he cohabitated with Denise S. Villeneuve, a tenant, and received Section 8 rental subsidies from the Point Pleasant Housing Authority from September 1996 to December 2001.

In a related case, defendant Robert Wamsley lived with Eula Clonch and received Section 8 rental subsidies from the Point Pleasant Housing Authority. Subsidies were paid from September 1996 to December 2001. Clonch moved out of Wamsley’s home after Section 8 subsidy payments

were terminated due to evidence of their co-habitation. When Wamsley saw Clonch in town, he abducted her and took her back to his residence, where he held her hostage and physically assaulted her, according to West Virginia State Police reports.

Defendant Terrence Lee Witherspoon, former executive director of the **Eutaw, AL** Housing Authority, was sentenced in U.S. District Court, Northern District of Alabama, to five months in prison and 36 months supervised release, and ordered to pay \$31,688 in restitution to the Housing Authority. Witherspoon confessed to stealing \$31,688 in rental payments from the Authority while he was the executive director. He used most of the funds for gambling at a local racetrack.

In **Cleveland, OH**, defendant Carol Wall, a mortgagor, was sentenced in Federal Court, Northern District of Ohio, to four months home confinement and three years probation, and was ordered to pay \$27,876 in restitution to the Cuyahoga Metropolitan Housing Authority (CMHA). In 1999, Wall, using the identity of Cassandra Ramsey, obtained a mortgage loan for a property in Warrensville Heights, OH. The loan was brokered by *Bevel, Bevel & Associates*, and was obtained using false and fraudulent documentation regarding Wall’s identity and income. Wall, under her own identity, then applied for Section 8 subsidies as a “tenant” of the property, knowing that she was not qualified or entitled to receive such subsidies. Between July 1999 and July 2002, she received \$27,876 in Section 8 housing assistance payments by falsely claiming to be a tenant of the property she actually purchased and owned.

In the same case, defendant Nichelle Gould, a mortgagor, was sentenced in the same court to three years probation for using her child’s Social Security number to secure two loans, one of which was FHA insured. Documents recovered during the December 2002 execution of a search warrant at the FHA insured residence disclosed a Section 8 landlord/tenant scheme between Gould and her boyfriend, Marc Morris. Morris presented himself as the owner of Gould’s property. Morris was arrested based on multiple felonies out of Cuyahoga County and is currently awaiting sentencing on these local charges.

Wall and Gould were charged along with 40 other individuals in a 100-count single family fraud indictment wherein five of the subjects had a specific HUD nexus. Specifically, three Section 8 landlords, one FHA mortgagor, and one Section 8 tenant (Carol Wall, Charmane Lowe, Cherese McDowell, Darryl Stevenson, and Jeffrey Davis), who simultaneously received Section 8 assistance on behalf of their own residences, were charged with conspiracy, mail fraud, bank fraud, money laundering, misuse of Social Security numbers, wire fraud and false statements in connection with their false loan applications for single family houses in the Cleveland Metropolitan area. Fraudulent statements by these individuals include name, Social Security number, employment, and down payment information.

In the same case, a federal search warrant was executed at a residence which was alleged to have ties to a counterfeiting check scheme. Harrison Clark, Bettina Mabrey, and Latosha Oliver were arrested. Seized during the search were a computer, a printer, check quality printing paper, and several counterfeit checks, including several CMHA checks. During the execution of the search warrant, as Agents and Officers made entry into the residence, the printer was in the process of printing out several CMHA payroll checks and Section 8 checks.

During the investigation, information was developed about Clark's using his home computer to print counterfeit checks. Clark conspired to generate fraudulent CMHA and other company payroll checks. Specifically, CMHA payroll checks, CMHA Section 8 landlord checks, and CMHA Section 8 utility checks were being counterfeited. These checks were then distributed to other individuals involved in the scheme so they could cash the checks at local check cashing stores and small grocery/convenience stores. This counterfeit check "ring" was cashing approximately \$9,000 a day in bad checks. It is estimated that the loss to the CMHA and HUD could exceed \$250,000.

In a related case, defendant Fernando Newcomb was sentenced in District Court, Northern District of Ohio, **Akron**, after pleading guilty to a one-count information charging him as a felon in possession of a firearm. Newcomb was sentenced to 16 months incarceration and two years supervised

probation. Fines were waived, but Newcomb was ordered to pay a \$100 special assessment. Weapons, including a 9 mm handgun and an AK-47, were found at Newcomb's residence during the execution of a search warrant for counterfeit public housing authority payroll checks. Newcomb had two prior state felony convictions for drug offenses. He was remanded to the custody of the U.S. Marshals Service pending his answering a felony indictment handed down in October 2002 by the Cuyahoga County Common Pleas Grand Jury in Cleveland for domestic violence with a prior offense.

In State Court, defendant Anthony Jenkins, the former Section 8 manager of the **Arkadelphia, AR** Housing Authority, pled guilty to one count of felony theft of property and one count of felony forgery. On the same day, Jenkins was sentenced in Ninth Circuit Court East to seven years probation and 200 hours of community service, fined \$2,500, and ordered to pay \$18,730 in restitution to the Authority plus court costs. An investigation revealed that from October 2000 to April 2002, Jenkins stole over \$22,000 from the Authority. As Section 8 manager, he had access to the Section 8 computer program and could establish vendors to whom Section 8 checks were written. Jenkins established fictitious vendors and had checks written to these vendor names. He received and subsequently deposited these checks in his personal bank accounts. To conceal the theft, Jenkins coded the checks in the accounting system using the identities and Social Security numbers of unsuspecting Authority landlords, tenants, and other individuals.

Defendant Julio Perez III, former manager of information systems at the Housing Authority of **Corpus Christi, TX** (HACC), pled guilty in Federal Court, Western District of Texas, to one count of theft or bribery concerning programs receiving federal funds. Perez has already paid \$25,000 in restitution. An investigation found that Perez embezzled \$133,645 in HACC money, committed wired fraud, laundered funds through his wife's financial institution via a commercial bribery scheme to obtain money from HACC, and influenced the HACC board of directors to award him with a computer upgrade contract. Pursuant to the bribery

scheme, Perez was treated by *Pantex Computers, Inc.*, as an independent “consultant” and received kickbacks in exchange for his influence.

In **Harrisburg, PA**, defendants Emily Ayala and Emilio Cortez, husband and wife, were each sentenced in Federal Court, Middle District of Pennsylvania, to 48 months supervised release and ordered to pay \$12,980 in restitution. Ayala and Cortez previously pled guilty to one count of false statements and aiding and abetting. An investigation disclosed that the defendants failed to report Ayala’s earned income on annual recertification forms. From April 1997 to April 2000, Ayala received approximately \$12,900 in rental subsidies by falsely claiming she was estranged from her husband and that she had no source of income. The investigation also found that Ayala was living with her husband during this time period and that he earned approximately \$30,000 as a local factory worker. Ayala worked “under the table” and received over \$18,000 working in a bar. As a result of their fraudulent scheme, Ayala and Cortez were able to save enough money to purchase the single family home located next door to their Section 8 residence.

Defendant Mark Blakemore, a Section 8 landlord and a Department of Labor employee, pled guilty in the Circuit Court of **Cook County, IL**, to a misdemeanor charge of theft and was sentenced on the same day to 12 months probation, and \$6,358 in restitution to HUD. As part of the plea, he agreed to cooperate with the prosecution of former Section 8 tenant Kimberly Vaughn. Blakemore has already made restitution to the Department. An investigation disclosed that Blakemore was renting Vaughn’s Section 8 unit to a market rate tenant for one year while continuing to collect housing assistance payments for the same unit. He then kicked back half the market rate rent to Vaughn, while keeping the remainder for himself. The investigation also disclosed that Blakemore collected Section 8 benefits on behalf of the unit while it was vacant for five months. Vaughn is scheduled for trial at a later date.

Defendant Diane Galloway was sentenced in **Christian County, MO** District Court to five years supervised probation and 50 hours of community service, and ordered to pay \$6,012 in restitution to

HUD. In November 2002, Galloway pled guilty to one count of theft by deceit for failing to disclose financial assets owned by a tenant receiving subsidized housing. Galloway was the manager at Branson Manor Apartments where she accepted at least \$167,443 from Richard Hayes, an elderly tenant residing at Branson Manor.

In **Chicago, IL**, former Section 8 landlord Bryan Witt was convicted in State Court in Cook County, Northern District of Illinois, on one count of attempted state benefits fraud. On the same day, Witt was sentenced to 24 months of court supervision and ordered to pay \$6,000 in restitution to Irene Greenwalt. From October 1997 through November 1999, Witt required Greenwalt to pay him additional funds, under the threat of eviction, in excess of the payment required by the housing assistance payment contract agreed to by Witt and the Housing Authority of Cook County. Greenwalt paid Witt an additional \$400 per month. An aggravating factor in the prosecution of Witt was the fact that Greenwalt was an elderly woman on a fixed income caring for her handicapped daughter and two juvenile grandchildren.

In **Houston, TX**, defendant Deaueishia T. Page was sentenced in the 209th Texas State District Court to three years probation and 120 hours of community service, and was ordered to pay \$912 in restitution. Page pled guilty earlier this year to two separate indictments on the state felony charge of forgery-commercial instrument related to her cashing two fraudulent checks and for attempting to cash a third. The checks were from the Housing Authority of the City of Houston’s Section 8 contractor, Houston Housing Assistance Partnership. Page admitted to cashing the checks and advised that she would have continued had she not been arrested.

Defendant Monica Ross, a Section 8 specialist employed by the **St. Louis, MO** Housing Authority, and her associate, defendant Evelyn Williams, were sentenced in Federal District Court, Eastern District of Missouri, on bribery charges. Ross was sentenced to three years probation, while Williams was sentenced to 20 months in prison. Both defendants pled guilty in July 2002 to one felony count of

conspiracy to solicit and accept bribes by a public official. Ross' duties included entering preliminary registration forms for the Section 8 Program into a computer system, maintaining the Section 8 waiting list, and assisting applicants in obtaining Section 8 vouchers once they were chosen from the waiting list. Williams was an acquaintance of Ross and was aware of Ross' responsibilities at the Housing Authority. Ross admitted that she accepted bribes from Section 8 applicants to backdate preliminary registrations for the Section 8 Program, which placed them higher on the waiting list. Between March 2000 and October 2001, Williams located 15-20 individuals who wanted Section 8 rental subsidies and solicited and obtained between \$250 and \$350 from each individual as payment for getting them on the waiting list at the St. Louis Housing Authority. Williams paid Ross approximately half of the funds she collected as payment.

Defendant Verel T. Westover was found guilty following a five-day jury trial in the District of Kansas, **Topeka**, on four counts of making false statements to the United States and one count of embezzling money from the United States. According to testimony, from May 1998 through July 2001, Westover was involved in a scheme to obtain rental subsidies from HUD and food stamps from the Department of Agriculture by submitting false statements claiming that he was not employed. Westover received approximately \$12,920 in rental subsidies and approximately \$1,022 in food stamps when he was actually employed as a truck driver. In addition, Westover provided a false statement in May 1998 for purposes of determining his eligibility to participate in the Public Housing Program. He stated that he had only one prior felony offense when he had at least three priors. Westover obtained a total of nearly \$30,000 in assistance benefits.

In **Canton, OH**, in Stark County District Court, defendant Berniece Jackson pled guilty to state charges of engaging in a pattern of corrupt activity and nine counts of complicity to forgery for her part in a counterfeit check scheme involving computer generated checks drawn on the account of the Stark Metropolitan Housing Authority. Co-conspirator Elijah Baldwin pled guilty to three counts of theft and four counts of forgery. Co-

conspirator Evette Brown was convicted on one count of theft and four counts of forgery. A fourth co-conspirator, Latasha Stokes, previously pled guilty to two counts of forgery.

This case involved multiple search warrants and the tracing of counterfeit checks which were used for cash or to purchase computers for subsequent counterfeiting and false identifications. Losses exceed \$45,000.

In **White Plains, NY**, following an investigation, defendant Brian Panich, executive director of the Liberty Housing Authority, pled guilty in District Court, Southern District of New York, to a one-count information charging him with theft or bribery concerning programs receiving federal funds. Panich admitted taking personal loans from the Authority's Section 8 account from 1997 to 2001, during which time he served as executive director.

In **Reno, NV**, defendant Shannon Thompson pled guilty in Federal Court, District of Nevada, to one count of embezzlement from a tribal organization. Thompson is a former employee of the Te-Moak Indian Housing Authority. From July 2001 to November 2001, he embezzled approximately \$30,000 of Authority funds for his own use.

Defendant Ed Zamborski, the **Yonkers, NY** Municipal Housing Authority's former maintenance supervisor, pled guilty in U.S. District Court, Southern District of New York, to theft of government funds. Zamborski admitted inflating the prices of contracted jobs paid to his co-defendant Norman Scotland, a contractor, who previously pled guilty. In return for controlling the bids and the bidding process, Scotland did construction work on two properties owned by Zamborski as well as on a property owned by Zamborski's son.

Defendant Tracey Michelle Roach, former Section 8 coordinator of the City of **York, SC** Housing Authority, was indicted in Federal Court, District of South Carolina, on one count of embezzlement of public money, property, or records. Roach admitted embezzling over \$95,000 of Housing Authority funds over a six-month period. She

embezzled the funds by writing duplicate housing assistance payment checks to Section 8 landlords.

Defendant Charmaine Mabry, a former Section 8 eligibility clerk with the **Philadelphia, PA** Housing Authority, was indicted in U.S. District Court, Eastern District of Pennsylvania, on charges of extortion under color of official right (Hobbs Act), conspiracy to commit an offense against the United States, and theft concerning a program receiving federal funds. In her position at the Authority, Mabry had access to the Authority's computer database on the Section 8 waiting list. She was charged with accepting payoffs in exchange for manipulating the database to make it appear that certain individuals, who paid a fee to Mabry, had been selected from a lottery. Some of these individuals had never even applied to be put on the waiting list, while others had not been selected but were on the list. As a result of this scheme, Section 8 vouchers in excess of \$74,000 were fraudulently paid on behalf of individuals who paid Mabry and were not eligible for Section 8 assistance. In addition, Mabry paid referral fees for those who referred other individuals.

Defendant Maxine Gordon, a federal fugitive, was apprehended after spending the past 17 months on the run. Gordon fled the **Pittsburgh, PA** area after confessing that she fraudulently received benefits from HUD and the Social Security Administration. Subsequent to the confession, a Federal Grand Jury in the Western District of Pennsylvania returned an eight-count indictment against her in October 2001, charging her with using fictitious identities to obtain both HUD Section 8 and Social Security benefits. Gordon was arrested after intelligence was received that indicated she had returned to the Pittsburgh area to seek treatment for a medical condition. Gordon attempted to use one of her 13 known aliases, as well as the Social Security numbers she had fraudulently acquired, to apply for medical benefits. Her application for these benefits alerted OIG Agents she had returned to Pittsburgh from South Florida. HUD paid Gordon, under a fictitious identity, nearly \$38,000 in Section 8 subsidies between 1994 and 2001, and the Social Security Administration paid her more than \$87,000 under two fictitious identities she used during the same period.

Gordon made her initial appearance in U.S. District Court and also had a detention hearing, during which she was released from custody due to her medical condition, but was required to wear an electronic monitoring bracelet to ensure she does not flee again. In addition to the federal charges pending against her in this matter, the State of Pennsylvania also has an outstanding arrest warrant for Gordon associated with her alleged fraudulent receipt of welfare benefits.

In Texas State Court, Navarro County, defendant George Douglas Linicomn, former executive director of the **Corsicana, TX** Housing Authority (CHA), was indicted on one count of theft by a public servant (\$1,500 or more but less than \$20,000). The indictment was the result of an investigation which disclosed that Linicomn used refrigerators, water heaters, thermostats, and building supplies owned by the CHA in a multi-unit complex located in Corsicana which he owned. Linicomn admitted his wrongdoing to the HUD Deputy Director of Public Housing in Fort Worth, as well as the CHA board of directors, after the investigation revealed that he had CHA property in his possession.

Defendant Ramon Mesa, Section 8 recipient, was arrested and arraigned in Federal Court, Southern District of Florida, on charges of money laundering, theft of government funds, and false benefits. Arrest, search and seizure warrants were also issued by the Southern District of New York and the Southern District of Florida. In addition, simultaneous search and seizure warrants were executed at Mesa's home in **Miami, FL**, and his Section 8 subsidized apartment in **South Bronx, NY**. The search of the apartment in the Bronx yielded about four kilos of cocaine, \$100,000 in cash, and several firearms. Four luxury vehicles, 12 fur coats, and Mesa's bank account were seized. The search of Mesa's Florida home netted two firearms, eight luxury vehicles, and one yacht; two additional bank accounts were also seized, along with an additional \$20,000 in cash.

An investigation disclosed that Mesa engaged in the sale and distribution of narcotics, laundered money, created several false identities, collected Social Security benefits based on those false identi

ties, and committed Section 8 fraud. Mesa, who is confined to a wheelchair, utilized information provided from Social Security as proof of income in order to receive Section 8 benefits while living at the Maria Lopez Houses in the Bronx. The investigation of Mesa's assets revealed that he bought a home worth \$500,000 and approximately 12 luxury vehicles, all while maintaining a bank account containing \$125,000. The home in Florida, as well as eight of the luxury vehicles, were purchased with cash.

Additionally, Defendant Vivien L. Carter was arrested and arraigned in Federal Court, Southern District of New York, for theft of public money. Carter is accused of underreporting her income to the **New York City Housing Authority (NYCHA)** in order to receive Section 8 rental assistance. In an interview at the NYCHA Inspector General's Office, Carter admitted that she had underreported her income. The amount of rental subsidy that she obtained based on her fraudulent application totaled \$5,974 dollars.

Defendant Robert Swinton was arrested in the Southern District of New York and charged with extortion. While serving as the deputy director of NYCHA's Department of Facility Planning, Swinton attempted to obtain \$17,000 in cash from a Harlem shopkeeper whose store was located in Rangel Houses, a HUD subsidized multifamily residence.

In **Augusta, ME**, a criminal complaint was filed in Southern Kennebunk Maine District Court against defendant Christi Baker. Baker was charged with one count of theft by deception. She allegedly committed Section 8 tenant fraud between July 1999 and July 2002. Baker's husband, Norman Baker, allegedly lived with her at her Section 8 residence during this time period. However, Baker never claimed her husband as a resident of the household during the annual Section 8 recertifications. As a result, the Augusta Housing Authority overpaid \$13,956 in Section 8 subsidies.

OIG Offices of Audit and Investigation — Joint Efforts

Defendant Edwin Rafael Cornier-Ortiz, a management agent and President of *Erco Enterprise, Inc.*, was sentenced in Federal Court for the District of **Puerto Rico** to 39 months imprisonment and 36 months supervised release, ordered to pay \$136,000 in restitution, and fined \$15,000. Cornier-Ortiz was previously found guilty after an eight-day trial in Federal Court. The jury convicted him on seven of the eight counts contained in an indictment that was returned by a Federal Grand Jury in May 2001. The charges included conspiracy, bribery, money laundering, extortion, and embezzlement. Cornier-Ortiz paid Juan Irizarry-Valentin, a HUD employee in the San Juan Office, over \$195,000 through Irizarry-Valentin's brother, Samuel Valentin-Toro, who was employed at Erco. Cornier-Ortiz also received kickbacks from vendors doing business with Erco for the awarding of contracts for rehabilitation repairs at public housing projects that Erco managed through a \$28.6 million contract that Erco had with the Puerto Rico Public Housing Authority (PRPHA). Juan Irizarry-Valentin and his brother, Samuel Valentin-Toro, have already pled guilty to charges of extortion, conspiracy, and theft. Valentin-Toro was sentenced to three years probation, while Irizarry-Valentin was sentenced to 21 months in prison and three years supervised release. In addition, plea agreements for two vendors and a former PRPHA contract employee have been prepared.

An investigation and audit resulted in the recovery of over \$191,000 from the **Scranton, PA Housing Authority (SHA)**. In December 2001, OIG and the Department of Justice uncovered evidence that Authority officials were misallocating HUD public housing monies. Officials were paying Authority managers and employees from HUD public housing funds for tasks unrelated to the management of HUD funded public housing developments and/or programs. This scheme continued for approximately five years. This recent monetary recovery is now part of an official False Claims Act investigation being conducted by OIG and the Department of Justice.

The U.S. Attorney's Office, Middle District of Pennsylvania, issued a formal civil False Claims Act demand letter to the Authority. The demand letter notified the SHA that its misappropriation of HUD funds exposed the SHA to over \$642,507 in civil False Claims Act penalties and fines. The demand letter offered the SHA settlement in this matter if the SHA pays \$642,507 in fines and penalties. The Department of Justice is awaiting SHA's response to the offer.

The Scranton Times
FINAL NORTHEASTERN PENNSYLVANIA'S LARGEST NEWS TEAM HOME DELIVERY 19¢
NEWSSTAND 88¢

SHA Must Repay Misused Funds

Feds Seek \$642,507 From Housing Authority

BY LYNNE SLACK SHERLOCK
THE SCRANTON TIMES

The Scranton Housing Authority knowingly misused federal funds and must pay \$642,507 in overpayments and damages, according to a letter from the United States attorney general's office.

The housing authority, which has already repaid \$214,170 to the U.S. Department of Housing and Urban Development, is accused of using HUD money to pay for non-HUD programs in a Feb. 24 letter from assistant U.S. attorney Larry B. Silkowitz to attorney Paul Paterson, SHA solicitor.

Mr. Silkowitz letter says the additional \$428,337 payment would waive all penalties. He asked for a response in 30 days — or by March 16.

The finding that the SHA violated the federal False Claims Act came following the audit and an investigation by a federal agent, according to the letter.

The audit put the cost of the SHA overpayments at the \$214,169 figure — \$125,136 for salary and \$89,033 for garbage. Under the False Claims Act, the amount is tripled to determine the amount owed to HUD, for a total of \$642,507. The SHA's prior repayment of \$214,170 would be subtracted to obtain the amount due of \$428,337.

Bill Baker, a certified public accountant who is the brother of SHA executive director Dave Baker and whose SHA salary is part of the HUD complaint, handled accounting work and other services for the SHA before retiring Dec. 31, 2002.

He said the problems appeared to be simple procedural errors and

Please see SHA, Page 7

March 11, 2003, Scranton, PA

In **Tulsa, OK**, defendant Roberta Jean Ahdunko was arrested for one count of embezzlement from an Indian Tribal Organization and five counts of mail fraud. She was previously indicted by a Federal Grand Jury in the Northern District of Oklahoma. Ahdunko was employed as the finance manager for the Pawnee Nation Housing Authority, which receives all of its funding from HUD through the Native American Housing Assistance and Self-Determination Act Indian Housing Block Grant Program. While she worked at the Authority, Ahdunko traveled to a weekend vacation rendezvous, went on shopping sprees, purchased a plane ticket for a relative, and paid her personal telephone/utility bills with Authority funds. The total loss attributed to Ahdunko's criminal activity was \$4,582. Ahdunko was also involved in another \$22,500 of unallowable expenses.

Defendant James Coleter, former executive director of the **Fayette County, IN** Housing Authority, was indicted in Fayette County Court on four counts of unauthorized use or failure to deposit public funds and one count of theft. Coleter allegedly failed to deposit reimbursement expenses in the Authority's account while using an Authority credit card to pay for a vacation to Florida, a television satellite dish at his personal residence, and other unauthorized expenses.

Defendant Theresa Coughlin, a former employee of the Housing Authority of **Lycoming County, PA**, was charged by the Lycoming County District Attorney's Office, Pennsylvania District Court, with 208 counts of theft related charges for lowering the rents of some tenants without permission and not depositing cash rent payments from others. The charges include theft by failure to make required disposition of funds, tampering

with public records, and receiving stolen property. The OIG is assisting the District Attorney's Office, which conducted the initial investigation, in furthering their investigation and pursuing prosecution of the employee. The Housing Authority suffered a loss of approximately \$28,000 in this case.

Fugitive Felon Initiative

The Office of Investigation has established a Fugitive Felon Initiative to identify HUD housing assistance recipients who are criminal fugitives from justice. This initiative includes automated comparisons of fugitive felon files of law enforcement agencies and HUD files of tenants who have received housing assistance from HUD. Once the fugitives are identified, information on these individuals is provided to the appropriate law enforcement agencies to facilitate their apprehension. Additionally, fugitive information will be subsequently provided to appropriate authorities to facilitate the suspension of housing assistance or terminate tenancy. Currently, we have a Memorandum of Understanding with the United States Marshals Service, and are entering into agreements with other law enforcement agencies.

We will report on our progress as this initiative continues.

This page intentionally left blank.

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 its consolidated report on assistance funded by Section 514 of the Multifamily Assisted Housing and Reform Affordability Act of 1997. The OIG also reviewed owner and management agent operations, a residential care facility, and a retirement center.

Assistance Funded by the Multifamily Assisted Housing Reform and Affordability Act of 1997

We completed an audit of the management and oversight of Section 514 Program activities by HUD’s Office of Multifamily Housing Assistance Restructuring (OMHAR). The Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) established OMHAR within HUD. OMHAR’s responsibility included the creation of the Mark-to-Market Program for HUD assisted projects with above-market or below-market rents and project-based Section 8 contracts expiring in October 1998 or later. Congress recognized, in Section 514 of MAHRA, that the Mark-to-Market Program would affect project tenants, neighborhood residents, the local government, and other parties. Accordingly, Section 514 of MAHRA authorized the HUD Secretary to provide up to \$40 million (\$10 million annually) for resident participation from 1998 through 2001. As of August 2002, HUD had awarded \$30.3 million, of the \$40 million authorized, to 40 grantees. Also as of August 2002, HUD had obligated \$25.2 million and disbursed \$13.9 million (about 55 percent) of the obligated funds.

Our audit evaluated what management controls OMHAR had implemented to manage and oversee the

Section 514 Program. We concluded that OMHAR’s management did not establish appropriate management controls to oversee and manage the program, as required by Office of Management and Budget (OMB) Circular A-123 and HUD’s policy.

We also completed external audits of 40 Section 514 Program participants (grantees) that received funding under Section 514 of MAHRA. Section 1303 of the 2002 Defense Appropriation Act (Public Law 107-117) required the HUD OIG to audit all Section 514 funded activities over the last four years. Consistent with the Congressional directive, we audited all grantees and reviewed their use of Section 514 funds for eligibility (per the legislation and the grantee’s agreement with HUD) and/or the allowability (per OMB Circular A-122) of costs, with particular emphasis on identifying ineligible lobbying activities.

As a result of our audits, we identified that 32 of the 40 grantees did not comply with the requirements of their grant agreements and/or the allowability of the grant cost requirements of OMB Circular A-122. In our grantee audit reports, we identified about \$600,000 of ineligible costs and over \$1.6 million of unsupported costs. In addition, nine grantees used a portion of their Section 514 funds for lobbying activities directed at Congress, contrary to the explicit prohibition in Section 514. Also, four grantees used a portion of their Section 514 funds for lobbying activities at the state and local level. Section 514 did not include an explicit prohibition on lobbying at the state or local level, but these costs are unallowable under OMB Circular A-122 guidance. These conditions occurred because OMHAR’s management emphasized the creation of the Mark-to-Market Program and strong relations with the affected tenants, as opposed to the management and oversight of the Section 514 Program. In addition, OMHAR staff generally lacked the knowledge and skills needed to manage and oversee a grant program.

The Assistant Secretary for Housing did not dispute the information and conclusions in the audit. In addition, the Assistant Secretary provided

management decisions for the recommendations contained in this report and for the 221 recommendations in the 40 external Section 514 audits. OIG agreed with the management decisions proposed by the Assistant Secretary. (Report No. 2003-DE-0001)

Audit Report No. 2003-DE-0001 summarized the results of all external audits completed both during this semiannual reporting period and during the prior period. The following audits were issued during this period:

- 2003-AO-1001, National Center of Tenants Ownership, Washington, DC
- 2003-AO-1002, National Housing Trust, Washington, DC
- 2003-BO-1002, People to End Homelessness, Providence, RI
- 2003-CH-1003, Tenants United for Housing, Inc., Chicago, IL
- 2003-CH-1004, Indiana Coalition on Housing and Homeless Issues, Indianapolis, IN
- 2003-DE-1003, Corporation for National Service, Washington, DC
- 2003-SE-1001, Community Alliance of Tenants, Portland, OR
- 2003-SE-1002, Tenants Union, Seattle, WA

Owners and Management Agents

Based on concerns raised by the St. Louis Multifamily Program Center, we completed a review of the University Forest Nursing Care Center in **University City, MO**. We identified significant violations of University Forest's Regulatory Agreement involving unauthorized payments and unnecessary expenses. The corporation, president, chairman of the board, members of the board, and the management agent were responsible for using approximately \$2.4 million of project funds for unauthorized compensation and unnecessary operating expenses. These improper expenditures increased the risk to HUD's mortgage insurance fund and depleted funds needed to provide services and care to residents. During the review, we actively coordinated our efforts with HUD's Offices of

Housing and General Counsel to resolve the violations. While our review was in progress and HUD was pursuing corrective actions, the owner sold the project.



University Forest Nursing Care Center in University City, MO.

We recommended that the St. Louis Program Center ensure that the project's mortgage insurance is terminated as a result of the sale and that the Office of General Counsel (Departmental Enforcement Center) take appropriate administrative actions against University Forest's president and chairman of the board, members of the board, and the management agent for their noncompliance with HUD's requirements and the Regulatory Agreement. (Report No. 2003-KC-1801)

We completed a review of Wood Hollow Place Apartments in **Texas City, TX**, to determine whether expenditures and disbursements complied with the terms and conditions of the Regulatory Agreement and other HUD requirements. Because the project experienced cash flow problems, the management agent did not follow the Regulatory Agreement and other HUD regulations. As a result, the management agent: (1) improperly paid advances, loans, and other fees totaling over \$223,000; and (2) paid nearly \$28,000 in ineligible and \$7,500 in unsupported expenses. In addition, the management agent improperly used tenant security deposits to fund project operations. These improper payments weakened the project's financial condition and put the project at risk of default.

We recommended that HUD require the management agent and/or the partnership to repay the project for improper and ineligible distributions and

to support or repay the unsupported expenses. In addition, we recommended that HUD require the management agent to fully fund the tenant security deposit account and submit disbursement reports to HUD. Finally, HUD should closely review the monthly disbursement reports and take administrative action if violations of the Regulatory Agreement continue. (Report No. 2003-FW-1801)

A review of HUD's oversight of Wood Hollow Place Apartments, **Texas City, TX**, found that in three instances, the Houston Multifamily Office did not adequately monitor the project. In these cases, Multifamily staff did not perform sufficient work to ensure that the owner complied with the Regulatory Agreement or HUD requirements. As a result, the owner made over \$258,000 in improper distributions and failed to submit required reports. In addition, Multifamily staff did not properly maintain project files. The former project manager could not locate two monthly accounting reports he had received, nor did he maintain a control log to track and monitor the receipt of such reports.

We recommended that HUD staff receive direction, including training if necessary, on how to properly perform their monitoring tasks. The Director of the Houston Multifamily Office agreed with the recommendations and immediately implemented them. (Report No. 2003-FW-0801)

We audited Marion Scott Real Estate, Inc., a **New York, NY** management agent for 10 HUD insured and subsidized projects in New York and New Jersey. We concluded that the agent did not always comply with HUD regulations and requirements pertaining to the use of project funds, nor did it always comply with its management certification when purchasing from or contracting with its identity of interest companies. Specifically, we found that the agent: (1) used approximately \$186,000 in project funds to pay for ineligible, unsupported, and unnecessary/unreasonable expenses; (2) deprived the projects of \$77,000 by collecting unauthorized and excessive management fees and improperly charging front-line expenses to projects; (3) allowed its identity of interest company employees to occupy rent free apartment units in the projects, resulting in lost revenue of \$55,000; (4) paid its identity of interest companies amounts that

included questionable cost mark-ups of a subcontractor's invoice amounts, resulting in \$193,000 of unreasonable and unsupported charges; (5) entered into a questionable arrangement for legal services, resulting in over \$257,000 in questionable expenses; and (6) used project funds to pay \$134,000 of expenses that were incurred under the Drug Elimination Grant Program, thus depriving that project of those funds.

We recommended that the Director of the HUD New York Multifamily Hub require the agent/owners to reimburse the projects \$180,000 for expenditures considered to be ineligible, and submit supporting documentation for \$722,000 in expenses considered to be questionable and/or unsupported so that HUD can determine their eligibility. In addition, we made recommendations to improve the agent's internal controls and encourage compliance with HUD requirements. (Report No. 2003-NY-1001)

Residential Care Facility/Retirement Center

We audited the Farmington Health Care Center (FHCC) in **Farmington, CT**, to assess the project's performance relating to appropriate use of project funds, maintenance of the property in satisfactory physical condition, and general management practices. The audit concluded that FHCC's operator/lessee inappropriately executed a capital lease purchase agreement with a leasing company for over \$340,000 in major moveable equipment and other non-critical repairs without HUD consent. Consequently, the loan was overinsured, and HUD has lost security in the equipment and repairs. In addition, installation of an emergency generator, as required under the escrow agreement between the mortgagor/lessor and HUD, remains uncompleted. We attributed the cause of these conditions to the operator/lessee's insufficient knowledge of HUD program regulations and the lack of mortgagor/lessor oversight of project operations.

We recommended freezing an appropriate amount of repair escrow and/or reserve for replacement funds to protect HUD's security interest in the facility in the event of a default on the lease. If reserve for replacement funds are frozen, consider

ation could be given to requiring an increase in the monthly deposits to the account to ensure that sufficient funds are available in the event that emergency repairs are required, without detracting from the “frozen” funds. Upon pay-off of the lease and execution of the purchase option, we recommended that the operator/lessee assign the title of equipment and repairs to the mortgagor/lessor, using an approved mechanism, to ensure that title remains with the real estate. (Report No. 2003-BO-1001)

In response to concerns raised by the HUD St. Louis Multifamily Program Center, we reviewed the Richmond Terrace Retirement Center in **Richmond Heights, MO**, to determine if bond funds and project funds were properly handled. We concluded that the mortgagee provided key certifications at initial closing that contained incorrect cost amounts, causing mortgage proceeds to be drawn down and used for unsupported expenses. These acts exposed HUD’s mortgage insurance fund to unnecessary risk because the owner did not have adequate funds at initial closing. We also identified residual bond funds that were improperly being held by the bond trustee. During our review, we coordinated with HUD’s Office of Housing and the Office of General Counsel to exercise HUD’s legal claim to the residual bond funds. As a result, HUD collected residual bond funds totaling over \$50,000 from the bond trustee.

We recommended that the St. Louis Multifamily Program Center take appropriate legal and administrative actions in coordination with the Regional Counsel/Office of Program Enforcement. (Report No. 2003-KC-1803)

Investigations

Defendants Nancy G. Wilkinson, *West Virginia Management LLC* project manager, Mary Ann Middleton, Westview Manor property manager, and Darlene Starkey, a contractor, were sentenced in U.S. District Court, Southern District of West Virginia, for their involvement in a fraud scheme that resulted in the embezzlement of over \$800,000 from four HUD subsidized and insured multifamily/elderly housing communities. Wilkinson, who was held accountable for her leadership role in the embezzlement scheme, was charged with one count of embezzlement from an organization receiving federal funds and aiding and abetting. She was sentenced to 24 months incarceration and 36 months probation, and ordered to pay \$250,000 in restitution. Wilkinson will be held jointly and severely liable for the restitution amounts ordered in Middleton and Starkey’s sentencing. She has also been notified of her immediate suspension from participation in procurement and non-procurement transactions with HUD and throughout the Executive Branch of the Federal Government.

Defendant Middleton was also charged with one count of embezzlement from an organization receiving federal funds and aiding and abetting, and was sentenced to 12 months and one day incarceration and 36 months probation, and ordered to pay \$250,000 in restitution. Middleton will be held jointly and severely liable for Wilkinson’s restitution amount. Starkey was charged with one count of mail fraud for her involvement in a Medicaid billing fraud scheme unrelated to the HUD fraud. Starkey was also charged with one count of embezzlement from an organization receiving federal funds and aiding and abetting. She was sentenced to 12 months and one day incarceration and 36 months probation for each count, to be served concurrently. Starkey was also ordered to pay \$175,000 in restitution, and will be held jointly and severely liable for Wilkinson’s restitution amount.

Women sentenced for embezzlement

Schemes netted as much as \$800,000 from housing projects

By Christopher Tritto
ctritto@wvgazetta.com

Three women who embezzled as much as \$800,000 from four federally subsidized housing projects were sentenced Wednesday before a courtroom full of family members, friends and victims of their schemes.

Nancy G. Wilkinson, 83, of Cross Lanes, was sentenced by U.S. District Judge John T. Copenhaver Jr. to two years in prison and three years on supervised release. The judge ordered her to pay \$250,000 in restitution as part of a plea bargain.

Mary Ann Middleton, 61, of Dunbar, and Darlene Starkey, 64, of Scott Depot, each were sentenced to a year and a day in prison and three years of supervised release. Middleton must pay \$250,000 in restitution, and Starkey was ordered to pay back \$175,000.

Wilkinson was the project manager for West Virginia Management LLC, which owns housing complexes in Huntington, Lewisburg, Elkins and Beverly. All serve low- and middle-income families and the elderly.

WVM received about \$6 million from the U.S. Department of Housing and Urban Development each year.

Wilkinson and Middleton, the former manager for the Huntington project, used their positions to create false invoices for HUD for work never done at the properties. They submitted the bills and pocketed the payments.

Wilkinson and Starkey, whose husband did some maintenance work for the Lewisburg project, also filed invoices for work that was never done.

The three women stole the money from Charleston-based WVM between July 22, 2000 and March 31,

2002. When HUD investigators began to look into the missing money last year, the women cooperated with the U.S. Attorney's office and pleaded guilty to their crimes.

Investigators later determined the women had collectively stolen as much as \$800,000.

"There's no excuse for what I did," Wilkinson told Copenhaver. "I betrayed a trust. I'll pay every penny I can back until the day I die." Middleton and Starkey also apologized.

Starkey also pleaded guilty to an unrelated charge of Medicaid fraud. She was president of Steps-Up, a counseling center in South Charleston. In March 2001, she and another woman recruited a psychiatrist to provide services two days a month. Then they used the doctor's provider number to bill Medicaid for services the doctor never performed. They made less than \$5,000 in the scheme.

Wilkinson asked Copenhaver not to send her to prison, so she could care for her family. Her husband has Parkinson's disease, her daughter is bipolar, her granddaughter has a malformation in her brain stem and her sister-in-law is schizophrenic.

Wilkinson must report to prison April 18. Middleton and Starkey must report March 14.

Irene Corley, who replaced Wilkinson as WVM's managing agent, said she is working on backlogged maintenance requests that Wilkinson neglected.

"We're still trying to recoup our money losses and to restore our reputation," Corley said.

Wilkinson conspired with Middleton and contractor Darlene Starkey, doing business as *Starkey Enterprises*, from approximately October 1996 to March 2002 to divert funds from four HUD assisted developments located in **Huntington, Lewisburg, Elkins, and Beverly, WV.**

The three defendants prepared invoices for fictitious contractors or created/alterd invoices of legitimate companies and forged the endorsements on the back of each check. Wilkinson would issue a check to Starkey or a fictitious vendor in the case of Middleton. Upon receipt of the checks, Middleton and Starkey would deposit them in personal bank accounts and then return one-half of the funds to Wilkinson.

Defendant Robert Vaughan pled guilty in Federal Court, Eastern District of Michigan, to one count of multifamily equity skimming. Vaughan, who was the agent and manager of Flint Heights Terrace, a HUD insured multifamily project in **Flint, MI**, admitted skimming more

than \$350,000 from the development for his personal use instead of meeting reasonable expenses of the project. Vaughan withdrew these funds when the project was in a non-surplus cash position and later when it was in default. He used some of the funds to pay cell phone bills and expenses of his private law practice.

Defendant Rodney Crump, an assistant property manager at Blue Ridge Commons (BRC) Apartments, a HUD insured, Section 8 multifamily project in **Charlottesville, VA**, was arrested at his residence. Crump was indicted June 2002 in Federal Court, Western District of Virginia, for embezzling funds from BRC. He and Nancy Besemer, former BRC property manager, conspired to embezzle \$24,112 from BRC. They solicited cash payments and blank money orders from several residents to pay the residents' monthly rents and security deposits. Instead of depositing these funds in a BRC bank account, Crump and Besemer kept the funds for their personal use. An additional arrest warrant was filed in Portsmouth, VA, for Crump related to his habitual offender status. Besemer was previously convicted of embezzlement in this case. She is currently wanted for probation violation.

Defendant Michael Cantor pled guilty in Federal Court, Eastern District of New York, to one count of conspiracy for his involvement in a scheme to defraud both HUD and the IRS. Cantor was the owner and president of *Cantor Real Estate*, a real estate management company in **Brooklyn, NY**. Cantor Real Estate managed numerous properties in New York that received subsidies and loan guarantees from HUD. Between January 1992 and April 1999, Cantor conspired with others to receive at least \$13,000 in cash kickbacks from vendors for approving work to be done at buildings that he managed.

Defendant Beverly Beltran, a former office manager, pled guilty in Maryland State Court, **Hagerstown, MD**, to two counts of forgery and felony theft. Beltran was sentenced to 90 days incarceration to be followed by three years probation, and was ordered to pay \$11,431 in restitution. An investigation disclosed that while Beltran worked at Edgewood Hill Apartments, a HUD subsidized multifamily complex, she wrote numerous checks to herself and forged the owner's name on each check in order to cash the checks.

A **Cook County, IL** Grand Jury indicted defendant Renard Mayfield on two felony counts of forgery and theft by deception for his role in a scheme to defraud the Park Shore East Co-Op Section 8 Program. Specifically, Mayfield allegedly falsified his employment from 1996 to 2000 by reporting "odd jobs," totaling \$600 per year, while in fact he earned more than \$100,000 per year as an accountant. In addition, Mayfield qualified for and purchased a \$300,000 property with a \$200,000 mortgage while he was participating in the Section 8 Program. The approximate loss to HUD is \$37,300.

A Grand Jury in Cook County, **Chicago, IL**, indicted defendant Lawrence Prentice on two counts of forgery and one count of theft. Prentice had been receiving Section 8 housing assistance since 1995 at one property under the name of Eunice Prentice, when Eunice moved to Minnesota. Lawrence had his girlfriend, Doris Wilson, forge Eunice's name on the recertification documents and had her

impersonate Eunice during recertification interviews, thus making it appear that she was an active Section 8 tenant. Wilson was not indicted but gave testimony before the Grand Jury during the investigation. The loss to HUD is approximately \$50,000.

OIG Offices of Audit and Investigation — Joint Efforts

Defendant Douglas S. Wasserman, the former owner of Mott Haven, an FHA insured and HUD subsidized housing development in the **Bronx, NY**, was ordered to pay \$894,000 in restitution to HUD. Wasserman was previously sentenced in Federal Court, Southern District of New York, to 60 months incarceration after his convictions for multifamily equity skimming and tax evasion. Due to family health issues, Wasserman was allowed to defer incarceration until May 2003.

Defendants Joseph W. Ham, a general contractor, and Murray Howell, an employee of *Ham Contracting, Inc.*, both of whom previously pled guilty in Federal Court, Western District of Louisiana, to conspiracy to commit mail and wire fraud, provided the U.S. Attorney's Office with 539 one-ounce gold coins (Krugerrands), which at the time were valued at approximately \$188,000. The defendants' pleas were made in conjunction with the Low-Income Housing Tax Credit Program and forfeiture of illegal proceeds. The gold coins provided to the government were deemed to be proceeds from a money laundering scheme which resulted in Ham and Howell previously agreeing to forfeit interest in gold coins and assets seized; the coins were also proceeds identified during an investigation. The investigation found that Ham, as a general contractor for *Calhoun Property Management* in **Mansfield, LA**, was responsible for the rehabilitation of 37 multifamily properties in Texas and Louisiana. Howell was an officer in *Ham Construction, Inc.* Ham, in coordination with others, created and caused to be created numerous false invoices and certificates of actual cost related to the rehabilitation of a multifamily project. Ham and Howell also caused the false documents to be delivered by Federal Express, which resulted in

funds being wired to a partnership entity in Louisiana.



Illegal proceeds (gold coins) turned over to U.S. Attorney's Office, Western District of Louisiana.

The defendants also agreed to forfeit to the United States immediately and voluntarily all right and title to, and interest in, all assets in a brokerage account maintained by Legg Mason Wood Walker, Inc., in the name of Ham Contracting, Inc. They additionally agreed to forfeit any interest they may have in 1,599 Gold Eagle coins, which at the time were valued at \$567,447, previously seized during the service of a search warrant. Ham provided the government with an additional 725 one-ounce gold coins (Krugerrands) on February 28, 2003, for a total of \$441,136 in Krugerrands. Finally, the defendants had converted \$1.32 million worth of gold coins to money market certificates. These certificates were either seized or forfeited.

A final judgment of forfeiture was also issued in the Western District of Louisiana in the matter of the United States vs. Thomas L. Frye. The judgment orders that all interest in a particular Legg, Mason, Wood, Walker, Inc., account, as well as 1,599 Gold Eagle Coins that were located inside a safe deposit box at the Louisiana Coin Exchange, is hereby forfeited to the United States of America.

Also in this case, defendant Maurice Riemer Calhoun, Jr., of Calhoun Property Management, pled guilty in Federal Court, Western District of Louisiana, to a two-count bill of information charging him with one count of wire fraud and one count of conspiracy to commit equity skimming. *T.F.*

Management, Inc., acting through Maurice Calhoun, also pled guilty to a one-count bill of information which charged the corporation with wire fraud. Maurice Calhoun and the government agreed that the maximum fine of \$500,000 fine is appropriate for Maurice Calhoun, and the maximum fine of \$500,000 is appropriate for T.F. Management. Sentencing is scheduled for July 31, 2003.



This page intentionally left blank.

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 audited Community Development Block Grant (CDBG) Disaster Assistance Funds in the State of New York, the Empowerment Zone, Housing Preservation, HOME, and CDBG Programs, and a Special Purpose Grant.

Disaster Assistance Funds – State of New York

We are performing an ongoing audit of the operations of the Empire State Development Corporation (ESDC) and the Lower Manhattan Development Corporation pertaining to their administration of 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. This is the first of a series of reviews that the OIG plans to conduct during our ongoing audit of the CDBG Disaster Assistance Funds. Presently, we plan to issue an audit report every six months and include the results of each review in the Inspector General’s Semiannual Report to Congress, to comply with Congress’ request that HUD OIG periodically audit and semiannually report on the expenditures of CDBG Disaster Assistance Funds.



World Trade Center site, New York, NY.

During the initial audit period, virtually all activities were carried out by ESDC; the objectives of the completed review were to determine whether the ESDC: (1) disbursed CDBG funds to eligible applicants in accordance with the HUD Approved Action Plan; (2) disbursed CDBG disaster funds to applicants in a timely manner; and (3) has a financial management system that adequately safeguards the funds. The review disclosed that ESDC generally met these requirements. However, processing deficiencies and discrepancies in ESDC’s grant programs need to be addressed and resolved to enhance the efficiency of its administration of the funds. Also, administrative and accounting controls need to be strengthened to prevent duplicate payments and other related administrative deficiencies from occurring.

Regarding ESDC’s primary program, the Business Recovery Grant (BRG) Program, we used a dollar unit sampling plan to statistically select a sample of 439 grants, valued at over \$46 million, out of a universe of 10,456 grants, with a value of about \$277 million. Using the sample results, we estimated that the universe contains: (1) overpayments to grant recipients of over \$1.1 million, and underpayments of more than \$77,000, for a net

overpayment of over \$1 million; and (2) \$7.76 million of disbursements to grant recipients whose federal tax information, per their applications, did not agree with tax information we received from the Internal Revenue Service (IRS).

We recommended that HUD instruct ESDC on the appropriate corrective actions that should be taken regarding the over and underpayments of grant amounts, and the discrepancies between tax information on recipients' applications and tax information provided by the IRS. In addition, we made other recommendations that should enhance ESDC's program efficiency and strengthen its administrative and accounting controls. (Report No. 2003-NY-1003)

Empowerment Zone Program

As part of our review of the use of Empowerment Zone funds, which was initiated as a result of a Congressional request, we conducted five audits during this reporting period. The results are as follows.

We audited the joint Empowerment Zone Program of the Cities of **Norfolk and Portsmouth, VA**. The City of Norfolk was the lead entity responsible for administering the program. The audit showed that the City generally maintained adequate oversight over the majority of its Empowerment Zone funds but needed to strengthen its administration of the program to ensure that all funds are used efficiently and effectively. A review of 18 funded Empowerment Zone activities showed that the City did not maintain adequate control over about 7.25 percent of the \$8.9 million of disbursements reviewed and did not always accurately report the accomplishments of the program to HUD.

The City obtained nearly \$294,000 from HUD for activities without approved implementation plans and paid over \$100,000 for items or services that were either unallowable or unsupported. The City also did not properly allocate costs totaling nearly \$250,000 among activities benefiting from the funding. Lastly, the City needs to improve the accuracy of information it reports to HUD by developing and maintaining a formal reporting policy and a centralized database system.

We recommended that the City submit separate implementation plans for each activity to HUD for review and approval. We also recommended that the City reimburse the program over \$100,000 for material and services that were unsupported or not allowed under federal cost guidelines. Lastly, we recommended specific controls to help the City more effectively allocate its indirect costs and improve its reporting process. (Report No. 2003-PH-1001)

The City of **Cincinnati, OH**, needs to improve its oversight of Empowerment Zone funds and accurately report its program accomplishments to HUD. Specifically, the City inappropriately used over \$15,000 and lacked documentation to show that another \$311,000 benefited the City's Empowerment Zone Program or were matched with in-kind services. The City also used over \$594,000 to fund three projects that have not provided benefits to Empowerment Zone residents, or benefited only 37 percent of Zone residents as of October 2002. The three projects were completed between August 2001 and November 2002.

We recommended that the City of Cincinnati reimburse its Empowerment Zone Program for the inappropriate use of Zone funds and implement controls to correct the weaknesses cited in the report. (Report No. 2003-CH-1009)

Audit says Cincinnati wasted much of empowerment grant

By Gregory Korte
The Cincinnati Enquirer

The agency responsible for running the Cincinnati Empowerment Zone misspent thousands of federal dollars and failed to produce results in key programs, according to a just-released federal audit.

The findings come as President Bush released a proposed 2004 budget Monday that contains no

money for the Cincinnati program and 14 others through the U.S. Department of Housing and Urban Development. It's the second year in a row that the administration has cut empowerment zone funding, citing "no convincing evidence" that up to \$10 million a year in federal grants have produced results.

The Clinton-era program was intended to revitalize the poorest urban neighborhoods by providing

jobs, job training, housing and neighborhood development. In Cincinnati, those neighborhoods are Avondale, Clifton-Fairview, Corryville, Evanston, Mount Auburn, Over-the-Rhine, Queensgate, Walnut Hills and the West End.

The audit, mandated by Congress, was the first review of the Cincinnati program in its four-year



Harold L. Cleveland II, Executive Director of the Cincinnati Empowerment Zone said the findings of a federal audit of the agency had a negative bias

Used with permission from The Cincinnati Enquirer/
Gregory Korte,
February 4, 2003.

The Cities of **Huntington, WV, and Ironton, OH**, need to improve their oversight of Empowerment Zone funds. The audit found that the Cities did not accurately report the accomplishments of the program to HUD. Specifically, the Cities did not use \$160,000 in accordance with their Strategic Plan and the September 8, 1999 Agreement for the Marting Hotel Renovation project. Also, the Cities inaccurately reported their accomplishments to HUD, and funded five projects that have not provided benefits to Empowerment Zone residents, or benefited only 27 percent of Zone residents as of October 2002. Four of the five projects are scheduled for completion between June 2004 and June 2005, and the remaining project was completed in June 2001.

We recommended that the Cities of Huntington and Ironton reimburse the Empowerment Zone Program for the inappropriate use of Zone funds and implement controls to correct the weaknesses cited in this report. (Report No. 2003-CH-1006)

The City of **Minneapolis, MN**, inaccurately reported the accomplishments of its Empowerment Zone projects to HUD and inappropriately used nearly \$10,000 to pay expenses not related to its Near North Planning and Development project. The City also funded seven projects that have not provided benefits to Empowerment Zone residents, or benefited only three to 38 percent of Zone residents as of June 2002. Five of the seven projects are

scheduled for completion between December 2003 and December 2011, and the remaining two projects were completed between December 2001 and July 2002.

We recommended that the City of Minneapolis reimburse its Near North Planning and Development project from Empowerment Zone administration funds for the inappropriate use of Zone funds and implement controls to correct the weaknesses cited in this report. (Report No. 2003-CH-1007)

The City of **St. Louis, MO**, did not accurately report all planned and actual outputs or funding commitments in its June 30, 2002 Empowerment Zone Performance Review. For one of four projects we evaluated, the Performance Review contained information that overstated the projected number of area residents to be served and understated the actual number of area residents served. For two of the four projects, total funding commitments were understated. This occurred because the City projected all residents of the Empowerment Zone census tract as being served by a construction project, whereas only the occupants of the units should have been projected. Also, the City overlooked reporting actual figures when it prepared its report. HUD requires accurate information to be able to accurately review and assess the progress of the City's Empowerment Zone activities.

We recommended that the City of St. Louis establish and implement management controls to ensure accurate reporting. (Report No. 2003-KC-1003)

Housing Preservation, HOME, and CDBG Programs

In response to a HUD Hotline complaint, the OIG audited the Housing Preservation Program (HPP) of the City of **Cleveland Heights, OH**. The complainant alleged that the City misused funds for its HPP. HUD's CDBG and HOME Programs funded the City's HPP. We found that the City did not follow HUD's, Cuyahoga County's, and/or its own requirements regarding the use of HUD funds. Specifically, the City: (1) inappropriately used nearly \$9,000 of HOME funds to pay for rehabilitation work that was improperly performed or not provided; (2) did not include over \$26,000 in housing rehabilitation work in specifications for 15 houses to ensure they met the City's code and/or HUD's standards; (3) did not maintain an effective system of controls over its contracting process; (4) used over \$158,000 in HOME funds to assist 10 households that were delinquent on their City income taxes; (5) provided over \$111,000 in HOME funds to assist seven households when the City lacked documentation to show the households were current on their City income taxes; (6) spent over \$151,000 in HOME funds to assist 10 households that lacked sufficient equity in their homes to secure the assistance; (7) awarded over \$8,000 in HOME funds for one household without determining whether it had the ability to repay the assistance; (8) used over \$13,000 for two households without a promissory note to secure the assistance; (9) provided over \$51,000 to 17 households although the assistance was not included in the promissory notes and/or the mortgage liens with the homeowner; and (10) awarded nearly \$140,000 to nine households without documentation to show that the assisted houses were protected by property hazard insurance or lacked enough insurance to cover the assisted property.

Audit circles repair grants

HUD says \$500,000 misspent

By **ED WITTENBERG**
Staff Writer

CLEVELAND HEIGHTS
An audit by a regional inspector general of the U.S. Department of Housing and Urban Development has determined the city misspent federal grants of possibly more than \$500,000 on home repairs.

But Law Director John Gibbon said most of the violations alleged by the inspector general are not well founded.

He is confident the city will be cleared of any wrongdoing. "I anticipate we will be able

to work out all these issues with HUD," Gibbon said. "We do not expect there will be any financial consequences to the city or inconvenience to city homeowners."

Auditors said \$385,000 was spent on ineligible renovations and that the city could not document that another \$120,000 has been spent according to the rules.

The audit recommends that the city correct its error by putting an extra \$500,000 into its Housing Preservation Program and spending it on renovations

See **AUDIT, page A7**

The Sun Press, February 20, 2003, Cleveland Heights, OH.

We recommended that HUD's Columbus Field Office Director of Community Planning and Development assure the City reimburses its HPP for the inappropriate use of HUD funds and implements controls to correct the weaknesses cited in the report. (Report No. 2003-CH-1008)

We completed a review of the HUD Indian Housing Block Grant Program administered by the Sicangu Wicoti Awanyakape Corporation, also known as the Rosebud Housing Authority, in **Rosebud, SD**. The review disclosed that management controls were not satisfactory. We found deficient controls over tenant occupancy and related activities. Specifically, the Authority has not: consistently enforced its drug elimination policy; consistently enforced its sublease policy; implemented its delinquency policy; or properly documented the eligibility of its various housing program recipients. In implementing its supplemental housing programs (Used Mobile Home, Pre-Manufactured Modular Housing Units, and Private Homeowner Rehabilitation/Loan Programs), the Corporation did not establish adequate administrative procedures to ensure HUD requirements were met. For example, the Authority used Indian Hous

ing Block Grant monies to acquire used mobile homes for selected individuals who would reimburse the Authority for the Authority's costs. Most of the homes were purchased sight unseen, and were in poor condition.



Mobile home purchased with Indian Housing Block Grant funds. Home was not inspected prior to purchase.

In addition, the Corporation did not follow its own procurement and maintenance policies in implementing the supplemental housing programs. There was an inadequate contract administration system in place to ensure contractors performed according to the terms of their contracts. In addition, and controls over the inventory of materials and supplies were inadequate.



Materials and supplies haphazardly stored are exposed to the elements and vandalism.

The Corporation was not maintaining adequate perpetual inventory records in support of its construction and renovation projects, resulting in improper payment of penalties and fees totaling over \$100,000. Finally, the Corporation had not implemented sufficient management controls over its travel and related expenses to ensure that its adopted travel policy was followed.

The audit recommended that the Authority establish the necessary management controls over its operations and financial systems to ensure it functions in accordance with HUD requirements and within the Corporation's policies. (Report No. 2003-DE-1001)

Special Purpose Grant

Based on a request from the HUD **Cleveland, OH** Multifamily Housing Program Center, we completed an audit of the Jewish Community Federation of Cleveland's Special Purpose Grant to determine whether the Federation used its grant funds in an efficient and effective manner and in compliance with its grant agreement. It was found that the Federation did not administer its Special Purpose Grant in full compliance with federal requirements and its fiscal standards policy. Specifically, the Federation did not obtain computer consulting services for the grant through open and free competition; failed to execute a written contract for its computer consulting services received in December 1998 through January 2000 and August 2000 through September 2001; and lacked adequate documentation to support an additional \$45,000 in computer consulting services paid to its consultant. As a result, HUD lacks assurance that grant funds were used efficiently and effectively, and the Federation's procurement of computer consulting services was not subject to open and free competition.

We recommended that the Jewish Community Federation of Cleveland provide documentation to support the use of Special Purpose Grant funds and implement procedures and controls over the grant. (Report No. 2003-CH-1005)

Investigations

Defendants Alexander Koltovskoy, also known as Alexander Kolt, and Vincent Pizzi were indicted by the U.S. Attorney's Office, Southern District of New York, and charged with conspiracy to commit offense or to defraud the United States, fraud by wire, frauds and swindles, and false statements. The defendants were arrested two days after the indictment.

On February 13, 2002, HUD awarded to the **State of New York** \$700 million in CDBG Program assistance for properties and businesses damaged during, and economic revitalization related to, the September 11, 2001 terrorist attacks on the World Trade Center (WTC). As part of the \$700 million awarded, Empire State Development Corporation (ESDC) of New York was hired by the Governor of New York State to process the WTC Business Recovery Grant Program (BRG). Using funds provided by HUD, this grant provides immediate financial assistance to small and medium sized businesses located on or south of 14th Street. The amount of the grant depends on which one of four different zones in which the business is located.

Defendant Koltovskoy, president of *Alexander Edwards Global Search, Inc.*, applied for the WTC BRG on March 29, 2002, and indicated on his grant application that his business address on September 11, 2001, was “2 World Trade Center, Suite 2112, New York, NY.” A grant was issued to Alexander Edwards on May 14, 2002, in the amount of \$25,756. On August 28, 2002, ESDC changed the program requirements of the BRG and all applicants became eligible for supplemental BRG based on increased zone percentages. As a result, Alexander Edwards Global Search, Inc., received an additional \$38,634 in grant funds on November 8, 2002.

The \$64,390 grant received by Koltovskoy was part of a scheme in which Koltovskoy, along with Pizzi, his employee, applied to other federal, state, local, and private relief agencies and received benefits totaling almost \$350,000. Pizzi was not involved with the ESDC BRG grant, but was involved with other grants.

Defendant Michele Nesbitt, former secretary for *Rehabco Development*, a consultant company for the **Union County, NJ** Office of Community Development, was sentenced in District Court for the District of New Jersey on two counts of mail fraud. Between March 2000 and May 2001, Nesbitt embezzled Section 8 funds from Union County. She was sentenced to 27 months in prison on each count, to run concurrently, and three years probation, and ordered to pay \$212,000 in restitution, \$209,000 of which is to be paid to HUD.

Defendant Bryan Fuhr was arrested and charged in Federal Court, Southern District of New York, with theft of government money and mail fraud in connection with a scheme to defraud HUD and the Lower Manhattan, NY Development Corporation (LMDC) out of federal grant funds. These funds were made available after the September 11, 2001 terrorist attacks to assist in the revitalization of Lower Manhattan. LMDC, which received over \$2.7 billion from HUD to fund the grant program, was created by the **State and City of New York** to coordinate the rebuilding of the area. Fuhr allegedly devised a scheme to fraudulently obtain money from the grant program.

An information was filed in Federal Court, Southern District of Iowa, in the case of the United States of America vs. defendant Kathleen Ann Moretz. Moretz was charged with three counts of theft or bribery concerning programs receiving federal funds. Moretz, the former executive director of Neighborhood Housing Services (NHS), **Des Moines, IA**, allegedly used her position in order to steal money from NHS, a nonprofit organization receiving HUD community planning and development funds. In a plea agreement between the United States and Moretz signed on December 30, 2002, Moretz agreed to waive indictment and pled guilty to the information. Part of the plea agreement was to pay full restitution in the amount of \$450,000.

Defendant Rosa M. Cameron, also known as Rosa Cameron-Rollins, former alderwoman for the City of **Milwaukee, WI**, was sentenced in U.S. District Court, Eastern District of Wisconsin, following her November 2002 guilty plea to two counts of misapplication of funds. Cameron was sentenced to eight months incarceration, four months community confinement/home detention, and three years supervised release. She was also barred from holding any position of fiduciary responsibility without notification of her probation officer and employer, ordered to participate in the Inmate Financial Responsibility Program, and ordered to pay \$28,964 in restitution to the City of Milwaukee. The restitution amount was based on money illegally transferred from the Williamsburg Heights Community Block Club Association, a HUD funded nonprofit, to the election campaign bank

account of “Friends of Rosa Cameron-Rollins.” Money from this account was used to elect Cameron as alderwoman for the City of Milwaukee. As part of her October 2002 plea agreement, Cameron was required to resign as Milwaukee alderwoman within 24 hours. She sat on the Milwaukee Common Council’s Community Development Committee, which oversees the City’s administration of HUD CDBG funds. Charges remain outstanding against two of Cameron’s daughters, LaZonda Moore and LaRosa Roberta Cameron, both of whom served as executive director of Williamsburg Heights after their mother’s election.

Following his September 24, 2002 indictment by a Federal Grand Jury, Central District of California, Tony Chisum, Jr., an employee of the *American Philanthropy Association* (APA), was arrested without incident at his residence in **Los Angeles, CA**. APA, a nonprofit organization, owned and operated several homeless shelters located in Los Angeles County. Chisum and co-conspirator Terry Lee Rhodes devised a billing scheme that involved the creation and submission of fraudulent documents in order to receive government funding. They submitted documents including fraudulent “Cold and Winter Shelter Program” attendance logs that falsely claimed that certain persons had received food and shelter free of charge from APA. Between 1994 and 1998, APA illegally received approximately \$550,000 in federal funds through its participation in the Cold and Winter Shelter Program, a program funded by HUD through the City and County of Los Angeles. The Los Angeles Homeless Services Authority administered the program. The HUD loss was approximately \$350,000.

Defendants James Asselin, former co-administrator of the Greater **Springfield, MA** Entrepreneurial Fund (GSEF), James Krzystofik, also a former co-administrator of GSEF, Cornell Lewis, former GSEF board member, and Salvatore Anzalotti, Jr., a certified public accountant and professor of accounting at American International College who also served as the GSEF accountant, were indicted by a Federal Grand Jury in the District of Massachusetts. GSEF loaned and/or granted federal funds to assist business entities in the Springfield area. GSEF received funding from HUD’s Office of Community Planning and Development, the Department of Commerce, and the Small Business Administration.



The Boston Globe, March 25, 2003

Defendant Asselin was charged with one count of conspiracy, one count of false statements, 20 counts of federal program fraud, and 20 counts of money laundering. Asselin is the son of Ray Asselin, executive director of the Springfield Housing Authority. Krzystofik was charged with one count of conspiracy, three counts of Small Business Administration fraud, seven counts of false statements, 20 counts of federal program fraud, and 32 counts of money laundering. Lewis was charged with one count of conspiracy and two counts federal program fraud. Anzalotti, Jr., was charged with one count of conspiracy and three counts of false statements. Allegedly, Asselin and Krzystofik set up two consulting firms to receive unauthorized GSEF funds. In addition, along with Lewis, they allegedly took unauthorized personal trips that were paid for with GSEF funds. The indictment also alleges that there were numerous conflicts of interest resulting from self-dealing. GSEF rented space in a building owned by Anzalotti; a business entity associated with Anzalotti received a GSEF loan. GSEF rented space in a building owned by Asselin, Krzystofik, Lewis, and a GSEF borrower. Anzalotti did not report any of this activity in the annual GSEF audits. The four defendants were recently arrested.

Former **Beaumont, TX** Mayor David W. Moore was found guilty in Federal Court, Eastern District of Texas, on 13 counts of conspiracy, bribery, mail fraud, and money laundering. As a result of the same trial, former Beaumont City Councilman John K. Davis was found guilty on 11 counts of conspiracy, bribery, mail fraud, and money laundering. An investigation disclosed that San Antonio, TX businessman Terry Samuel provided the defendants with cash payments, checks, and other things of value in return for their assistance and influence in Samuel's business transactions with the City of Beaumont. This included Samuel's participation in several programs which received HUD funding.

Defendant Betty Jane Anderson, former property manager of the **Detroit Lakes, MN** Economic Development Authority (EDA), was indicted in Minnesota State Court on seven counts of theft by swindle. Anderson allegedly devised a scheme to create fictitious vendors, landlords, tenants, work

orders, and invoices to obtain over \$55,410 in EDA funds. She either took the funds in cash or deposited them in six different bank accounts which she opened in nearby cities. A review of the bank records show that Anderson used these funds for her own personal benefit.

Home improvement contractor Thomas E. Keehn, Jr., doing business as *Certified, Inc.*, pled guilty in Federal Court, **District of Columbia**, to mail fraud. Keehn used the mails in furtherance of a fraudulent scheme to obtain HUD funds from the D.C. Department of Housing and Community Development. He prepared false, inflated bids on behalf of fictitious contractors on at least 15 home improvement contracts for which he was competing in order to ensure that his bid was accepted. Keehn obtained contracts totaling at least \$220,000 under false pretenses.

Defendant Francis Nicholas Armah-Afful, a **Montgomery County, MD** Housing Opportunities Commission (HOC) subsidy recipient, was arrested subsequent to a controlled delivery and surveillance operation which resulted in the execution of two state arrest warrants and four simultaneous state search warrants. Armah-Afful manufactured counterfeit checks from a computer in his HOC apartment, which was funded by HUD, purchased laptop computers from a distributor in Illinois, and had the computers sent to his apartment. The computers were then either sold on the street or pawned. During the investigation, it was discovered that Armah-Afful created fraudulent checks under the corporate names of "HUD Enterprises, Inc.," "HUD Accounts Payable, Inc.," and "HUD Corporation." Armah-Afful was deported in 2000 and at the time of the investigation was considered an illegal entry. The alias used by Armah-Afful, Divine Selasi Ziorklui, had an active INS arrest warrant on file. During the execution of the search warrant at Armah-Afful's apartment, evidence was located which linked him to two local strong-arm robberies. The fraud in this scheme has thus far totaled over \$70,000 and is expected to double subsequent to findings from the search warrants. Two other individuals, Eric Nensah and Trevonne McLean, were arrested during this operation.

OIG Offices of Audit and Investigation — Joint Efforts

Defendant Bradley D. Jones, former controller for **Utica, NY** Community Action, Inc., pled guilty in Federal Court, Northern District of New York, to a one-count felony information for theft of property from an organization receiving federal assistance. Utica Community Action, Inc., is a federally funded, nonprofit agency providing anti-poverty programs to the Utica area. A Congressional inquiry led to an investigation of Utica Community Action's financial activities; the investigation found 25 suspicious checks totaling \$63,616 payable to Brad Jones. Jones admitted that, while employed as controller, he issued agency checks payable to himself, cashed the checks, and used the cash for his personal benefit.

Defendants Phuong Vu and Hang Hua entered into a civil settlement at the U.S. Attorney's Office in **Houston, TX**, in connection with a False Claims Act investigation. The investigation disclosed that Vu misrepresented his income in order to receive mortgage down payment assistance from a subrecipient of the City of Houston under the HUD HOME Program. Vu failed to disclose he was cohabiting with a girlfriend, Hang Hua, who was employed as a mortgage underwriter. Vu also reported a fictitious employer because he was unemployed and receiving worker's compensation benefits. In lieu of a civil complaint being filed, Vu and Hua made full payment of damages totaling \$9,500 per the settlement agreement.

Defendants Gerald A. Phillips, executive director, Massachusetts Career Development Institute (MCDI), Giuseppe Polimeni, former director of MCDI, Jamie Dwyer, former MCDI employee who handled the payroll, and Luisa Cardaropoli, alleged MCDI no-show employee, were indicted by a Federal Grand Jury in the District of Massachusetts. MCDI provided educational and job training programs for income eligible individuals in the Springfield area. MCDI received funds from many sources, including the HUD CDBG Program and the Department of Education. Phillips was charged with one count of conspiracy, six counts of aiding and abetting, four counts of wire fraud, three counts of

federal program fraud, and one count of threatening a witness. Phillips served as a civilian commissioner for the Springfield Police Department until his March 2002 arrest. Polimeni was charged with one count of conspiracy, nine counts of aiding and abetting, four counts of wire fraud, three counts of federal program fraud, and three counts of obstruction of justice. Dwyer was charged with one count of conspiracy, nine counts of aiding and abetting, four counts of wire fraud, three counts of federal program fraud, and two counts of obstruction of justice. Cardaropoli was charged with one count of conspiracy, three counts of aiding and abetting, two counts of wire fraud, one count of federal program fraud, and one count of obstruction of justice. Allegedly, Phillips, Polimeni, and Dwyer conspired to disburse unauthorized MCDI funds to Cardaropoli and other no-show employees of MCDI. The indictment also alleges that there were numerous fraudulent wire transactions in regard to health insurance and employment benefits illegally awarded to the alleged no-show employees. During the course of this investigation Phillips threatened, intimidated, and persuaded a witness in order to prevent the witness from testifying in a Federal Grand Jury proceeding. The four defendants were arrested shortly after their indictment.



OIG Special Agent in Charge Peter Emerzian, on right, attending press conference held by U.S. Attorney Michael J. Sullivan, District of Massachusetts, announcing Grand Jury indictments and arrests of Gerald A. Phillips, Giuseppe Polimeni, Jamie Dwyer, and Luisa Cardaropoli.

This page intentionally left blank.

Chapter 6 – Other Significant Audits and Investigations

Audits

During this reporting period, the OIG audited HUD's Principal Financial Statements and issued reports prepared by a contractor that audited FHA's Financial Statements as well as Ginnie Mae's Financial Statements. We also audited HUD's Information Security Program, Controls Over Social Security Numbers, and Resource Management System. In addition, we performed two reviews of Ginnie Mae's Internal Controls.

Financial Statement Audits

OIG issued its report presenting the results of our audit of HUD's **principal financial statements** for the years ended September 30, 2002 and 2001. Assessments of HUD's internal controls and compliance with laws and regulations are also provided in the audit report. In our opinion, the principal financial statements present fairly, in all material respects, the financial position of HUD as of September 30, 2002 and 2001 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.

Our audit disclosed material weaknesses in internal controls in FY 2002 related to the need to: (1) comply with federal financial management system requirements, including the need to enhance Federal Housing Administration (FHA) information technology systems to more effectively support FHA's business processes; (2) improve oversight and monitoring of subsidy calculations and intermediaries' program performance; and (3) improve FHA's controls over budget execution and funds control.

Reportable conditions in internal controls in FY 2002 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 systems; (5) improve funds controls over public housing operat-

ing funds; (6) improve processes for reviewing obligation balances; (7) more effectively manage controls over the FHA systems' portfolio; (8) place more emphasis on monitoring lender underwriting and improving early warning and loss prevention for FHA single family insured mortgages; (9) sufficiently monitor FHA's single family property inventory; and (10) improve FHA's controls over the credit subsidy adjustment process. As part of the reportable condition that HUD needs to improve processes for reviewing obligation balances, our review showed that over \$1.1 billion in excess funds could be deobligated. Most of these control weaknesses were reported in prior efforts to audit HUD's financial statements and represent long-standing problems.

The audit also includes 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; applicable accounting standards; and the U.S. Standard General Ledger at the transaction level. The report provides an assessment of HUD's action to address the weaknesses and makes various recommendations for corrective action. (Report No. 2003-FO-0004)

The OIG issued a report on the results of KPMG LLP's audit of the **Federal Housing Administration's (FHA) financial statements** for the years ended September 30, 2002 and 2001. In KPMG's opinion, the financial statements present fairly, in all material respects, FHA's financial position as of September 30, 2002 and 2001, 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.

While KPMG issued an unqualified audit opinion on FHA's financial statements, their report identifies two material weaknesses: (1) HUD/FHA's automated

data processing (ADP) system environment must be enhanced to more effectively support FHA's business processes; and (2) controls over budget execution and funds control must be improved. The report also identifies four reportable conditions on internal control: (1) HUD/FHA can more effectively manage controls over the FHA ADP systems portfolio; (2) FHA must place more emphasis on monitoring lender underwriting and continue to improve early warning and loss prevention for single family insured mortgages; (3) FHA must sufficiently monitor its single family property inventory; and (4) FHA must improve the controls over the credit subsidy adjustment process.

The report provides an assessment of actions taken by FHA to mitigate these weaknesses and conditions, and makes recommendations for corrective actions. Report No. (2003-FO-0002)

OIG issued its report presenting the results of KPMG LLP's audit of the **Government National Mortgage Association's (Ginnie Mae) financial statements** for the years ended September 30, 2002 and 2001. In KPMG's opinion, the financial statements present fairly, in all material respects, the financial position of Ginnie Mae as of September 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In addition to KPMG's unqualified opinion on Ginnie Mae's financial statements, the audit results indicate that there were no material weaknesses in Ginnie Mae's internal controls and no reportable instances of noncompliance with laws and regulations. KPMG noted other matters involving internal control and its operations that are not material to the financial statements and are being reported separately to Ginnie Mae management. (Report No. 2003-FO-0003)

HUD's Information Security Program

We completed an audit of HUD's information security program and practices as required by the FY 2001 Defense Authorization Act (P.L. 106-398), Title X, subtitle G, "Government Information

Security Reform." The Act requires that the OIG perform an annual independent evaluation of the Department's information system (IS) security program leading to a conclusion regarding its overall effectiveness. While we observed improvement in some aspects of HUD's IS security program, weaknesses persist. Delays in the implementation of corrective actions and tasks designed to strengthen the IS security program continue to put critical data and resources at risk. Although the Office of the Chief Information Officer (OCIO) expanded its self-assessment program in FY 2002, we found that the results reported are unreliable in the absence of a review process to ensure correct performance of the assessments. We also found that despite the effort given to prepare HUD's Critical Infrastructure Protection Plan, the OCIO has made little progress in implementing tasks outlined in the plan to strengthen HUD's IS security program in the areas of risk management, emergency management and interagency coordination, recruitment, education, and awareness. We attribute these delays to funding limitations, poor planning and coordination, and administrative processes preventing the timely establishment of contractual agreements.

We made recommendations to strengthen the OCIO's role in monitoring the Department's IS security program by overseeing the immediate correction of long-standing security weaknesses and implementing procedures to improve the reliability of results obtained during its annual self-assessment program. In addition, we recommended that the OCIO ensure adequate resources are requested and allocated to facilitate full implementation of its Entity-wide Security Program Plan as outlined in the Department's Critical Infrastructure Protection Plan. The OCIO's Corrective Action Plan dated December 18, 2002, indicates concurrence with all of the report recommendations and scheduled completion of all corrective actions by November 2003. (Report No. 2003-DP-0801)

HUD's Controls Over Social Security Numbers

The Chairman of the House Ways and Means Subcommittee on Social Security asked the President's Council on Integrity and Efficiency

(PCIE) to evaluate federal agencies' control over third party access to, and disclosure and use of, Social Security numbers (SSNs). To accomplish this, the HUD OIG and other participating OIGs were requested to select one program area and determine whether their agency: (1) made legal and informed disclosures of SSNs; (2) had appropriate controls over contractors' access to and use of SSNs; (3) had appropriate controls over other nongovernmental and noncontractor entities' access to and use of SSNs; and (4) had adequate controls over access to individuals' SSNs maintained in databases.

Our audit showed that Office of Housing and Office of the Chief Information Officer (OCIO) staff had adequate controls over access to individuals' SSNs maintained in databases containing sensitive information. However, neither Housing nor OCIO staff complied with procedures established to control contractors' access to records containing personal information. Specifically, OCIO did not ensure the required background investigation was completed for all contract employees. We also determined that Housing and OCIO staff did not ensure that contract employees completed information security training or maintained up-to-date lists identifying contract employees having access to these systems. These deficiencies, along with appropriate recommendations for corrective action, were reported in HUD OIG's Audit of HUD's Financial Statements, FYs 2001 and 2000, dated February 27, 2002. Accordingly, no further recommendations were made as part of this audit. (Report No. 2003-AO-0801)

Components of HUD's Resource Management System

We completed a review of the Department's progress in implementing the Resource Estimation and Allocation Process (REAP) and the Total Estimation and Allocation Mechanism (TEAM) components of its Resource Management System. The Chief Financial Officer's (CFO) Office of Budget is responsible for coordination and implementation of the system. Our primary objective was to assess the Department's progress in implementing REAP and TEAM subsequent to the OIG's September 2000 REAP review. Generally, we found the Department

has made significant progress in developing and implementing the key components of its Resource Management System since September 2000. The Department completed the REAP studies in January 2002, began implementing the time reporting component of TEAM in the third quarter of FY 2002, used REAP/TEAM data to improve the budget process for FYs 2003 and 2004 and staffing plan decisions for 2003, and anticipates using the allocation module of TEAM to allocate FTES for the Department's FY 2004 appropriation. The Department now needs to develop a comprehensive strategic workforce plan that includes elements as to how the data from the REAP studies and TEAM system will be used to plan and allocate its human resources among its various operating components. (Report No. 2003-PH-0801)

Ginnie Mae's Internal Controls

Our audit of Ginnie Mae's internal controls identified several control weaknesses in its operations, including: (1) not requiring issuers to accurately report FHA case numbers and use those numbers as its primary management control; (2) inadequate controls to ensure reliability of automated data; (3) inadequate procedures for matching data in Ginnie Mae's systems to FHA's systems; and (4) unreasonable time allowed for issuers to provide the Mortgage Insurance Certificate (MIC) to the document custodian. Because Ginnie Mae officials did not recognize the need to implement the controls, the Ginnie Mae database contained incomplete and inaccurate loan information and Ginnie Mae's risk of fraud was increased. These weaknesses allowed one issuer to place over \$21 million of uninsured and fraudulent loans into Ginnie Mae pools.

In response to our audit inquiries and through its own assessments of controls, Ginnie Mae implemented several new procedures designed to strengthen and improve operations. It began electronically confirming that all case numbers are valid. It improved the loan level edits to identify syntax and format errors so that loans that are not in the proper format cannot be placed in pools. It began follow-up with issuers to improve the reliability of information on existing portfolios, and continued to improve its tracking of timely MIC recogni

tion. Ginnie Mae agreed with our recommendation to match all FHA loans in its database with FHA's database to ensure data is accurately reported and loans are insured, and expects to complete its first reconciliation by December 2003. (Report No. 2003-AT-0001)

At the request of Ginnie Mae, we conducted a limited review of the general controls over the information systems operated and maintained for Ginnie Mae by Affiliated Computer Services – Governmental Services, Inc. (ACS). Our review found that security over certain server and application access controls can be improved. We also found that required semiannual testing of the disaster recovery process for one (the webserver) of the three major ACS contracted services was not being performed. We made five recommendations to Ginnie Mae to improve internal controls in these areas. (Report No. 2003-DP-0802)

Investigations

Defendant Robert Barrera, owner of *Financial Research Services* (FRS), **Miami, FL**, was sentenced in Federal Court in the Southern District of Florida to 27 months imprisonment and two years supervised release, and ordered to pay over \$4.46 million in restitution to HUD and Ginnie Mae. Defendant Enos Ying, controller of FRS, was convicted by a Federal Trial Jury in the Southern District of Florida on two counts of conspiracy to make false statements to HUD/Ginnie Mae, one count of mail fraud, and 27 counts of submitting false statements to HUD/Ginnie Mae. Barrera and Ying were able to place 15 fictitious mortgages totaling \$1.29 million in several Ginnie Mae pools, resulting in a loss to Ginnie Mae. In addition, the defendants kept the loan pay-off proceeds on 39 mortgages amounting to over \$3.17 million and continued to make the monthly mortgage payments so that Ginnie Mae would not discover the fraudulent scheme. The total loss to Ginnie Mae was over \$4.46 million and the loss to the Federal Deposit Insurance Corporation lender that provided the warehouse line of credit was over \$2 million. The investigation involved 15 bank accounts and over \$200 million in financial transactions.

Defendant Regina F. Solomon, an operations specialist with the HUD **Detroit, MI** Office, pled guilty in Federal Court, Eastern District of Michigan, to a one-count bill of information for theft of government property for her unauthorized personal use of a government vehicle. Within a negotiated plea agreement, Solomon agreed to pay \$2,863 in restitution to one of the complainants in this case regarding a loan she used to repay past due amounts on a government credit card. Further, the plea agreement called for Solomon to immediately cease her employment with the Federal Government, which became effective on March 27, 2003. Solomon had been the HUD field office director and senior community builder for the State of Michigan prior to her assignment as an operations specialist. Sentencing is scheduled for June 24, 2003.

Chapter 7 – Outreach Efforts

In order to foster cooperative, informative, and mutually beneficial relationships with various 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 outreach 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 OIG audit and investigative work and discuss our goals and objectives, but we also provide information about the OIG’s role and function.

The HUD Secretary continues to maintain the highest level of interest in the fight against fraud and abuse, and the OIG has found that by establishing working relationships with these agencies and organizations, we can more readily and successfully reach our common goal of providing decent, safe, and sanitary housing for those in need. The following are some of our outreach efforts carried out during this six-month reporting period.

- Inspector General Donohue addressed the **American Association of Residential Mortgage Regulators** in Annapolis, MD, at its first Mortgage Fraud Committee Task Force Symposium.
- Inspector General Donohue addressed the National Conference of the **National Association of Housing and Redevelopment Officials** in Seattle, WA.
- Inspector General Donohue addressed the graduates of both the **Federal Law Enforcement Training Center** in Glynco, GA, and the **Inspector General Auditor Training Institute** in Arlington, VA.
- As part of an ongoing partnership with **Norfolk, VA State University**, the OIG Headquarters Audits Division Director hosted two accounting students on a three-day job shadowing experience at HUD Headquarters.



Participants in Job Shadowing Program: from l to r, Donna M. Hawkins, Assistant Director, Headquarters Audits Division; Saundra G. Elion, Director, Headquarters Audits Division; Tamara Artybridge, Norfolk State University accounting student; Kenneth M. Donohue, HUD Inspector General; James Riley, Jr., Norfolk State University accounting student; Seanna McGee, OIG Auditor; and Sharon Brown, OIG Auditor.




Participants in Job Shadowing Program: from l to r, Tamara Artybridge, Norfolk State University accounting student; Frank L. Davis, Director of HUD's Office of Departmental Operations and Coordination; James Riley, Jr., Norfolk State University accounting student; and Sandra G. Elion, Director, Headquarters Audits Division.

- Inspector General Donohue addressed the **School of Criminal Justice at the University of Alabama** in Tuscaloosa, AL.
- At the **Mortgage Bankers Association** in San Francisco, CA, John E. Dupuy, Special Agent in Charge (SAC), Criminal Investigation Division (CID), and Stephen L. Bell, Assistant Special Agent in Charge (ASAC), CID, made a presentation on mortgage fraud at CampusMBA's Advanced Fraud Seminar.



John E. Dupuy, SAC, CID, and Stephen L. Bell, ASAC, CID, make presentation on mortgage fraud to Mortgage Bankers Association in San Francisco, CA.

-
- The OIG Office of Investigation held a **liaison meeting** in Washington, DC, with enforcement staff from the Environmental Protection Agency (EPA), Criminal Investigation Division staff from EPA, program staff from HUD, and Department of Justice staff to discuss ways to focus on lead-based paint cases.
 - The OIG Office of Audit made an extended presentation on the audit process to all HUD Principal Staff during a meeting of the HUD **Executive Management Committee** in Washington, DC.
 - Inspector General Donohue spoke to over 600 Departmental managers from across the country at the **National Management Training Symposium** meeting in Washington, DC.
 - OIG Special Agents in Charge attended the FBI sponsored **OIG Liaison Conference** in New Orleans, LA.
 - OIG Special Agent Joel Parisi, Mid-Atlantic Region, made a presentation in Grantville, PA, to the officers and members of the **Pennsylvania Septic Management Association** on the merits of avoiding fraud and misrepresentation in the course of conducting business.
 - OIG staff met with the **U.S. Attorney (USA) for the Great Plains Region, Chief Criminal Assistant USA, Chief Civil Assistant USA, and the Affirmative Civil Enforcement Coordinator** for the District of Kansas, and presented potential proactive approaches to problems in Single Family and Multifamily Housing Programs.
 - D. Michael Beard, OIG Regional Inspector General for Audit from the Southwest Region, made a presentation on the OIG's policy on civil referrals to Assistant U.S. Attorneys at the **Joint Conference of the Southwest/Western Intergovernmental Audit Forum** in Reno, NV.
 - Acting OIG Assistant Special Agent in Charge Monica Haltmeyer, Mid-Atlantic Region, spoke at the **Fidelity National Title Insurance Company** of New York Fall Seminar on single family loan origination fraud.
 - The OIG, in coordination with the HUD **Offices of Housing and Public and Indian Housing**, is embarking on a nationwide proactive effort to establish policies and procedures to prevent overpayments of Section 8 housing assistance, including up-front income verification, state-by-state memoranda of understanding to obtain state wage income information, and legislative proposals to obtain information and for simplifying rent calculations.
 - OIG Audit and Investigation staff briefed **HUD employees** on how the OIG works, providing a look at the inner workings of our operations.
- 

This page intentionally left blank.

Chapter 8 – Regulations, Handbooks and Other Directives

Making recommendations on legislation, regulations, and policy issues is a critical part of the OIG's responsibilities under the Inspector General Act. This responsibility has taken on added dimension at HUD because of the dynamics of its rapidly changing program and management environment. During this six-month reporting period, the OIG reviewed 148 regulations, funding notices, and other HUD directives and proposals. This Chapter highlights some of the resultant OIG recommendations.

Regulations

Public Housing Capital Fund Program

This proposed rule governs public housing agencies' (PHA) use of HUD provided funds for either the development of new housing or the modernization of existing housing, as well as management improvement activities. The HUD Appropriations Act provided \$3 billion in FY 2001 and about \$2.5 billion in FY 2002. The Appropriations Act contained a provision requiring that HUD not distribute any of the funds until a risk assessment was completed and mitigation controls initiated to eliminate any identified risks. HUD has already distributed over \$5 billion in capital funds during the last two years without meeting the requirements of this provision.

We did not concur with the proposed rule because HUD has not yet completed the required risk assessment, established controls for limiting new construction to the replacement of units in the PHA inventory, or prescribed a methodology for the disposition of unappropriated funds designated for emergencies.

The Office of Public Housing is considering OIG's comments. The Department procured a consultant to conduct a risk assessment and this study is underway. The draft regulation had not been published as of the close of this semiannual reporting period.

Notices Of Funding Availability (NOFA)

Fiscal Year 2003 SuperNOFA – General Section

The General Section of the SuperNOFA provides the general requirements, procedures, and principles that apply to all of HUD's Discretionary Grant Programs. The FY 2003 SuperNOFA, in its entirety, will provide funding for 43 Discretionary Grant Programs. The Program Section of the SuperNOFA is reviewed on a program-by-program basis.

We nonconcur with the General Section of the SuperNOFA because we did not agree that the OIG should be performing the pre-award survey reviews. Section V of the General Section required the OIG, in consultation with the Office of Grants Management and Oversight, to arrange for pre-award surveys of the applicant's financial management system. In cases where the recommended applicant has no prior federal support, the program area has reason to question whether the applicant's financial management system meets federal financial management standards, or whether the applicant is considered a high risk based on past performance of financial management findings. Further, HUD will not make an award to any applicant who does not have a financial management system that meets federal standards. We recommended that the OIG be dropped from the General Section of the SuperNOFA and that the Office of Departmental Grants Management and Oversight make alternative arrangements for the performance of the system reviews. The Office of Administration's Office of Departmental Grants Management and Oversight revised the language in the General Section of the SuperNOFA to indicate that their office would make alternative arrangements for the performance of the system reviews.

The SuperNOFA had not been published as of the close of this semiannual reporting period.

Fiscal Year 2003 SuperNOFA – Rural Housing and Economic Development

This SuperNOFA would build capacity for the Rural Housing and Economic Development (RHED) Program. The program would provide assistance at the state and local levels for rural housing and economic development. The funds made available under this program will be awarded competitively, through a selection process conducted by HUD in consultation with the Department of Agriculture (USDA).

We did not concur with this SuperNOFA because it anticipated awarding \$25 million in assistance in excess of the authorized budget, contrary to Section 421 of Public Law 107-73, issued on November 26, 2001. The HUD Appropriations Act required that no part of any appropriation for HUD should be available for any activity in excess of the amount set forth in the budget estimates submitted to Congress. The language in the budget states that the 2003 budget proposes no new funding for this program. Therefore, we were unable to concur with the NOFA. Further, the NOFA stated that the selection process was to be done in consultation with USDA. However, neither the Public Law nor the budget document discusses the role of USDA in this program.

The Department revised the language of the proposed SuperNOFA to state that the SuperNOFA was contingent upon Congressional approval of the proposed amount and dropped the requirement for USDA oversight. We lifted our nonconurrence based on these revisions.

The SuperNOFA had not been published as of the close of this semiannual reporting period.

HOPE VI Demolition Grants

This NOFA will announce the availability of \$40 million for PHAS from the HOPE VI Demolition Grants appropriation. Demolition Grants provide funding to PHAS for the demolition of severely distressed public housing and for relocation and other supportive services to residents of these units.

We did not concur with this proposed NOFA because it anticipated awarding \$40 million in

assistance in excess of the authorized budget, contrary to Section 421 of Public Law 107-73, issued November 26, 2001. The Appropriations Act required that no part of any appropriation for HUD should be available for any activity in excess of the amount set forth in the budget estimates submitted to Congress. HUD did not provide any funding for the demolition activity in its budget to Congress.

The Office of Public and Indian Housing (PIH) intends to distribute \$40 million in appropriations for the demolition of severely distressed housing and for the relocation and support services to families in the units scheduled for demolition. These PIH actions are contrary to budget controls established in the Appropriations Act. Historically, PIH has complied with this Appropriations Act requirement and adjusted the Family Unification Program NOFA when the NOFA exceeded the amount provided in the budget to Congress. PIH has effectively reduced the amount of funds available for revitalization of severely distressed units by diverting \$40 million to the elimination of the public housing stock.

The NOFA had not been published as of the close of this semiannual reporting period.

Notice

Capital Fund – Replacement Housing Factor Instructions

This proposed Notice provided instructions to public housing agencies to request funding for replacement housing. The Department planned to fund the public housing agencies' request for replacement housing through the capital fund formula. The Department authorized public housing agencies to obtain replacement funding for five years, or 10 years if they will be leveraging substantial funding from other sources.

We commented on the proposed plan because the Department did not establish management controls to detect the development of replacement housing in excess of the maximum number of units allowed for the public housing agency. The Department did not place a limit on the number of units a public housing agency could develop with the

replacement housing funds. The Housing Act of 1937, as amended in Section 9(g), did limit the number of units being developed to the number of units in the public housing inventory at October 1, 1999. A public housing agency developing units in excess of the maximum allowed cannot obtain subsidies for the excess units.

PIH has revised the Notice and established a management control for detecting units in excess of the maximum allowed. This Notice had not been issued as of the close of this semiannual reporting period.

Handbooks

Multifamily Accelerated Processing (MAP) Guide – Quality Assurance Enforcement Actions

This Handbook change adds a Chapter 15 that provides the Department with enforcement actions against lenders and participants in the Multifamily Accelerated Processing (MAP) Program. The enforcement procedures allow for an informal conference between the sanctioning board and the lender or participant.

We did not concur with this change because it did not require HUD to document any discussions as a part of the procedural record. We determined that board members would be using the discussions from the informal conference when considering sanctions. Without these discussions as part of the written record, final determinations may appear to be unsupported. Conversely, if their discussions are not taken into consideration, we did not see the relevance of having the participant attend the informal conference. In response, HUD revised the Handbook Chapter to now allow for written arguments and additional documents or evidence to be entered into the written record if submitted within five days of the informal conference. This appears to be an opportunity to adequately support the written record; it also supports a reason to hold the conference.

The Handbook change was not finalized as of the close of this semiannual reporting period.

Administrative Control of Funds Policies and Procedures

This proposed Handbook updates, strengthens, and consolidates five of HUD's previous Handbooks relating to the administration of funds. The purpose of this Handbook is to prescribe requirements for: (1) distributing HUD's budget authority through an apportionment/allotment process that affixes personal responsibility and accountability for specific budgetary resources; (2) establishing and maintaining internal controls that provide reasonable assurance that HUD's obligations and expenditures are within the budget authority limits established by the Congress for specific budgetary resources; and (3) reviewing, reporting, and acting on possible and confirmed violations of the Anti Deficiency Act.

We initially did not concur with the new policies and procedures because the Handbook lacked: (1) a clear statement to HUD staff to avoid obligating funds prior to the signing of grant agreements; (2) an audit trail of the Office of General Counsel's conclusions and opinions provided to allotment holders; (3) complete instructions for year-end closing processes and rules for carrying over funds for the next fiscal year; (4) a clear definition of the term "carryover" to ensure this process is completed in accordance with the Office of Management and Budget reapportionment process; (5) a requirement for the Office of General Counsel's involvement in handling possible Anti Deficiency Act violations; and (6) provision for the Office of General Counsel's involvement in the team make-up for performing reviews of violations of the Anti Deficiency Act.

The Department concurred with our recommendations to strengthen the Handbook by establishing policies and procedures for maintaining internal controls of funds and processes. Our recommendations were added to the Handbook, which was issued on December 19, 2002.

HUD Standard Forms

Revised FHA Multifamily and Health Care Closing Documents

The closing documents for multifamily rental projects and health care facilities have not been updated since the 1960's. Therefore, the Department conducted a thorough review and comparison to modern day instruments to offer the requisite protection to all parties to the transaction, consistent with modern real estate and mortgage lending laws and procedures. The Department now has one regulatory agreement for rental housing projects (Sections 202 and 811 will have a separate agreement, to be revised at a later date), and another regulatory agreement for health care facilities. Major changes have been made to the regulatory agreements, including adding current policies and administrative procedures and incorporating the Mortgagee's Certificate into the agreement. Most notably, the regulatory agreement of health care facilities makes lessees responsible for the same level of financial reporting, posting all personal property as security for the mortgage, and agreeing that the certificate of need and license cannot be transferred from the project. These changes were made, in part, based on management decisions made in response to a prior OIG audit.

We did not concur with the health care facilities regulatory agreement because it falls short where program areas cross over between rental and health care. For example, board and care facilities have rental issues as well as health care issues. The health care facilities regulatory agreement does not cover rental issues and vice versa.

We also nonconcur with the terminology on the Mortgagee's Certificate (Form HUD-92434) with regard to reserve for replacement deposits. Section 232 mortgages are underwritten with a two-part reserve for replacement deposit due each month. A stated portion of this deposit is to be used for major moveable equipment, while the balance is for long-term physical plant needs. Owners have been using the entire reserve for replacement balance on major moveable equipment without regard to reserving funds for future major repairs.

HUD is currently evaluating our comments. The revised closing documents had not been finalized as of the close of this semiannual reporting period.

Chapter 9 – Audit Resolution

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. 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 3/31/03," and Table B, "Significant Audit Reports Described in Previous Semiannual Reports Where Final Action Had Not Been Completed as of 3/31/03."

Delayed Actions

Audits of HUD's FY 1991 through 2002 Financial Statements

First issued June 30, 1992. HUD has been preparing financial statements under the requirements of the Chief Financial Officers Act for 12 fiscal years, beginning with Fiscal Year (FY) 1991. Various internal control weaknesses have been reported in these audits. In our most recent audit effort for FY 2002, we were able to express an unqualified opinion on HUD's principal financial statements. The results of our FY 2002 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; (2) improve oversight and monitoring of subsidy calculations and intermediaries' program performance; and (3) improve FHA's controls over budget executions and funds control. Corrective action plans to resolve these issues have continued to change over the last decade.

Audits of FHA's FY 1991 through 2002 Financial Statements

First issued March 27, 1992. FHA has been preparing financial statements for 12 years under the Chief Financial Officers Act, beginning with FY 1991. The audit of FHA's FY 2002 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; (2) sufficiently monitor its single family property inventory; and (3) continue to improve early warning and loss prevention for single family insured mortgages. This third reported condition was expanded in FY 2002 to include the need to place more emphasis on monitoring lender underwriting. 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. A weakness first reported in the FY 1998 financial statement audit relates to the need to improve controls over budget execution and funds control. A number of previously reported problems have been satisfactorily resolved over the years. 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. The FY 2003 financial statement audit will assess FHA's accomplishments in correcting these conditions.

Empowerment Zone Program, Cities of Chicago, Philadelphia, and Atlanta

Issued September 28, 1998, September 30, 1998, and October 15, 1998. Audits of the Cities of Chicago, IL, Philadelphia, PA, and Atlanta, GA, found that the Cities used empowerment zone funds inappropriately. The questioned amounts totaled over \$2 million for the three Cities. The unique

nature of the Empowerment Zone Program, authorized by the Omnibus Budget Reconciliation Act of 1993, provided HUD the authority to oversee the program, but provided funding through tax credits and Social Services Block Grant funds from the Department of Health and Human Services (HHS). HHS has responsibility for resolving questions concerning the permissible use of zone funds.

In 1999, HUD management agreed with our findings and promised to have the Cities repay, by June 2000, program funds spent inappropriately. HUD, however, did not take corrective actions timely. In February 2000, HUD's Community Planning and Development (CPD) Comptroller started taking corrective actions and planned to have the outstanding recommendations closed by July 2001. In July 2001, the CPD Comptroller requested that HHS decide whether the Cities' use of zone funds to provide services to non-zone residents was an eligible use of funds. If HHS decides that the Cities used zone funds improperly, HUD plans to execute a repayment agreement with the Cities requiring repayment within two to three years. At present, HHS has not responded to the Comptroller's request.

On September 10, 2002, the Deputy Assistant Secretary for Operations, CPD, sent a letter to HHS' Director of Community Services outlining the outstanding issues relating to OIG Empowerment Zone audit reports. CPD requested HHS' decision on the eligibility of the questioned costs for which the OIG recommended repayment. The letter also included HUD's suggestions for resolving the outstanding issues. At present, HHS has not responded to HUD's letter. Therefore, on March 20, 2003, HUD's Assistant Secretary for CPD sent a letter to HHS' Assistant Secretary for Children and Families requesting an immediate response to HUD's September 2002 letter. HUD has no control over HHS' actions, but will continue to pursue these issues until they are resolved. (Report Nos. 1998-CH-1005, 1998-CH-1006, and 1999-CH-1002)

City of Lynwood, CA, Community Development Block Grant Program

Issued August 19, 1999. The City of Lynwood could not demonstrate its compliance with Commu-

nity Development Block Grant (CDBG) requirements for activities administered by subgrantees. The subgrantees operated a community-based program which provided business training and incubator space for the benefit of low- and moderate-income residents. The training component included businesses outside of the grantee's City limits. However, the City could not provide documentation to support the number of jobs for low- and moderate-income persons created or retained, or document future benefits accruing to its residents. We recommended that HUD require the grantee to submit documentation of job creation and retention activities or return any unsupported amounts to its letter of credit, from non-federal funds. In December 1999, the Los Angeles Office of CPD agreed with our recommendations and agreed to complete actions by October 31, 2000.

In November 2000, the Los Angeles Office of CPD requested revised management decisions, because the City's program benefited low- and moderate-income persons. Therefore, it would not be necessary for the City to repay the program. We disagreed with the Los Angeles Office of CPD and referred the matter to the Acting General Deputy Assistant Secretary for CPD for decision in February 2001. In July 2001, the CPD Comptroller agreed with OIG's position and the Los Angeles Office of CPD advised the City to reimburse about \$732,000 to its line of credit. A demand for repayment was sent to the City in February 2002. During the last year, CPD and the Office of General Counsel requested additional information from the City. The City did not provide any new information. In February 2003, the Acting General Deputy Assistant Secretary for CPD referred this matter to HUD's Departmental Enforcement Center for appropriate enforcement action. (Report No. 1999-SF-1003)

Nationwide Audit of the Officer/Teacher Next Door Programs

Issued June 29, 2001. A nationwide audit of HUD's Officer Next Door and Teacher Next Door (OND/TND) Property Disposition Programs found that HUD had not established adequate management controls over the programs. The audit found that: (1) 23 of 108 homebuyers in our sample, who

received program discounts of nearly \$735,000, abused the OND Program by not fulfilling three-year occupancy requirements; (2) achievement of the OND and TND Programs' goals and objectives were not assessed; and (3) homes were sold outside of revitalization areas and were therefore improperly discounted by about \$1.2 million.

Management agreed to improve controls and guidance over the programs in January 2002. Actions to be taken included establishing a monitoring plan to detect and deter program abuse and ensure occupancy requirements are met, redefining the occupancy starting date, assessing whether program achievements justify the high cost of discounted property sales, and establishing minimum standards for designating revitalization areas. All actions were to be completed by December 2002; however, completion of action has been delayed. Actions to improve monitoring of the program have been delayed because HUD has decided to implement an automated system to monitor the program instead of issuing written procedures. We have yet to see the details of these plans. Accordingly, it is unknown whether the revised action will satisfy the recommendations contained in our report. In March 2003, the OIG formally requested the Office of Housing to provide the details of their revised management decisions to revise the actions that they are taking to address the reported recommendations. HUD's plan to complete an assessment of whether program goals and objectives are being met has been delayed until December 31, 2003, because of scheduling conflicts and other priorities. The remaining recommendations required issuing guidance to improve procedures for designating revitalization areas and better defining the starting date for the required three-year occupancy period. HUD now plans to issue the guidance by April 2003 and December 2003, respectively, but did not inform OIG why this delay occurred. (Report No. 2001-AT-0001)

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 Semiannual Reports to the Congress, instances and reasons when an agency has not met the intermediate target dates established in the remediation 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 2002, the Department continued to report that 17 systems were not in substantial compliance with FFMIA. Our audit of HUD's FY 2002 financial statements cites additional financial management system weaknesses, which we reported as reasons for the Department's FFMIA noncompliance. These include noncompliance with: (1) federal financial management systems requirements; (2) federal accounting standards; and (3) the standard general ledger at the transaction level. HUD has made progress by implementing a new FHA automated general ledger in October 2002. The FHA Subsidiary General Ledger Project has been designed to bring HUD into substantial compliance with FFMIA and is to be completed by December 2006.

This page intentionally left blank.

Appendices

APPENDIX 1 - AUDIT REPORTS ISSUED

FOR THE PERIOD

OCTOBER 1, 2002 THROUGH MARCH 31, 2003

Internal Reports

Housing

Audit Reports

2003-DE-0001 HUD Office of Multifamily Housing Assistance Restructuring's (OMHAR) Oversight of the Section 514 Program Activities, 03/31/03.
2003-FO-0002 Federal Housing Administration, Audit of Fiscal Years 2002 and 2001 Financial Statements, 1/21/03.

Miscellaneous

2003-AO-0001 Financial Activities of the Commission on Affordable Housing and Health Facility Needs for Seniors in the 21st Century, 10/11/02.
2003-AT-0001 Ginnie Mae, Review of Internal Controls, Washington, DC, 3/05/03.
2003-FO-0001 HUD's Energy Management and Conservation Program, 12/9/02.
2003-FO-0003 Ginnie Mae's Financial Statements for Fiscal Years 2002 and 2001, 1/31/03.
2003-FO-0004 HUD's Financial Statements for Fiscal Years 2002 and 2001, 1/31/03. Funds Put To Better Use: \$1,100,000,000.

Single Family

Audit Memoranda

2003-BO-0802 New England Region's Officer Next Door and Teacher Next Door Property Disposition Programs, 2/12/03.
2003-KC-0801 Inappropriate Home Ownership Center Instructions, Denver, CO, 3/18/03. Funds Put to Better Use: \$1,807,534.

Multifamily

2003-BO-0801 Office of Housing's Use of the Financial Assessment Subsystem, 12/20/02.
2003-FW-0801 HUD Houston Multifamily's Oversight of Wood Hollow Place Apartments, Texas City, TX, 1/31/03.
2003-SE-0801 Housing Authority of the City of Bremerton, WA, Performance as Contract Administrator for HUD's Section 8 Project-Based Assistance Program for the State of Washington, 3/11/03.

Internal Reports - continued

Miscellaneous

Audit Memoranda - continued

2003-AO-0801	Controls over Third Party Access to, and Disclosure and Use of Social Security Numbers, 12/13/02.
2003-AO-0802	HUD's Implementation of the Federal Activities Inventory Reform Act, 12/20/02.
2003-DP-0801	Annual Evaluation of HUD's Information Security Program, 10/30/02.
2003-DP-0802	General Information Technology Controls at Affiliated Computer Services – Governmental Services, Inc. (ACS), 12/3/02.
2003-FW-0802	HUD's Houston, TX Office of Administration, Time and Attendance, 2/5/03.
2003-PH-0801	HUD's Progress in Implementing the Resource Estimation and Allocation Process (REAP) and Total Estimation and Allocation Mechanism (TEAM) Components of Its Human Resource Management System, 12/3/02.

External Reports

Single Family

Audit Reports

2003-DE-1004	Pryme Investment and Mortgage Brokers, Inc., Murray, UT, Non-Supervised Loan Correspondent, 3/27/03.
2003-KC-1001	Cendant Mortgage Corporation, Mt. Laurel, NJ, Non-Supervised Direct Endorsement Lender, 10/2/02. Funds Put To Better Use: \$101,216,328.
2003-KC-1004	First Horizon Home Loans, Irving, TX, Non-Supervised Direct Endorsement Lender, 1/17/03. Funds Put To Better Use: \$46,371,676.
2003-KC-1005	Choice Enterprises, Inc., Denver, CO, 3/10/03. Funds Put To Better Use: \$6,567,024.
2003-NY-1002	Chapel Mortgage Corporation, Rancocas, NJ, Non-Supervised Mortgagee, 3/11/03. Funds Put To Better Use: \$2,937,120.

Multifamily

2003-AO-1001	National Center of Tenants Ownership, Washington, DC, Intermediary Technical Assistance Grants, 12/3/02. Questioned Costs: \$88,946; Unsupported Costs: \$7,953.
2003-AO-1002	National Housing Trust, Washington, DC, Outreach and Training Assistance Grants, 12/9/02. Questioned Costs: \$36,711.
2003-BO-1001	Farmington Health Care Center, Farmington, CT, 3/7/03. Questioned Costs: \$341,682.

External Reports - continued

Multifamily

Audit Reports - continued

2003-BO-1002	People to End Homelessness, Providence, RI, Outreach and Training Assistance Grants, 3/31/03. Questioned Costs: \$16,499; Unsupported Costs: \$4,041.
2003-CH-1003	Tenants United for Housing, Inc., Chicago, IL, Outreach and Training Assistance Grants, 10/29/02. Questioned Costs: \$6,900.
2003-CH-1004	Indiana Coalition on Housing and Homeless Issues, Indianapolis, IN, Outreach and Training Assistance Grant, 10/31/02. Questioned Costs: \$35,783; Unsupported Costs: \$14,113.
2003-CH-1005	Jewish Community Federation of Cleveland, OH, Special Purpose Grant, 11/15/02. Questioned Costs: \$44,720; Unsupported Costs: \$44,720.
2003-DE-1003	Audit of the June 1998 Memorandum of Understanding Between HUD's Office of Multifamily Housing and the Corporation for National Service, Washington, DC, 10/28/02. Questioned Costs: \$57,916.
2003-KC-1002	Housing Comes First, St. Louis, MO, Outreach and Training Assistance Grant, 12/17/02. Questioned Costs: \$336,108; Unsupported Costs: \$336,108; Funds Put To Better Use: \$363,579.
2003-NY-1001	Marion Scott Real Estate, Inc., Management Agent, New York, NY, 2/12/03. Questioned Costs: \$902,425; Unsupported Costs: \$721,998.
2003-SE-1001	Community Alliance of Tenants, Portland, OR, Outreach and Training Assistance Grant and Intermediary Technical Assistance Grant, 10/31/02. Questioned Costs: \$52,244; Unsupported Costs: \$45,751.
2003-SE-1002	Tenants Union, Seattle, WA, Outreach and Training Assistance Grant and Intermediary Technical Assistance Grant, 12/2/02. Questioned Costs: \$164,198; Unsupported Costs: \$96,430.

PIH

2003-AT-1001	Northwestern Regional Housing Authority, Boone, NC, Public Housing Programs, 1/9/03. Questioned Costs: \$4,372,282.
2003-AT-1002	Procurement of Management Agents, Puerto Rico Public Housing Administration, San Juan, PR, 3/21/03. Questioned Costs: \$2,007,019; Funds Put to Better Use: \$10,824,363.
2003-AT-1003	Fairfield, AL Housing Authority, Housing Programs, 3/24/03. Questioned Costs: \$560,251; Unsupported Costs: \$12,865.
2003-CH-1001	Housing Authority of Champaign County, Champaign, IL, 10/24/02. Questioned Costs: \$27,360; Unsupported Costs: \$3,761.
2003-CH-1010	Coshocton, OH Metropolitan Housing Authority, Section 8 Housing Program, 3/21/03. Questioned Costs: \$32,341.
2003-CH-1011	Coshocton, OH Metropolitan Housing Authority, Comprehensive Improvement Assistance Program, 3/24/03. Questioned Costs: \$323,632.

External Reports - continued

PIH

Audit Reports - continued

2003-CH-1012	Coshocton, OH Metropolitan Housing Authority, Tenant Opportunities Program, 3/25/03. Questioned Costs: \$46,623; Unsupported Costs: \$41,827.
2003-CH-1013	Coshocton, OH Metropolitan Housing Authority, Public Housing Drug Elimination Program, 3/26/03. Questioned Costs: \$21,044.
2003-CH-1014	Coshocton, OH Metropolitan Housing Authority, Public Housing Program, 3/28/03. Questioned Costs: \$242,138; Unsupported Costs: \$165,972.
2003-DE-1001	Sicangu Wicoti Awanyakape Corporation, Rosebud, SD, HUD Indian Housing Block Grant Program, 10/8/02. Questioned Costs: \$144,410.
2003-DE-1002	Delta, CO Housing Authority, Low-Rent Housing and Section 8 Housing Assistance Payments, 10/7/02. Questioned Costs: \$101,233.
2003-FW-1001	Housing Authority of Morgan City, LA, Low-Rent Program, 2/21/03, Questioned Costs: \$58,510; Unsupported Costs: \$23,035.
2003-FW-1002	Caddo Nation of Oklahoma, Binger, OK, Indian Housing Block Grant, 3/7/03. Questioned Costs: \$4,795; Unsupported Costs: \$3,795.
2003-PH-1002	Philadelphia, PA Housing Authority, Contracting and Purchasing Activity, 1/27/03. Questioned Costs: \$716,970; Unsupported Costs: \$250,892.

CPD

2003-CH-1002	New Covenant Housing Corporation, Inc., Milwaukee, WI, CDBG and HOME Programs, 10/29/02. Questioned Costs: \$18,700.
2003-CH-1006	Cities of Huntington, WV and Ironton, OH, Empowerment Zones Program, 12/31/02. Questioned Costs: \$160,000.
2003-CH-1007	City of Minneapolis, MN, Empowerment Zone Program, 1/3/03. Questioned Costs: \$9,705.
2003-CH-1008	City of Cleveland Heights, OH, Housing Preservation Program, 1/23/03. Questioned Costs: \$504,717; Unsupported Costs: \$119,793.
2003-CH-1009	City of Cincinnati, OH, Empowerment Zone Program, 1/28/03. Questioned Costs: \$326,710; Unsupported Costs: \$311,346.
2003-FW-1003	City of Dallas, TX, Mortgage Assistance Program, HOME Investment Partnerships, 3/17/03. Questioned Costs: \$67,889; Unsupported Costs: \$34,890.
2003-KC-1003	St. Louis, MO/East St. Louis, IL, Empowerment Zones, 12/26/02.
2003-NY-1003	Empire State Development Corporation, New York, NY, CDBG Disaster Assistance Funds, 3/25/03. Questioned Costs: \$354,691.

External Reports - continued

CPD

Audit Reports - continued

2003-PH-1001 Joint Empowerment Zone Program of the Cities of Norfolk and Portsmouth, VA, 12/20/02.
Questioned Costs: \$332,154; Unsupported Costs: \$74,041.

Multifamily

Audit Memoranda

2003-FW-1801 Wood Hollow Place Apartments, Texas City, TX, 11/18/02. Questioned Costs: \$266,057;
Unsupported Costs: \$7,500.

2003-FW-1803 Coffman Investment Company, Inc., Little Rock, AR, Multifamily Management Agent, 1/10/03.

2003-KC-1801 University Forest Nursing Care Center, University City, MO, 11/14/02. Funds Put To Better Use: \$4,784,000.

2003-KC-1803 Richmond Terrace Retirement Center, Richmond Heights, MO, 3/24/03. Funds Put to Better Use: \$50,063.

2003-PH-1801 Royal Arms Apartments, Front Royal, VA, Management Improvement Operating Funds, 03/27/03.

PIH

2003-AT-1801 South Carolina Regional Housing Authority No. 3, Barnwell, SC, 10/9/02. Questioned Costs: \$1,362,268;
Unsupported Costs: \$1,118,925.

2003-AT-1802 Housing Authority of the City of Key West, FL, 1/16/03.

2003-AT-1803 Fort Pierce, FL Housing Authority, 1/31/03. Questioned Costs: \$10,664; Unsupported Costs: \$10,664.

2003-DE-1801 Housing Authority of the City and County of Denver, CO, Section 8 Housing Choice Voucher Program, 2/11/03.

2003-KC-1802 Housing Authority of Independence, MO, Section 8 Review, 12/26/02.

CPD

2003-FW-1802 Sale of Hargest College, City of Houston, TX, Community Development Block Grant (CDBG) Program, 1/9/03.

2003-SE-1801 Community Resource Center, Bremerton, WA, HOME Program and CDBG Funds, 1/31/03.

TABLE A

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

REPORT NUMBER & TITLE	REASON FOR LACK OF MANAGEMENT DECISION	ISSUE DATE/ TARGET FOR MANAGEMENT DECISION
-----------------------	--	---

Nothing to report.

TABLE B

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

Report Number	Report Title	Issue Date	Decision Date	Final Action
1995CH1009	Alliance Mortgage Corporation, Single Family Mortgage Insurance Program, Villa Park, IL	08/08/95	11/30/95	Note 1
1997FW1003	Medlock Southwest Management Corporation, Multifamily Management Agent, Lubbock, TX	08/26/97	01/16/98	Note 1
1997CH1010	Major Mortgage Corporation, Section 203(k) Rehabilitation Home Mortgage Ins. Program, Livonia, MI	09/17/97	01/06/98	Note 1
1998AT1001	Housing Authority of the City of Alma, GA	01/20/98	05/04/98	09/30/03
1998CH1005	City of Atlanta, GA Empowerment Zone Program	09/28/98	09/20/99	Note 1
1998CH1006	City of Philadelphia, PA Empowerment Zone Program	09/30/98	09/20/99	Note 1
1999NY1004	Homestead Financial Services, Inc., Non-supervised Mortgagee, Syracuse, NY	02/17/99	06/25/99	Note 1
1999FO0003	U.S. Department of HUD Fiscal Year 1998 Financial Statements	03/29/99	09/30/99	Note 2
1999PH0801	Chester, PA Housing Authority Receivership	06/01/99	12/02/99	7/31/03
1999SF1003	City of Lynwood, CA, CDBG and HOME Programs	08/19/99	12/16/99	Note 1
1999CH1803	Fairfield County, Community Housing Improvement Program, Lancaster, OH	09/15/99	01/13/00	Note 1
1999NY1007	Alliance Mortgage Banking Corporation, Non-supervised Mortgagee, Rochester, NY	09/27/99	02/16/00	Note 1
1999DE0001	Nationwide Review of HUD's Loss Mitigation Program	09/30/99	03/31/00	06/30/03
2000DP0002	Initial Development Efforts of the Departmental Grants Management System	11/04/99	09/19/01	10/31/04
2000NY1002	Target V Phase I Development Associates, Multifamily Housing Program, Bronx, NY	12/08/99	05/08/00	Note 1

Report Number	Report Title	Issue Date	Decision Date	Final Action
2000FO0002	Federal Housing Administration, Audit of Fiscal Year 1999 Financial Statements	02/29/00	08/09/00	12/31/05
2000FO0003	Attempt to Audit the Fiscal Year 1999 HUD Financial Statements	03/01/00	09/29/00	09/30/03
2000AT1003	Puerto Rico Public Housing Administration, Procurement Management	03/06/00	09/28/01	10/31/07
2000AT1005	Benson, NC Housing Authority, Public Housing Programs	03/27/00	09/13/00	8/21/03
2000SF0001	Single Family Production	03/30/00	01/19/01	Note 2
2000CH1002	Cuyahoga Metropolitan Housing Authority, Title V Account, Cleveland, OH	03/31/00	09/29/00	Note 2
2000SF1001	San Francisco, CA Housing Authority, Low-Income and Section 8 Programs	03/31/00	09/01/00	Note 1
2000CH1003	State of Ohio, Community Housing Improvement Program, Columbus, OH	06/15/00	10/18/00	Note 1
2000NY1005	Poughkeepsie, NY Housing Authority, Low-Rent Housing Program	09/25/00	02/13/01	Note 1
2000AT0001	Single Family Property Disposition Program	09/28/00	02/20/01	Note 2
2000DP0804	Department's September 2000 Purchase of COTS Financial Management System	09/29/00	03/30/01	Note 1
2000KC0002	Housing Subsidy Payments	09/29/00	02/21/01	09/30/05
2000SE0003	Nationwide Audit, Use of and Disposition of Residual Receipts	09/29/00	08/15/01	12/30/03
2001AT1001	Housing Authority of the City of Miami Beach, FL	10/20/00	02/13/01	Note 1
2001CH1001	City of Ironton, OH Community Development Block Grant Program	11/16/00	03/21/01	Note 1
2001NY1001	Bay Towers, Far Rockaway, NY, Multifamily Mortgage Operations	12/07/00	04/20/01	Note 2
2001SF1802	HUD Earthquake Loan Program Funds, Woodland Hills, CA	02/08/01	06/14/01	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
2001DP0801	Review of the Department's Internet Privacy Status	02/21/01	04/23/01	Note 1
2001FO0002	FHA Audit of Fiscal Year 2000 Financial Statements	03/01/01	07/24/01	12/21/06
2001FO0003	Audit of HUD's Fiscal Year 2000 Financial Statements	03/01/01	07/18/01	09/30/03
2001CH1005	London, OH Metropolitan Housing Authority, Safeguarding of Monetary Assets and Inventory	03/22/01	07/18/01	03/17/04
2001SF1803	Supportive Housing Program Grant, Los Angeles, CA	03/23/01	07/24/01	Note 2
2001FO0004	HUD's Internal Controls over Fiscal Year 1999 Annual Performance Data	03/28/01	07/24/01	01/31/04
2001PH1003	Housing Authority of Baltimore City, MD, Section 8 Certificate and Voucher Programs	03/28/01	09/10/01	Note 2
2001AT1005	San Juan, PR Public Housing Administration HOPE VI, Comprehensive Grant, and Economic Development & Support Services Programs	03/30/01	09/28/01	Note 2
2001NY1002	Belmax Management Corporation (Management Agent), Brooklyn, NY	04/17/01	07/13/01	Note 2
2001PH1005	Housing Authority of the City of Pittsburgh, PA	05/03/01	02/06/02	06/06/03
2001SF1804	Supportive Housing Program Grant, County of Orange, Santa Ana, CA	05/09/01	09/26/01	Note 2
2001FW0001	New Orleans, LA Housing Authority	05/11/01	11/02/01	10/15/03
2001CH1007	Detroit, MI Housing Commission, HOPE VI Program	05/15/01	09/13/01	03/06/06
2001PH0803	Philadelphia, PA Home Ownership Center, Single Family Disposition Activities	06/14/01	06/14/01	Note 2
2001AT0001	Nationwide Audit on the Officer/Teacher Next Door Programs	06/29/01	01/29/02	12/31/03
2001FW1005	Harmony House, Inc., Harrison, AR, Supportive Housing Program	08/27/01	12/21/01	Note 2
2001AO0003	Drug Elimination Funds Used for Creative Wellness Program	08/29/01	01/22/02	06/30/03

Report Number	Report Title	Issue Date	Decision Date	Final Action
2001FW1809	Jefferson Parish, LA Housing Authority, Limited Procurement Review	09/25/01	11/07/01	Note 2
2001DE1003	Foster and Associates, Whitefish, MT, Review of Management Activities for Projects Clark Fork Manor and Whitefish Manor	09/28/01	01/16/02	09/30/03
2001DP0003	Real Estate Management System	09/28/01	01/30/02	Note 2
2001KC1005	First Community Resources, Inc., St. Louis, MO, Section 203(b) Home Mortgage Insurance Program	09/28/01	01/17/02	03/16/04
2002SF0001	Nonprofit Participation, HUD Single Family Program	11/05/01	08/30/02	06/07/03
2002NY1801	City of Utica, NY, CDBG, HOME and Section 8 Existing Housing Programs	12/03/01	03/27/02	04/03/03
2002CH1801	City of Evansville, IN Housing Authority	01/29/02	05/18/02	05/15/05
2002FO0002	Federal Housing Administration, Audit of Fiscal Years 2000 and 2001 Financial Statements	02/22/02	05/30/02	12/31/06
2002NY0001	Nationwide Audit-Asset Control Area Program, Single Family Housing	02/25/02	06/17/02	06/17/03
2002FO0003	Audit of HUD's Fiscal Years 2000 and 2001 Financial Statements	02/27/02	08/16/02	01/30/04
2002DE0001	Nationwide Review of HUD's Loss Mitigation Program (Follow-up)	02/28/02	06/28/02	06/30/03
2002PH1001	City of Williamsport, PA, CDBG and HOME Investment Partnership Programs	03/19/02	09/04/02	Note 2
2002AT1807	Jardines de Valencia Housing Cooperative, Rio Piedras, PR	03/20/02	07/15/02	07/10/03
2002NY1001	City of Ithaca, NY, Community Planning and Development Programs	03/21/02	07/23/02	07/23/03
2002DE0801	Review of Alleged Violations of the Anti-Deficiency Act and the HUD Reform Act by the Office of Multifamily Housing Assistance Restructuring	03/22/02	09/30/02	Note 2
2002CH1001	Ypsilanti, MI Housing Commission, Safeguarding Monetary Assets and Inventory	03/26/02	07/24/02	12/31/03

Report Number	Report Title	Issue Date	Decision Date	Final Action
2002PH1803	Philadelphia, PA Housing Authority, Limited Personnel Review	03/26/02	07/25/02	04/30/03
2002BO1001	City of Worcester, MA, Community Development Block Grant Program	03/27/02	08/29/02	07/01/05
2002CH1002	Alton, IL Housing Authority, Low-Income and Public Housing Drug Elimination Programs	03/29/02	08/02/02	12/31/03
2002NY1002	Hudson County Division of Community Development, Jersey City, NJ, CPD Programs	04/15/02	08/09/02	04/30/03
2002BO1003	Newport, RI Resident Council, Incorporated	04/30/02	09/16/02	01/15/08
2002DP0801	HUD's Multi-Year Information Technology Plan	05/01/02	10/31/02	06/30/03
2002NY1802	CDBG Disaster Assistance Funds Administered by Empire State Development Corp., New York, NY	05/22/02	08/08/02	05/01/03
2002PH0001	HUD's Utilization of the Public Housing Assessment System	05/23/02	09/20/02	04/30/03
2002AT1001	Magnolia Lane Apartments, Project Management Operations, Conway, SC	06/05/02	09/24/02	08/29/03
2002PH0002	Single Family Sales to Owner-Occupant Purchasers	06/10/02	09/30/02	Note 2
2002AT1002	City of Tupelo, MS Housing Authority, Housing Programs Operations	07/03/02	10/31/02	04/30/10
2002AO0001	Grants Management Center's Operations	07/12/02	11/18/02	10/31/03
2002AT1003	National Scholarship Service and Veteran's Opportunity and Resource Center, Atlanta, GA, Supportive Housing Program Grant	07/25/02	10/21/02	02/28/04
2002KC0002	HUD's Office of Housing Section 232 Nursing Home Program (Nationwide Survey)	07/31/02	11/22/02	06/30/04
2002SF0801	HOME Investment Partnerships Program	07/31/02	12/06/02	04/30/03
2002SF1804	HOME Investment Partnerships Program, City of Stockton, CA and San Joaquin County, CA	07/31/02	12/06/02	04/30/03

Report Number	Report Title	Issue Date	Decision Date	Final Action
2002DE1004	Housing Advocacy Coalition, Colorado Springs, CO, Outreach and Training Assistance Grant	08/26/02	03/31/03	12/31/03
2002SF1002	Oakland, CA Housing Authority, Rehabilitation of the 49 th Street Housing Development	09/17/02	02/06/02	05/23/03
2002FW1002	Houma, LA Housing Authority, Low-Rent Housing Program, Cash & Procurement Controls	09/18/02	01/16/03	11/30/03
2002KC1003	Iowa Coalition for Housing and the Homeless, Des Moines, IA, Outreach and Technical Assistance Grant	09/19/02	03/31/03	12/31/03
2002AT1808	Homeless and Housing Coalition of Kentucky, Inc., Frankfort, KY, Outreach and Technical Assistance Grants	09/20/02	03/31/03	12/31/03
2002NY1004	Ironbound Community Corporation, Newark, NJ, Outreach and Technical Assistance Grant and Public Entity Grant	09/23/02	03/31/03	12/31/03
2002NY1005	Legal Aid Society, New York, NY, Outreach and Technical Assistance Grants and Public Entity Grant	09/23/02	03/31/03	12/31/03
2002DE1005	Crossroads Urban Center, Salt Lake City, UT, Outreach and Training Assistance Grants	09/25/02	03/31/03	12/31/03
2002SE0001	Follow-up on Down Payment Assistance Programs Operated by Private Nonprofit Entities	09/25/02	09/25/02	06/30/03
2002SF1003	Los Angeles, CA Community Development Bank, Economic Development Initiative Grant	09/25/02	01/27/03	09/30/03
2002AT1004	Ashley Crossings Apartment Homes, Largo, FL	09/26/02	09/26/02	10/31/03
2002SF1005	Housing Rights Committee of San Francisco Tides Center, San Francisco, CA, Outreach and Training Assistance Grants	09/26/02	03/31/03	12/31/03
2002AT1005	North Carolina Low-Income Housing Coalition, Inc., Raleigh, NC, Outreach and Technical Assistance Grant and Intermediary Technical Assistance Grants	09/27/02	03/31/03	12/31/03
2002DP0002	Review of Departmental IT Security Plans	09/27/02	09/27/02	09/30/03
2002AT1006	Ridgeview Manor Apartments, Hopkins, SC	09/30/02	11/19/02	11/01/03

Report Number	Report Title	Issue Date	Decision Date	Final Action
2002BO1004	Anti-Displacement Project, Springfield, MA, Outreach and Training Assistance Grant	09/30/02	03/31/03	12/31/03
2002BO1005	Chelsea, MA Housing Authority	09/30/02	12/17/02	12/01/03
2002DE1002	Affordable Housing and Homeless Alliance, Honolulu, HI, Outreach and Training Assistance Grant and Intermediary Outreach and Technical Assistance Grants	09/30/02	03/31/03	12/31/03
2002FW1003	New Mexico Public Interest Education Fund, Albuquerque, MN, Outreach and Training Assistance Grants and Public Entity Grant	09/30/02	03/31/03	12/31/03
2002PH1002	Virginia Poverty Law Center, Richmond, VA, Outreach and Training Assistance Grant	09/30/02	03/31/03	12/31/03
2002PH1003	Delaware Housing Coalition, Dover, DE, Outreach and Training Assistance Grant and Intermediary Technical Assistance Grants	09/30/02	03/31/03	12/31/03
2002PH1004	Tenants' Action Group of Philadelphia, PA, Outreach and Training Assistance Grant	09/30/02	03/31/03	12/31/03
2002PH1005	Philadelphia Regional Alliance of HUD Tenants, Philadelphia, PA, Outreach and Training Assistance Grant and Intermediary Outreach and Technical Assistance Grant	09/30/02	03/31/03	12/31/03
2002PH1006	Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant	09/30/02	03/31/03	12/31/03
2002PH1007	Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant	09/30/02	03/31/03	12/31/03
2002SF1004	Low-Income Housing Fund, Oakland, CA, Intermediary Technical Assistance Grants	09/30/02	03/31/03	12/31/03
2002SF1006	Legal Aid Society of Honolulu, HI, Outreach and Training Assistance Grant	09/30/02	03/31/03	12/31/03
2002SF1007	Southern Arizona People's Law Center, Tucson, AZ, Outreach and Training Assistance Grant	09/30/02	03/31/03	12/31/03

AUDITS EXCLUDED:

19 audits under repayment plans
14 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.

TABLE C
INSPECTOR GENERAL ISSUED REPORTS WITH
QUESTIONED AND UNSUPPORTED COSTS AT 03/31/03
(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	30	\$8,847	\$6,545
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	7	\$28,956	\$14,415
A3 For which additional costs were added to reports in beginning inventory	-	\$13	\$5
A4 For which costs were added to non-cost reports	-	\$0	\$0
B1 Which were issued during the reporting period	37	\$14,156	\$3,451
B2 Which were reopened during the reporting period	0	\$0	\$0
Subtotals (A + B)	74	\$51,972	\$24,416
C For which a management decision was made during the reporting period	48 ¹	\$11,741	\$7,376
(1) Dollar value of disallowed costs:			
• Due HUD	33 ²	\$2,854	\$1,696
• Due Program Participants	17	\$7,924	\$4,948
(2) Dollar value of costs not disallowed	2 ³	\$963	\$732
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	7	\$29,178	\$15,354
E For which no management decision had been made by the end of the reporting period	19 <63> ⁴	\$11,053 <\$11,053> ⁴	\$1,686 <\$1,686> ⁴

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

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

³ 2 audit reports also contain recommendations with funds agreed to by management.

⁴ The figures in brackets represent data at the recommendation level as compared to the report level. See Explanations of Tables C and D.

TABLE D
INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE AT 03/31/03
(DOLLARS IN THOUSANDS)

Reports	Number of Audit Reports	Dollar Value
A1 For which no management decision had been made by the commencement of the reporting period	3	\$12,370
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	4	\$521,757
A3 For which additional costs were added to reports in beginning inventory	-	\$0
A4 For which costs were added to non-cost reports	-	\$0
B1 Which were issued during the reporting period	10	\$1,274,922
Subtotals (A + B)	17	\$1,809,049
C For which a management decision was made during the reporting period	7 ¹	\$119,280
(1) Dollar value of recommendations that were agreed to by management:		
• Due HUD	4	\$98,674
• Due Program Participants	2	\$6,866
(2) Dollar value of recommendations that were not agreed to by management	2 ²	\$13,740
D For which management decision had been made not to determine costs until completion of litigation, legislation, or investigation	3	\$521,211
E For which no management decision had been made by the end of the reporting period	7 <17> ³	\$1,168,558 <\$1,168,558> ³

¹ 5 audit reports also contain recommendations with questioned costs.

² 1 audit report also contains recommendations with funds agreed to by management.

³ The figures in brackets represent data at the recommendation level as compare 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.

PROFILE OF PERFORMANCE

for the period
October 1, 2002 through March 31, 2003

Audit and Investigation Results	Audit	Investigation	Combined
Recommendations That Funds Be Put to Better Use	\$1,274,921,687		\$1,274,921,687
Management Decisions on Audits with Recommendations That Funds Be Put to Better Use	\$119,280,372		\$119,280,372
Questioned Costs	\$14,169,087		\$14,169,087
Management Decisions on Audits with Questioned Costs	\$11,741,242		\$11,741,242
Indictments/Informations		260	260
Convictions/Pleas/Pre-Trial Diversions		186	186
Months in Prison		3,284	3,284
Months of Probation		5,462	5,462
Hours of Community Service		1,385	1,385
Investigative Recoveries		\$65,214,234	\$65,214,234
Collections from Audits	\$7,283,159 ¹		\$7,283,159 ¹
Administrative Sanctions	4	242	246
Arrests		252	252
Search Warrants		24	24
Weapons Seized		9	9
Value of Drugs Seized		\$10,020	\$10,020
Subpoenas Issued	4	245	249

¹ Amount reduced by \$181,589 since it is included in Investigative Recoveries due to a civil settlement negotiated by HUD, resulting from a joint audit and investigation effort.