



*Office of Inspector General
Semiannual Report to Congress*

April 1, 2003 through September 30, 2003



PROFILE OF PERFORMANCE

for the period

April 1, 2003 through September 30, 2003

Audit and Investigation Results	Audit	Investigation	Combined	FY 2003
Recommendations That Funds Be Put to Better Use	\$26,749,669		\$26,749,669	\$1,301,671,356
Management Decisions on Audits with Recommendations That Funds Be Put to Better Use	\$1,172,264,405		\$1,172,264,405	\$1,291,544,777
Questioned Costs	\$49,455,495 ¹		\$49,455,495 ¹	\$63,624,582
Management Decisions on Audits with Questioned Costs	\$46,447,335 ²		\$46,447,335 ²	\$58,188,577
Indictments/Informations		588	588	848
Convictions/Pleas/Pre-Trial Diversions		285	285	471
Months in Prison		3,272	3,272	6,556
Months of Probation		7,071	7,071	12,533
Hours of Community Service		7,085	7,085	8,470
Investigative Recoveries/Receivables		\$321,222,162	\$321,222,162	\$386,436,396
Collections from Audits	\$17,403,165 ³		\$17,403,165 ³	\$24,686,324
Administrative Sanctions	5	233	238	479
Personnel Actions		28	28	80
Arrests		812 ⁴	812 ⁴	1,064
Search Warrants		33	33	57
Weapons Seized		3	3	12
Value of Drugs Seized		\$108,229	\$108,229	\$118,249
Subpoenas Issued	10	274	284	533

¹ Amount shown in the Profile of Performance from questioned costs shown in Table C was reduced by \$400,000 for report number 2003-CH-1802 and \$209,470 for report number 2003-NY-1801 because the Office of Investigation has claimed this amount in their statistics.

² Amount shown reduced in the Profile of Performance from questioned costs in Table C was reduced by \$209,470 for report number 2003-NY-1801 because the Office of Investigation has claimed this amount in their statistics.

³ Collections reduced by \$7,857 which represents collections on a court ordered settlement on report number 2000-FW-1003 which was claimed by the Office of Investigation.

⁴ Figures include arrests derived through Fugitive Felon and Tenant Criminal Violation Initiatives.

INSPECTOR GENERAL'S MESSAGE

As we complete our most recent Semiannual Report to the Congress, we in the Office of Inspector General of the Department of Housing and Urban Development (HUD OIG) are marking the twenty-fifth anniversary of the Inspector General Act. The Act, which authorized the HUD OIG as one of the original twelve statutory Offices of Inspector General, mandated that we combat waste, fraud, and abuse and identify ways to improve the economy and efficiency of Departmental programs and operations. The HUD OIG, however, was established by an administrative act of the Secretary on January 29, 1972. With the signing of the Inspector General Act of 1978, the establishment of Offices of Inspector General in the Executive Branch became a matter of law.



We in the HUD OIG are serving the American taxpayer by protecting the integrity of the Federal Government in conducting audits, including financial statement and internal control reviews, and investigations, including white collar crime and fugitive felon investigations. Allegations of Departmental employee misconduct are taken seriously and investigated by our Special Investigations Division. In addition, we assess information security efforts, report on Departmental compliance and accountability, and identify the most significant management and performance challenges.

When I was sworn in as Inspector General in March of 2002, I stated that my primary goal was to improve the HUD OIG while ensuring that we focused our efforts on our core mission, as mandated by the IG Act. I believe that we have made great strides toward this goal and that this is reflected in the accomplishments highlighted in this Report and by our own return on investment rates. During this six-month reporting period alone, we are reporting HUD management decisions on audit recommendations with funds to be put to better use of \$1.1 billion and questioned costs of \$46.4 million. Also, we issued audits identifying \$26.7 million in funds to be put to better use and \$49.4 million in questioned costs. Collections from audits amounted to \$17.4 million. On the investigative side, our recoveries and/or receivables totaled over \$320 million; indictments and/or informations were issued against 588 individuals or entities; and convictions and pleas numbered 285. Those who violated HUD rules and regulations were sentenced to a total of 3,272 months in prison.

Moreover, the OIG recently launched a Fugitive Felon Initiative in an effort to identify HUD housing assistance recipients who are criminal fugitives from justice. This joint effort with the U.S. Marshals Service will serve to apprehend fugitives and probation/parole violators. As of September 30, 2003, 134 fugitives residing in HUD assisted housing had been arrested. The OIG has also conducted a number of investigations in order to remove tenants in public housing who commit fraud and other criminal violations. During the last six months, 66 housing assistance tenants were charged with criminal violations and were evicted or are in the process of being evicted.

As all of these numbers affirm, our last six months' work clearly illustrates our productivity. As we progress to the next reporting period, we are motivated by our current accomplishments to exceed our objectives.

The audits and investigations highlighted in this Report examine a number of continuing issues we have raised in past Reports, including fraud and abuse in HUD's Single Family Mortgage Insurance Programs and fraudulent payments of rental subsidies in Public and Indian Housing Programs. In addition, we are reporting on the results of the second in a series of reviews of the use of Community Development Block Grant Disaster Assistance Funds provided to the State of New York following the terrorist attacks on the World Trade Center.

In our discussion of the audit resolution process, we are pleased to report that, for the fifth consecutive semiannual reporting period, we have no items to report on significant audits where a management decision had not been reached for audits that were more than six months old. We attribute this significant accomplishment to the ongoing support and cooperation provided by the Department and their priority on expeditiously resolving OIG audit report recommendations. In each of our Semiannual Reports, we discuss what we have determined to be HUD's most serious management and performance challenges. Though we continue to report on these issues, we are encouraged that HUD management places the highest priority on correcting these weaknesses. Recent operational changes made by the Department represent positive steps toward addressing these challenges.

In an effort to develop productive relationships with agencies and organizations whose work assists in the accomplishment of HUD's mission, our office continues to participate in outreach efforts with HUD staff and outside constituent groups, including the National Association of Housing and Redevelopment Officials and the Public Housing Authorities Directors Association. We continue to support the Financial Crimes Enforcement Center, the Federal Law Enforcement Training Center, and the Inspector Training General Academy by providing staff resources in order that these organizations might better support the IG community. In addition, the OIG has become an active partner with several universities and other learning institutions in creating opportunities for students and contributing to professional development.

Though I have had the opportunity to serve as the HUD Inspector General for only a short time in relation to the twenty-five plus year history of this organization, I am reminded daily of the outstanding contribution and dedication of OIG employees. In addition to striving toward excellence in fulfilling the OIG mandates, time and time again our employees have risen above their own obligations. They manned the law enforcement hotlines during the Washington sniper investigation, assisted the FBI in anti-terrorist activities even after our own offices were destroyed in the World Trade Center on September 11, 2001, and initially flew as air marshals to help secure commercial airlines. They also aided the National Aeronautics and Space Administration in recovery operations after the February 1, 2002 Shuttle disaster. We also remember and profoundly thank all our OIG employees and employees' spouses who have been called to military duty and pray for their safe return.

I strongly believe that the HUD OIG has had a positive impact on the Department's performance. I thank the dedicated men and women of the OIG for all their efforts and unfailing support not only for the mission of the OIG, but also for the mission of the entire Department. We will continue to work with Secretary Martinez to achieve our common goal of detecting and preventing waste, fraud, and abuse and improving government operations.



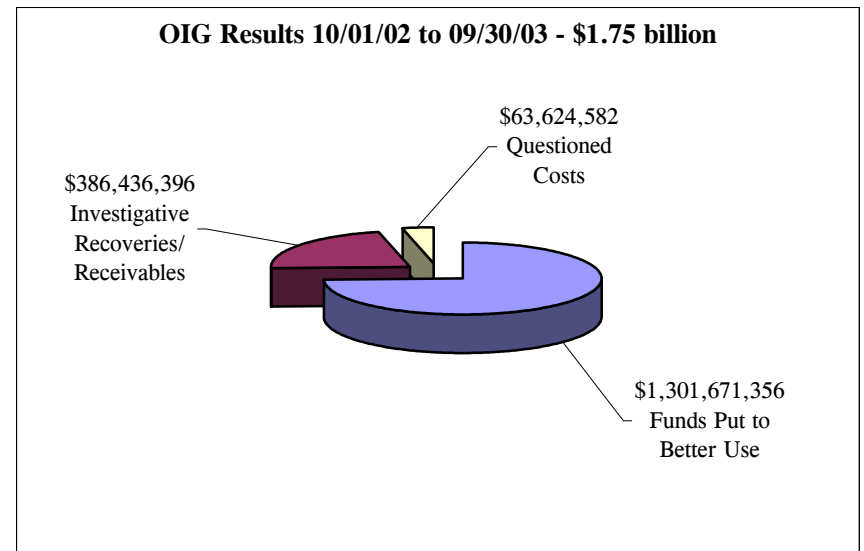
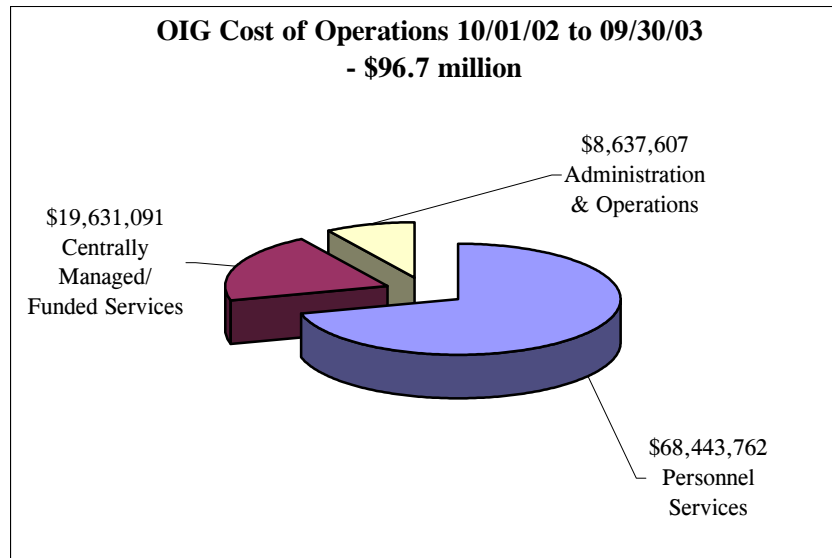
Kenneth M. Donohue
Inspector General

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: $\$1.75 \text{ billion} / \$96.7 \text{ million} = 18 \text{ to } 1 \text{ return}$

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.	95-97
Section 5(a)(1)-description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department.	1-85, 99-102
Section 5(a)(2)-description of recommendations for corrective action with respect to significant problems, abuses, and deficiencies.	7-85
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.	7-85
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.	7-85
Section 5(a)(8)-statistical tables showing the total number of audit reports and the total dollar value of questioned and unsupported costs.	Appendix 2, Table C
Section 5(a)(9)-statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management.	Appendix 2, Table D
Section 5(a)(10)-summary of each audit report issued before the commencement of the reporting period for which no management decision had been made by the end of the period.	Appendix 2, Table A
Section 5(a)(11)-a description and explanation of the reasons for any significant revised management decisions made during the reporting period.	101-102
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.	102

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Chapter 1 — HUD’s Management and Performance Challenges

The HUD Office of Inspector General

This year marks the 25th anniversary of the Inspector General Act of 1978. The HUD Inspector General is one of the original 12 Inspectors General authorized under the Act. Over the years, our audit and investigative staff have forged a strong alliance with HUD personnel in identifying ways to improve Departmental programs and operations. We strongly believe that we have made a difference in HUD’s performance and accountability over the last quarter of a century. We are committed to our statutory mission of detecting and preventing waste, fraud, and abuse, and promoting the effectiveness and efficiency of government operations. While organizationally we are located within the Department, we operate independently with separate budgetary authority. This independence allows for clear and objective reporting to the Secretary and the Congress. Our activities seek to:

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

The OIG 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 staff located in 10 Regions and numerous Field Offices across the country.

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 accom-

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

While HUD is a relatively small agency in terms of staff, about 9,300 nationwide, it relies on the performance and integrity of numerous other partners to administer a large number of diverse programs. Among those 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 mortgaged-backed securities issuers.

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

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

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

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

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

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

These operational changes delegate additional authority to the Field, and represent positive steps that bring HUD's operational activities and authority closer to the customers it serves. However, we continue to see the changes as a management chal-

lunge until Departmental realignments become fully functional. Our audits will evaluate the effectiveness of many of these changes. For example, we are currently reviewing the operations of the DEC and will issue a report early next year.

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 audit as a material weakness in internal controls since Fiscal Year (FY) 1991. While progress has been made, a number of long-standing deficiencies remain.

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 did not have an operational information system for monitoring operating subsidy eligibility requirements and obligations during six months of FY 2002. As part of our FY 2003 Consolidated Financial Audit, we are evaluating corrective actions taken by the Department.
- A lack of integration between accounting systems and the need for accurate databases has hampered HUD's ability to evaluate unexpended obligations.

The audit of FHA's FY 2002 financial statements continued to report long-standing weaknesses in FHA's

financial management systems environment. The FHA general ledger and its supporting subsidiary systems remained noncompliant with federal financial systems requirements. Its 19 subsidiary systems that feed transactions to its commercial general ledger system lack the capabilities to process transactions in the standard general ledger format. In addition, there continues to be an inability to support adequate funds control for FHA. Although FHA has made progress in funds control, FHA continues to lack automated financial systems and processes that are capable of fully monitoring and controlling budgetary resources. A key improvement made during FY 2003 was the implementation of the FHA subsidiary ledger, which automated many previously manual processes used to consolidate the accounting data received from the various FHA legacy systems.

Adequate and Sufficiently Trained Staff

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

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

To address staffing imbalances and other human capital challenges, the Department has implemented the Resource Estimation and Allocation Process (REAP). The last phase of REAP (a baseline for staffing requirements) was completed in January 2002. 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 human resource management system. The next step is to apply these principles as decisions are made to hire new staff.

The Congress expressed concern over HUD's hiring practices. In the Conference Report for HUD's FY 2003 Appropriation, the OIG was tasked to report to the Conference Committee by August 2003 on whether the Department's hiring decisions were consistent with the Department's staffing needs, program requirements, and personnel practices. On August 15, 2003, we issued a report to the Assistant Secretary for Administration and the Chief Financial Officer on our findings. Between July and September 2002, HUD undertook a hiring effort known as "Staffing 9/30." The goal of Staffing 9/30 was to quickly fill mission critical positions before the end of FY 2002. Staffing 9/30 was inadequately planned and directed. HUD did not use REAP and TEAM data in determining needs and hired about 300 staff over ceiling. The results of Staffing 9/30 were inconsistent with program requirements and staffing needs. Chapter 6 of this Semiannual Report discusses this audit report in more detail.

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

Procedures and practices in 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.

The FHA financial audit reported a need to place more emphasis on monitoring lender underwriting and continuing to improve early warning and loss prevention for Single Family Programs. 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 improve lender monitoring. Timely identification of lenders with unacceptable 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. Potentially 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 issued an audit that covered a detailed statistical analysis of HUD/FHA loan files to enable us to comment on the origination of HUD's current portfolio of single family loans. We recommended ways for HUD to strengthen FHA loan performance through insurance endorsement policy changes. We also completed a review of two HUD contractors that process insurance endorsements. Audit results showed that the contractors were not diligent in questioning the documentation that lenders submitted when the endorsement requests were late. We are currently expanding our review of HUD/FHA's quality assurance process and related contractor services. More details on these reviews are covered in Chapter 2 of this Semiannual Report.

During this reporting period, we also initiated 17 lender audits nationwide based on a targeting strategy that identified lenders with poor performing FHA

portfolios. Results from one completed audit found significant lender underwriting deficiencies and irregularities involving mortgage brokers that were not FHA approved. We should complete the majority of these reviews early next year.

Public and Assisted Housing Program Administration

HUD provides housing assistance funds under various grant and subsidy programs to Public Housing Authorities (PHAs) and multifamily project owners (both nonprofits and for-profits). These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. Administered by the Office of Public Housing, PHAs provide rental units to low-income families or make Section 8 assistance payments to private owners who lease their rental properties to assisted families. The Office of Housing also 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” because the subsidy is tied to a particular property. Therefore, tenants who move from “project-based” properties may lose their rental assistance. HUD spent about \$23 billion in FY 2002 to provide rent and operating subsidies that benefited over four million households.

Material weaknesses in the monitoring of PHAs and assisted multifamily projects were first reported in our financial audit in 1991 and continue to challenge HUD. Material monitoring weaknesses seriously impact HUD’s ability to ensure that its intermediaries are correctly calculating housing subsidies. A 2000 HUD study found that 60 percent of all rent and subsidy calculations performed by administrative intermediaries contained some type of error. The Secretary has rightly made the reduction of subsidy overpayments a top priority of his Administration. HUD has set a goal for a 50 percent reduction in the frequency of calculation processing errors and the amount of subsidy overpayments by 2005. To achieve this goal over the next two years, HUD initiated the Rental Housing Integrity Improvement Project. This project is designed to reduce errors and improper payments by: (1) simplifying the payment process; (2) enhancing administrative capacity; and (3) establishing better controls, incentives, and sanctions. Parallel-

ing this effort, our investigations and audits are concentrating on fraudulent practices in the Section 8 Program.

HUD continues to implement its performance oriented, risk based strategy for carrying out its PHA oversight responsibilities. However, as noted in previous financial audits, further improvements need to be made in the Field Office monitoring of PHAs in other key areas. HUD began implementing a statutorily mandated monitoring effort of the Public Housing Assessment System (PHAS). PHAS provides a statistical measure of the quality of the housing stock, and has been successful in identifying troubled PHAs and helping Office of Public and Indian Housing management ensure corrective action. Likewise, a companion system, the Section 8 Management Assessment Program, has been able to identify problem providers of Section 8 assistance. However, full implementation of these systems has been delayed. HUD has not been able to establish the organizational structure and obtain relevant and reliable data to complete the monitoring process. Finally, HUD has been slow to implement additional strategies 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 that 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; and development of an integrated risk reporting system. We support these efforts.

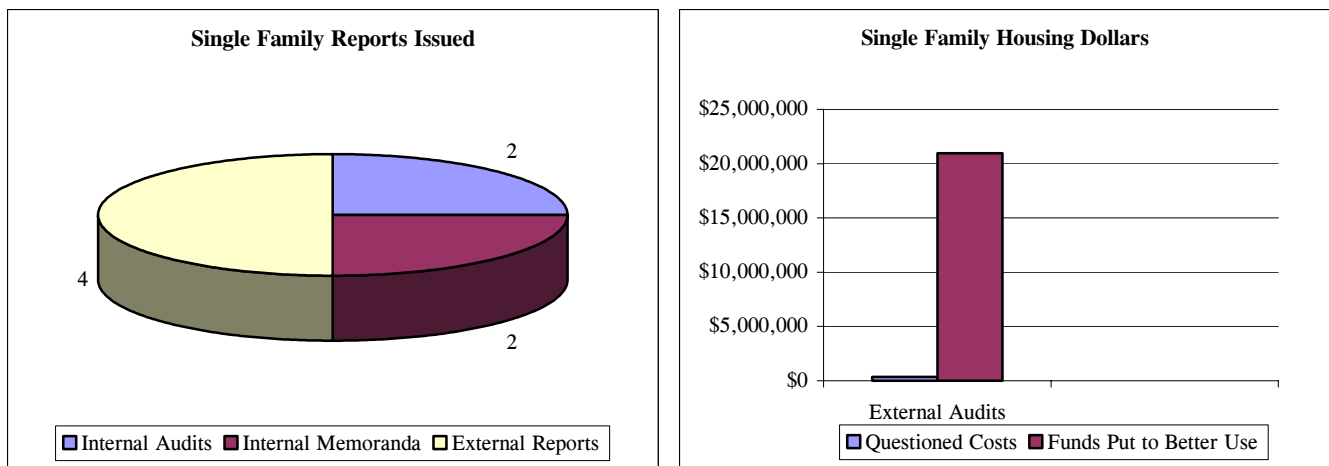


Chapter 2 — HUD’s Single Family Housing Programs

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

Audits

During this reporting period, the OIG issued eight reports; two internal audits, two internal memoranda, and four external audits in the Single Family Housing Program area. These reports disclosed nearly \$360,000 in questioned costs, and almost \$21 million in recommendations that funds be put to better use. We conducted reviews of the practice of standardized credit scoring for mortgage loans, certain Home Ownership Center activities, non-supervised mortgagee direct endorsement lender activities, HUD’s Asset Control Area Program, and HUD’s cash management practices for Title I loans.



Mortgage Loan Credit Scoring

Industry use of standardized credit scoring for mortgage loans, such as those provided by *Fair, Isaac and Co.*, (FICO) is widespread. However, FHA underwriting does not rely on these scores. Current restrictions on bad credit are very flexible and often subjective. The subjective nature of the criteria can provide deserving families the opportunity for home ownership, but it can also be overly permissive and tolerant toward borrowers with bad credit histories. Credit scores provide evaluations of risk based on an objective formula. Our observations demonstrate that lower credit scores, or loans without scores, have much poorer loan performance than other loans. Sub-prime lending contributes to higher mortgage insurance premiums to the detriment of homebuyers who have maintained good credit.

We reviewed a statistical sample of 1,180 FHA case files across the nation to assess underwriting practices and loan characteristics contributing to FHA loan performance. We observed a number of factors that correlate with performance, mostly those related to the credit worthiness of borrowers. By far the strongest correlation was with FICO credit scores. Although borrowers with average FICO credit scores under 620 made up only 24.7 percent of the sampled files with credit scores, they accounted for 47.1 percent of the defaults and 58 percent of the claims observed.

Loans having borrower credit scores of less than 620 and loans that had no borrower credit score made up 30.1 percent of the sample. We consider these sub-prime loans. Based on these results, we are 90 percent confident that sub-prime loans account for between 27.9 percent and 32.4 percent of the 2,840,549 single

family FHA loans with beginning amortization dates from October 1, 1997, to March 31, 2001. These loans were responsible for 54.3 percent of all loans that defaulted at least once, and 65.9 percent of all claims observed in our sample. We did not have a sufficient number of default occurrences in our sample to accurately project the default rate of specific categories of loans.

HUD has taken steps toward developing the Technology Open To All Lenders (TOTAL) scorecard, an automated underwriting system that considers using credit scoring and systematic confirmation of the borrower's identity. FHA plans to initiate the use of the TOTAL scorecard some time in FY 2004.

We recommended that HUD: (1) collect and track the credit scores in HUD systems to permit future studies and targeting of quality assurance activities; (2) consider streamlining the origination and endorsement process; and (3) consider strengthening endorsement procedures for loans with extended delays in submission, especially loans that have no credit scores. (Report No. 2003-SE-0001)

Home Ownership Centers

We completed an audit of *Horizon Consulting, Inc.*, a **Santa Ana, CA** Home Ownership Center (HOC) contractor performing insurance endorsement reviews, and found that *Horizon* inappropriately endorsed 112 of the 229 loans we reviewed. The 112 loans, valued at over \$16 million, did not have the required documentation for processing. Based on these results, we are 90 percent confident that *Horizon Consulting* improperly endorsed between 10,484 and 13,249 loans during FY 2001.

We recommended that the Assistant Secretary for Housing-Federal Housing Commissioner seek indemnification from the respective mortgagees for the 83 loans, valued at over \$12 million that are still HUD insured where significant documentation was missing. Additionally, we recommended that the Assistant Secretary ensure that *Horizon Consulting* improves its quality control procedures, and take appropriate administrative action against *Horizon*. (Report No. 2003-KC-1006)

We audited *Management Solutions of America, Inc.*, a **Philadelphia, PA** HOC contractor performing insurance endorsement reviews, and found that *Management Solutions* inappropriately endorsed 51 of the 155 loans reviewed. The 51 loans, valued at over \$7 million, did not have the required documentation to insure loans submitted for endorsement more than 60 days after closing.

We recommended that the Assistant Secretary for Housing-Federal Housing Commissioner: (1) seek indemnification for any of the 51 improperly endorsed loans for which significant documentation cannot be produced or where documentation, when produced, indicates a deficiency according to HUD handbook procedures; (2) ensure that *Management Solutions* develops and implements procedures to properly endorse future loans; and (3) take appropriate administrative action against *Management Solutions*. (Report No. 2003-KC-1007)

During our audit of *Management Solutions*, we identified an internal deficiency regarding HOC instructions that differed from the HUD Handbook. The HOC gave the endorsement contractor guidance that deviated from the HUD Handbook for loans submitted for insurance more than 60 days after closing.

We recommended that the Director, Philadelphia HOC require its contractor(s) to follow the requirements set forth in the HUD Handbook when approving late loan submissions for endorsement or request a formal waiver from Headquarters. (Report No. 2003-KC-0802)

Non-supervised Mortgagee and Direct Endorsement Activities

We completed an audit of *Colban Funding, Inc.*, a non-supervised mortgagee in **Liverpool, NY**. The review disclosed that 11 of 31 loans reviewed had at least one significant underwriting deficiency. These deficiencies included: (1) minimum investment not provided; (2) not enough funds to close; (3) understated debt and underwriting ratios; (4) insufficient gift information; (5) inaccurate closing documentation; (6) lack of verification of earnest money; and (7) inadequate property valuation. We also found that *Colban* is improperly allowing non-FHA ap-

proved entities to perform the loan origination functions of FHA insured loans and has not documented actions taken to correct deficiencies cited as a result of quality control reviews. These deficiencies could cause loans to go into default and subsequently result in mortgage assignments to HUD.

We recommended that HUD/FHA take appropriate action against *Colban* for not adhering to HUD's underwriting requirements, and require *Colban* to indemnify HUD/FHA for all future losses pertaining to the 11 loans valued at over \$860,000. (Report No. 2003-NY-1004)

In **Greenwood Village, CO**, we completed a review of *MortgageStream Financial Services, LLC* an FHA approved non-supervised direct endorsement lender, and found that *MortgageStream* did not always exercise due diligence in the origination and underwriting of FHA insured loans, or perform these functions in accordance with HUD requirements and prudent lending practices. *MortgageStream* did not adequately implement its quality control process and was deficient in its overall quality control activities. Furthermore, *MortgageStream* did not administer or carry out its non-supervised direct endorsement activities in conformity with FHA approval requirements. Lastly, *MortgageStream* was charging its borrowers an ineligible fee and overcharging its borrowers on two other fees. The reimbursed amount to the borrowers and HUD for these ineligible and overcharged fees totals nearly \$142,000.

MortgageStream has shown improvement in the areas of sending FHA insured loan packages to HUD for endorsement in a timely manner, and making wire transfers to HUD for up-front mortgage insurance premiums. While *MortgageStream* had problems in these two areas, the majority of the problems occurred within the first year of their existence. *MortgageStream* has taken positive corrective action to eliminate these concerns.

We recommended that *MortgageStream's* participation in HUD's Single Family Mortgage Insurance Programs be closely monitored for the next year. We also recommended that *MortgageStream* indemnify HUD for the six FHA insured loans addressed in the audit with unpaid balances of over \$940,000, and pay back all over-

charged or ineligible fees associated with FHA insured loans that *MortgageStream* originated and underwrote. HUD should also take any administrative actions as deemed appropriate. (Report No. 2003-DE-1005)

HUD's Asset Control Area Program — Corrective Action Verification Review

We performed a corrective action verification review of the actions taken on the recommendations in our nationwide audit report on HUD's Asset Control Area (ACA) Program, which was issued on February 25, 2002. The review stemmed from a Senate Committee Report that requested an audit of HUD's compliance with Section 1303 of Public Law 107-206. Our review disclosed that HUD has generally complied with Section 1303 of Public law 107-206 by initiating actions on September 15, 2002, to enter into new agreements and contracts with program participants. Our review also disclosed that HUD has taken required actions on the recommendations in our audit report on the ACA, with the exception of those relating to implementing regulations and providing training on the ACA Program.

We recommended that HUD reevaluate and adjust the final action target date for implementing the regulations for the ACA Program and ensure that all appropriate training is provided to HUD employees and program participants during FY 2004. We also recommended that HUD continue to pursue approval of its proposed legislative changes to the ACA Program. (Report No. 2003-NY-0801)

Cash Management Practices for Title I Loans

In **Washington, DC**, the OIG audited the cash management practices used by HUD's Cash Management Branch (CMB) to process Title I loan remittances. We evaluated CMB's handling of Title I remittances paid by check between October 1998 and January 2003. We found that CMB has made significant progress in improving its cash management practices. However, during the audit period, CMB did not ensure that Title I remittances were properly handled, processed, and applied. Specifi-

cally, remittances totaling over \$600,000 were not applied to debtors' accounts; at least \$88,000 in payments were not deposited timely; and CMB did not adequately account for negotiable instruments or monitor the process used by Bank of America to process Title I payments.

We recommended that FHA's Deputy Comptroller improve its cash management and monitoring practices to ensure that Title I remittances are adequately handled, processed, and applied. FHA agreed with our recommendations and has initiated action to correct the noted deficiencies. (Report No. 2003-AO-0003)

Investigations

During this reporting period, the OIG opened 328 investigation cases and closed 189 cases in the Single Family Housing Program area. Final judicial action taken on these cases during the period included \$208,308 in recoveries/receivables, \$298,808,213 in restitution, \$70,760 in fines, 84 convictions, pleas, and pre-trial diversions, 135 indictments/informations, 103 administrative sanctions, 206 arrests, and 1,128 months in prison.

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

Loan Origination

In **Detroit, MI**, two officers of *MCA Financial Corporation* were sentenced in Federal Court for the Eastern District of Michigan. Defendants Keith Pietila, the former chief financial officer, and Alexander Ajemian, the former controller, were each sentenced to 48 months incarceration and 36 months supervised release, and ordered to pay \$256.6 million in restitution. Pietila, Ajemian and other co-defendants will pay the restitution jointly in this case.

Patrick Quinlan and John O'Leary are scheduled to go to trial. The other co-defendants, Cheryl Swain, Kevin Lasky, and Lee Wells, previously pled guilty and are awaiting sentencing. *MCA Financial*

Corporation owned and operated two subsidiaries, *MCA Mortgage Corporation*, an FHA direct endorsement lender, and *Mortgage Corporation of America*. In addition, they controlled *Detroit Revitalization, Inc.*, a HUD approved nonprofit. The defendants participated in a scheme in which they fraudulently sold investments in mortgages and land contracts they had acquired and assembled into investment pools. This was made possible by misrepresenting to current and potential investors the performance of earlier pools and fraudulently inflating the value of the mortgages and land contracts through a series of transfers between *MCA* and off-book limited partnerships. HUD was led to believe by *MCA's* annual direct endorsement certifications that the financial health of the company was in stable condition, when in fact the certifications were grossly inflated. This allowed the defendants to continue originating loans and obtaining origination fees to which they otherwise should not have been entitled.

Defendant Victor Jesus Noval, an associate of *Allstate Mortgage Company*, was sentenced in **Los Angeles, CA**, in Federal Court for the Central District of California, to 57 months incarceration and ordered to pay \$20,733,000 in restitution. Defendants Edgardo Torres Guinto and Danilo Torres Guinto were each sentenced in the same court to 37 months incarceration and ordered to pay \$5,863,714 in restitution to HUD. The defendants engaged in a single family property flipping and loan origination fraud scheme by locating multi-unit residential properties in the \$100,000-\$150,000 value range. They then entered into contracts to purchase the properties in the names of fictitious persons. While the transactions were pending, second sales contracts were prepared for the same properties, purporting to transfer them to other fictitious persons. The second sales were inflated by approximately \$100,000 per property. The defendants then prepared fraudulent loan applications in the names of fictitious purchasers for the second sales and submitted the documents to HUD. The mortgage insurance applications in the names of the fictitious purchasers contained false employment documents, verifications that the down payments were made with the buyers' personal funds or were gifts, and inflated real estate appraisals. Noval's

actions caused approximately \$100 million in fraudulent loans to be funded. Of this amount, approximately \$35 million were funded with FHA insured mortgages. The Guintos subsequently managed the properties and collected rent payments from the tenants.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, defendants David Guel, president, and John Wojick, office manager, for *Dollars Express, Inc.*, were sentenced after pleading guilty to mail and tax fraud. Guel, a seller/general contractor, and Wojick, a legal representative, along with co-conspirators Dawn Raimo, an insurance representative/mortgagor/notary public, Arnold Gillard, a building superintendent, Steve Lucas, a maintenance engineer, Mark Schmitt, an appraiser/inspector, and Robert Bronke, a salesman/recruiter, spearheaded a real estate scam involving HUD's Section 203(k) Rehabilitation Home Mortgage Insurance Program, which targeted the south side of Chicago. As part of their scam, Guel, Wojick, et al, actively recruited "investors" to participate in their scam, promising great financial returns. Section 203(k) draw requests were made for work that was never completed, and in some cases, for homes that had already been demolished when the draws were made. A total of 72 HUD insured 203(k) mortgages were involved in the scam, during which the First Tennessee Bank was defrauded out of \$6,384,678.

Guel was sentenced to 48 months incarceration and 60 months supervised release, and was ordered to pay \$4,218,497 in restitution. This restitution figure is joint for all subjects in this case. Wojick was sentenced to 42 months incarceration and 60 months supervised release. The HUD Quality Assurance Division provided a significant amount of technical support in this case.

Defendant Mark Schmitt, an appraiser, pled guilty in the same court to one count of mail fraud and one count of tax fraud. Schmitt's guilty plea followed a 29-count indictment that outlined his involvement in the complex fraud scheme.

In a related case, defendant Mark Carter was sentenced in **Chicago, IL**, in Federal Court for the Northern District of Illinois, to 15 months in prison and three years probation, and was ordered to pay

\$386,000 in restitution. Defendant Terry Cody was sentenced to 24 months in prison and three years probation. Carter and Cody, along with Maurice Cody and Mark Schmitt, were previously indicted for their participation in a scheme to defraud the First Tennessee Bank and HUD by assisting an unqualified buyer in purchasing four FHA insured properties using fraudulent documents.

Specifically, Carter admitted to signing false verifications of employment enabling an unqualified buyer to qualify for the loans. Carter and Cody also acted as contractors, and falsely certified affidavits, lien waivers, and draw requests that rehabilitation work was completed when in fact no work had been done. As a result of their false certifications, rehabilitation money for these properties was released. After the properties went into foreclosure, they were demolished by the City of Chicago. HUD's losses in this case exceed \$250,000.

Defendant William Otto Schmidbauer, a real estate broker doing business as *Schmidbauer Realty*, was sentenced in **Baltimore, MD**, in Federal Court for the District of Maryland, to one year incarceration and three years probation, was fined \$10,000, and ordered to pay \$2,513,882 in restitution to HUD for his role in a property flipping scheme. Schmidbauer also agreed to forfeit \$690,000 in gross profits that he realized from the home sales. An investigation disclosed that, from 1998 through 2000, Schmidbauer prepared and caused others to prepare and/or submit numerous false and fraudulent documents to various lenders in connection with applications for FHA insured loans under the First-Time Homebuyers Program. Among the fraudulent documents were verifications of employment and rent, drivers' licenses, Social Security cards, pay records, W-2 forms, and letters evidencing credit accounts of the purchasers with various companies. Donald Hanson, Jr., a licensed real estate broker, was also sentenced in the same court to four months home detention and three years probation, and ordered to pay \$147,000 in restitution to HUD for his role in assisting in the scheme. Hanson was the loan officer in a series of FHA loan transactions in which he certified that he met buyers face-to-face as part of the mortgage application process when in fact he did not. Schmidbauer often bought properties in poor condition at low prices

and quickly sold them at much higher prices. The effect on neighborhoods preyed upon by Schmidbauer has been devastating and has accelerated their decline.

Eighteen individuals have already pled guilty and been sentenced in this case, including loan officers, real estate agents, and straw purchasers. At least 48 of the 58 FHA insured mortgages involving Schmidbauer have gone into foreclosure with losses to the FHA insurance fund of approximately \$3 million. This investigation received considerable media attention and was closely followed by Members of Congress.

Major figure in flipping scam is 51st convicted

Perry Hall real estate firm was base for costly fraud scarring neighborhoods

By JOHN B. O'DONNELL
SUN STAFF

William Otto Schmidbauer, one of the prominent figures in an epidemic of Baltimore property flipping that has cost lenders and the government tens of millions of dollars, scarred neighborhoods and financially ruined hundreds of victimized buyers, pleaded guilty yesterday in federal court to conspiracy.

Schmidbauer became the 51st defendant to be convicted in U.S. District Court in Baltimore in a multicase investigation that

began five years ago. Another 16 people have been convicted in federal court in Greenbelt.

Twenty-two defendants are awaiting trial and others are under investigation and face the possibility of indictment.

Flipping in the city began in earnest in the mid-1990s and peaked about three years ago. Close observers of the phenomenon say it has been slowed by federal prosecutions, publicity and the efforts of government and nonprofit organizations to warn prospective buyers of the perils and pitfalls of buying a house.

But, government officials and housing experts say, the sophistication of flipping practitioners has made it harder to detect.

Schmid- [See Flipping, 7A]

ordered to pay \$2,408,614 in restitution, and fined a total of \$10,100. Schill, a loan officer, and Noce, a closing attorney, were each sentenced to nine months home arrest and five years probation. They were also ordered to pay \$2,408,614 each in restitution. All five defendants were ordered not to engage in any real estate or mortgage business for various periods of time. An investigation disclosed that the individuals 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, verification of employment and rent documents, and credit explanation letters. Properties were flipped and the proceeds of the sales were divided among the conspirators.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, defendant Michael Weathersby, an investor/property rehabilitation specialist, was sentenced to 42 months in prison and three years supervised release, and ordered to pay a \$200 special assessment and \$2,078,177 in restitution to various mortgage companies for his involvement in a mortgage fraud scheme. Weathersby previously pled guilty to one count of wire fraud and one count of money laundering. He masterminded and participated in a scheme to defraud mortgage lenders of approximately \$2 million in mortgage loan proceeds by false and fraudulent misrepresentations. Specifically, Weathersby located properties in Chicago that appeared to be abandoned, illegally transferred ownership of the properties by filing fraudulent deeds, and then sold the properties to various strawbuyers. He continued the scheme by directing title companies to issue the proceeds of the loan closings in various aliases and his company's name in order to launder the profits. In one instance, he purchased a luxury vehicle with the proceeds. Weathersby later devised a scheme to defraud the Chicago Housing Authority Corporation, a housing authority in Chicago, out of approximately \$28,000 in rent subsidy payments for tenants living in two of the properties he illegally obtained.

Defendants Christopher Woods, former president, and Matt Amento, former loan officer, of

by: John B. O'Donnell, *The Baltimore Sun*, April 25, 2003

In **Newark, NJ**, defendants Robert Jordan, Peter Tortorelli, Marlene Schill, Philip Noce, and Raul Torres were each sentenced in Federal Court, District of New Jersey, for mail fraud and conspiracy. Jordan and Tortorelli, principals and underwriters of *County Mortgage Company, Inc.*, and Torres, a real estate broker, were each sentenced to three years supervised release, each

Main Street Mortgage Services in **Saddlebrook, NJ**, were sentenced in Federal Court, District of New Jersey. Woods received one year and one day in prison and three years probation, and was ordered to pay \$774,806 in restitution and a \$200 special assessment fee. Amento received five months incarceration, five months home detention, and three years probation, and was ordered to pay \$774,806 in restitution and a \$100 special assessment fee.

Defendant Tameka Watson, also known as Temeko Watson, Tameko Sylvester, and Tameka Sylvester, also a former loan officer for *Main Street Mortgage Services*, was sentenced in the same court. Watson received 15 months incarceration and three years probation, and was ordered to pay \$389,881 in restitution and a \$1,100 special assessment fee.

These individuals, along with co-conspirators Ralph Pena, Axel Bonilla, and Laura Barlow, set up phony businesses that purchased dozens of properties that were later flipped at inflated values to borrowers. The borrowers' real income and assets were not sufficient for them to qualify for FHA insured mortgages; therefore, Woods and his co-conspirators created fraudulent mortgage credit documents that showed inflated income and assets.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, defendants Kay Elliott, John Simmons, and Dante D. Samson, borrowers, were sentenced on one count of mail fraud after pleading guilty to their participation in a fraud scheme involving 100 properties with \$5.7 million in loans. Elliot was sentenced to 12 months and one day in prison and two years probation, and was ordered to pay \$706,099 in restitution. Simmons was sentenced to four months home confinement and three years probation, and was ordered to pay \$241,950 in restitution.

The scheme involved Theresa Holt, a current fugitive and former employee of *North East Austin* (a HUD approved nonprofit), who started her own business known as *Share Development Corporation*. *Share* acquired numerous properties, some of which were obtained through HUD's Direct Sales Program and *North East Austin*, and resold them. Many of the mortgage loan applications contained inflated

employment information, including information that some buyers worked for *Share Development* and *North East Austin*. In addition, buyers and loan officers were paid \$3,000 to \$4,000 outside of closing for purchasing these properties.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, three individuals were sentenced and another pled guilty to activities in a mortgage fraud scheme. Joyce Primous, a notary public, was sentenced to three years probation and ordered to pay \$614,462 in restitution to various mortgage companies. Defendant Cathleen Smith, a strawbuyer and strawseller, was sentenced to five years probation and ordered to pay \$174,356 in restitution to various mortgage companies.

Defendant Richard Thomas, a real estate broker, was also sentenced to three years probation and 200 hours of community service for his role in fraudulently originating FHA insured loans. Specifically, Thomas falsified verifications of employment for a buyer at the request of the loan officer, Anthony Culpepper. Defendant Brodge Hurst, a strawseller, pled guilty to one count of wire fraud.

Primous conspired with co-defendants Michael Weathersby and Jermaine Weathersby, her nephews, to defraud mortgage lenders out of approximately \$2 million in mortgage loan proceeds by false and fraudulent misrepresentations. Specifically, the co-defendants located properties in Chicago that appeared to be abandoned, illegally transferred ownership of the properties by filing fraudulent deeds, and then sold the properties to various strawbuyers. Primous improperly notarized the signatures of the co-defendants, who signed the deeds by using multiple aliases.

Defendant Edward Lamborin was sentenced in **Santa Ana, CA**, in Federal Court for the Central District of California, after pleading guilty to wire fraud. He was sentenced to two years probation, fined \$5,000, and ordered to pay a \$200 special assessment fee. Lamborin's co-conspirators, defendants Valencia Bray and Keith Taylor, were also sentenced for wire fraud. Bray received two years probation, was fined \$2,000, and was ordered to pay a \$100 special assessment fee. Taylor received three years probation, was fined \$5,000, and was

ordered to pay a \$100 special assessment. Lamborin and Bray assisted unqualified borrowers in obtaining FHA insured loans. They contacted forgers to prepare false income and credit related documentation for the buyers, and used these documents to prepare fraudulent loan applications. These applications were ultimately submitted to FHA.

In a related scheme, defendant Charles Sims was sentenced in U.S. District Court, Santa Ana, following a plea of guilty to one count of HUD loan fraud. Sims was sentenced to two years probation, fined \$500, and ordered to pay a \$100 special assessment. Defendant Jose Cotero was sentenced in the same court following a plea of guilty to one count of wire fraud. Cotero was sentenced to one year and one day in prison; three years supervised release, and a \$100 special assessment. He was also ordered to pay \$276,071 in restitution.

In this same case, three additional defendants were sentenced on wire fraud charges. Defendant James Frost was ordered to pay \$336,500 in restitution to HUD and a \$100 special assessment, and was fined \$20,000. Defendant Daniel Flores was ordered to pay a \$2,500 fine and a \$100 special assessment. Defendant Anthony Ponce was sentenced to three years probation, including 50 hours of community service, and a \$1,000 fine. Defendant Roger Alvarez also pled guilty to two counts of wire fraud.

Defendants John Dancy and Anthony Zapien were sentenced in the same court following pleas of guilty to two counts each of wire fraud in connection with a scheme to defraud HUD. Dancy was sentenced to two years probation on each count, with sentences to run concurrently. He was also fined \$2,250 and ordered to pay a \$100 special assessment. Zapien was sentenced to five months imprisonment followed by three years supervised release, and was ordered to pay \$36,714 in restitution and a \$200 special assessment. Zapien and Dancy, licensed real estate agents in the State of California, assisted unqualified borrowers to obtain FHA insured home loans. They contacted forgers to prepare false and fabricated income and credit related documentation for buyers whom they represented. The defendants then prepared fraudulent loan applications, which were ultimately submitted to HUD.

Defendants Christine Neal and Rondal Rollin pled guilty in the same court to one and two counts of wire fraud, respectively, in connection with a scheme to defraud HUD. Neal and Rollin, licensed real estate agents in the State of California, were previously indicted on charges of assisting unqualified buyers to obtain FHA insured home loans. The defendants contacted forgers to prepare false and fabricated income and credit related documentation for the buyers, and then prepared fraudulent loan applications which were submitted to HUD.

In **Seattle, WA**, in U.S. District Court for the Western District of Washington, defendant Mario Figueroa was sentenced to 151 months imprisonment and five years supervised release, and ordered to pay \$330,147 in restitution. Also sentenced was defendant Jaime Abrego, who received 12 months imprisonment and three years supervised release, and was ordered to pay \$231,010 in restitution. A third defendant, Leslie Reisig, was previously sentenced. These sentencing followed a two-week jury trial in which the three subjects, Reisig, Figueroa, and 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 defendants arranged sham sales of single family residences using strawbuyers to obtain homes for their personal benefit and/or to obtain a portion of the mortgage proceeds. Reisig and Figueroa pled guilty to an additional count of mail fraud in March 2003 committed in the Eastern District of California, where the subjects had relocated to continue their scheme.

In **Atlanta, GA**, defendants Glenn Melvin Allen and Sandra R. Rice were sentenced in Federal Court, Northern District of Georgia, for conspiracy to commit mortgage fraud. Allen was sentenced to one and one-half years in prison and three years supervised release, and was ordered to pay \$142,378 in restitution. Rice, who was also charged with wire fraud, was sentenced to one year and three months in prison and three years supervised release, and was ordered to pay \$357,624 in restitution. Allen, a former Atlanta based manager of *Banker's Financial Group*, a **Greenbelt, MD** mortgage brokerage firm, submitted false qualifying

documentation for borrowers to obtain FHA insured home loans. Rice was a real estate agent with *Re/Max* of Atlanta who was recruited to assist in a widespread flipping scheme. Rice assisted unqualified strawbuyers by finding properties for them in the Atlanta area, realizing a sales commission on each sale. She attended the closings for these sales in order to generate more sales from the same homes at a later time with other unqualified buyers.

A criminal complaint was filed in the same court against defendants Reginald B. Harris and Alicia M. Goens for identity theft, bank fraud, wire fraud, and use of false Social Security numbers. The complaint includes allegations against Harris for his involvement in executing a scheme to defraud mortgage lenders and federally insured financial institutions, and causing false borrower qualifying information to be submitted, including names, Social Security numbers, and other identification.

In Federal Court, Eastern District of Missouri, defendant B.C. Witt of **St. Louis, MO**, was sentenced to 22 months in prison and ordered to pay \$441,045 in restitution. Witt previously pled guilty to an information charging him with conspiracy to commit mail fraud. He admitted providing false tax returns and other false documents to Preston Randall, who owned and operated a company called *HyRizing Investments*. *HyRizing Investments* purchased dilapidated homes and sold them to strawbuyers, using the identities of individuals with good credit without their knowledge. Randall paid Witt, who worked as a car salesman, to provide false tax returns and other false documents to make sure the strawbuyers qualified for the loans. This mortgage fraud conspiracy caused losses to mortgage companies in excess of \$650,000. Along with false income documents, Witt also provided a false Social Security card to an FHA loan recipient; however, there was no loss incurred on this loan. Along with Witt and Randall, Latina Randall and Jessie Gator were previously sentenced in this case.

Defendant Pedro Leon Palemon Sanchez was sentenced in **Los Angeles, CA**, in Federal Court for the Central District of California, to five months in prison, five months home detention with a monitor, and three years supervised released, and was

ordered to pay \$427,000 in restitution. Defendant Francisco Arana, a loan officer for *Progressive Loan Funding*, pled guilty in the same court to one count of wire fraud for his part in the scheme. Sanchez, along with Alejandro Morales, a loan officer associated with *Trinity Mortgage* in Covina, CA, conspired to defraud HUD by recruiting and selling FHA insured properties to unqualified buyers. Since the purchasers did not have adequate income or sufficient down payments to purchase the properties, 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 either made from the buyers' personal funds or were gifts from relatives, false explanation letters concerning the relationships of the co-signers to the buyers, and false notarizations of the signatures of the buyers and co-signers. These fraudulent documents resulted in a loss to HUD of \$892,000 and caused at least \$2 million in fraudulent loans to be funded with FHA insured mortgage loans. Sanchez was previously convicted on conspiracy and wire fraud. Morales pled guilty to his part in the scheme.

Defendant Ala Tabatabai pled guilty in the same court to one count of conspiracy and one count of wire fraud. Tabatabai was the owner of the *Performance Funding Group*, and as a loan representative for *First Prestige Funding*, he assisted Sanchez in submitting fraudulent loan applications to HUD. In this part of the scheme, Sanchez purchased residential properties for the purpose of resale. Sanchez, with the assistance of David Garcia and Salvador Silva, recruited potential buyers who often did not qualify for FHA insured mortgage loans. Sanchez and Tabatabai caused fraudulent mortgage applications to be completed and submitted for FHA loan approval. Tabatabai's actions resulted in a loss to HUD of \$443,680.

Defendant James Thomas Patterson, a former loan officer for *Central Pacific Mortgage Corporation*, was sentenced in **Atlanta, GA**, in U.S. District Court for the Northern District of Georgia, to five months in prison and five months home confinement, and was ordered to pay \$369,000 in restitution for his role in flipping seven properties. Patterson recruited borrowers who purchased the

properties with mortgages obtained from *Central Pacific* that were grossly inflated. Each property had an inflated appraisal that valued it for approximately twice the fair market value. Patterson also conspired with Chalana McFarland, the closing attorney, in helping her launder the ill-gotten gains by setting up a shell corporation to disburse funds to the co-conspirators.

In **Philadelphia, PA**, defendants Shawn Huntzinger, a former *Avstar Mortgage Corporation (AMC)* loan officer, and Philip Horvath, a former HUD official and *AMC* underwriter, were both sentenced in U.S. District Court, Eastern District of Pennsylvania, to six months electronic monitoring/home detention and 60 months supervised release, and were each ordered to pay \$204,822 in restitution to HUD. Defendant Twila Nazario, a former real estate investor, was sentenced to three months electronic monitoring/home detention and 60 months supervised release, and was ordered to pay \$107,037 in restitution to HUD.

An investigation disclosed that Huntzinger, Horvath, and Nazario illegally issued FHA insured loans valued at more than \$2 million. To date, HUD has paid over \$500,000 on default claims as a result of the scheme. The investigation also found that the defendants used three bogus companies to purchase residential properties in **Reading, PA**, and then renovated the properties before reselling them, at substantially increased prices, to buyers with FHA insured mortgages. The homebuyers were Hispanic, low-income, first time buyers, some of whom were not even aware they had purchased properties but thought they were renting. The unsuspecting buyers were supplied with fictitious loan origination documents, including verifications of employment, credit histories, gift letters, and down payment information, in order to give the appearance that they were qualified. This investigation is particularly significant because Horvath is a former HUD employee.

In **Phoenix, AZ**, in Federal Court for the District of Arizona, defendant Marco A. Vasquez, a former *American Financial Resources, Inc. (AFR)* loan officer and branch manager, was sentenced to 33 months in prison and three years probation, and was ordered to pay \$180,363 in restitution to HUD.

Vasquez was also prohibited from working with government insured home loans upon his release from prison. Vasquez previously pled guilty to one count of conspiracy for his part in a scheme to submit false statements to HUD. An investigation disclosed that, from mid 1999 through early 2001, Vasquez prepared 53 FHA insured home loan packages, with insured mortgages totaling \$4.9 million, which contained falsified wage documents. The investigation further disclosed that, while he was a branch manager, Vasquez prepared false wage documents and obtained falsified credit reports for loan officers in his *AFR* branch office. These documents were used to qualify the loan officers' clients for FHA insured loans. There were a total of 138 FHA insured loans involved in the scheme with insured mortgages totaling \$11.9 million. Nine loans have gone into foreclosure with a loss to HUD of \$180,363.

Defendants Enrique Estrada Recendiz and Maria Elena De La Riva, real estate agents, were also sentenced in the same court. Recendiz was sentenced to six months home confinement and five years probation, and was fined \$1,000. De La Riva was sentenced to five years probation. Recendiz and De La Riva were ordered to make joint restitution to HUD in the amount of \$35,216. The defendants previously pled guilty to one count each of submitting false statements to HUD. An investigation disclosed that Recendiz and De La Riva, with the assistance of former *AFR* loan officer José Alvarado, submitted a falsified loan application and wage documents to HUD, which enabled Recendiz to obtain a \$120,903 FHA insured mortgage under the name Enrique Estrada and an assumed Social Security number. The mortgage subsequently went into foreclosure, resulting in a loss to HUD of \$35,216.

Defendant Amelia Arias was sentenced in **Los Angeles, CA**, in Federal Court for the Central District of California, after pleading guilty to five counts of wire fraud and five counts of making false statements to HUD. Arias was sentenced to 10 months incarceration and three years supervised release, and was ordered to pay \$142,000 in restitution 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. Arias' sentencing was part of a larger investigation which revealed 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.

Defendant Hector Rosales Contreras pled guilty to two counts of wire fraud. Contreras caused \$2,763,294 in fraudulent FHA insured loans to be submitted to various commercial lending institutions and HUD. The total loss to HUD in this case was \$1,360,676. Contreras' plea was part of the larger investigation.

Defendant Hector Flores was indicted on four counts of wire fraud and four counts of false statements. Flores worked as a loan processor/loan officer for *Omega Financial Services* and *Greenback Funding*. He allegedly caused false documentation to be submitted to HUD concerning FHA insured loans. The loans, valued at \$431,211, were based on this false documentation. The loss to HUD is approximately \$202,000. Flores is the 26th person charged in this investigation. To date, 24 defendants have pled guilty, and one is awaiting trial.

In **Dallas, TX**, in Federal Court for the Northern District of Texas, defendant Lawrence Holste, also known as Jeffie L. Miller, Jr., owner and president of *Infinity National Mortgage Corporation*, was the first of three loan officers sentenced after pleading guilty to one count of making false statements to HUD. Holste was sentenced to 15 months in prison and three years supervised release, and was ordered to pay \$93,701 in restitution to HUD and a \$100 special assessment fee. Defendants Shirley Miller, *Infinity's* office manager, and Barbara Ann Jackson, a loan officer with *Infinity*, pled guilty in the same court.

These actions are the result of an investigation into single family loan origination fraud during which loan officers of *Infinity* caused false documents to be submitted in order to obtain FHA insured loans for unqualified borrowers. The loan officers provided buyers with false pay stubs, W-

2's, verification of employment forms, and wage and income verification statements. *Infinity* acted as a loan correspondent for various sponsoring lenders. These lenders provided the underwriting and the actual funding of the loans. *Infinity* originated over \$11 million in loans; the total loss, to date, is in excess of \$700,000. The three individuals have also been suspended from future participation in procurement and non-procurement activities with HUD and the Executive Branch as of July 29, 2003.

Defendant Richard Craig Saxton pled guilty in **Los Angeles, CA**, in Federal Court for the Central District of California, to conspiracy, aiding and abetting, causing an act to be done, and submitting false statements. Saxton worked as a real estate investor and escrow officer, doing business as *Golden State Escrow*. He flipped properties, provided down payments for borrowers, falsely certified documents, conspired to defraud the government, and caused the loss of over \$1 million to HUD. At the time of Saxton's plea, restitution was set at approximately \$712,000.

In **Greenbelt, MD**, in Federal Court for the District of Maryland, defendant Richard Boetang, a property speculator, was sentenced to 15 months incarceration and one year probation for his role in a property flipping scam. From March 1998 to early 2000, Boetang purchased properties and then sold them within a short period of time to third parties at a profit. Most of the properties had FHA insured mortgages. Boetang also assisted third-party buyers to purchase their homes by creating false documents to support the loans. Boetang was able to create, sometimes with the assistance of others, false verifications of employment, pay stubs, W-2's, and gift letters purporting to show a sum of money designated as a gift from buyers' relatives when in fact the money was supplied by Boetang. The loss to the government in this scheme is approximately \$1.5 million.

In **New York, NY**, defendant Jean Rudolph Lavanture, also known as Rudy Lavanture, of *Intrust Investment Realty* and *Garden State Investment*, was convicted in Federal Court, Southern District of New York, and sentenced to 12 months in prison for false advertising or misuse of names to

indicate a federal agency. Lavanture also received 12 months probation and was ordered to pay \$77,200 in restitution to his victims. Among other ventures, Lavanture operated an unlicensed real estate business as a speculator and used these entities to scam investors out of over \$1 million. He advertised his investment schemes in the *New York Times* and other newspapers with the promise of 30 to 70 percent returns within three months on “risk free” opportunities. Lavanture assured the potential investors that he had a special relationship with HUD and was able to acquire foreclosed properties at reduced prices and then flip them for large gains. In order to support his claims of being associated with and authorized by HUD, Lavanture filed a Certificate of Assumed Name with the State of New York, listing his business as *DBA HUD*, and opened a bank account under the business initials H.U.D. The duped investors made checks out to H.U.D. for the properties that Lavanture acquired for them. Lavanture used these funds for his personal benefit. Lavanture is currently serving a two- to six-year sentence in the State of New York for real estate securities fraud as well as grand larceny (second degree) for his part in the real estate fraud. Additionally, Lavanture will follow up the State sentence with two years in federal custody for violating his federal probation on an earlier conviction for credit card fraud.

In **Chicago, IL**, in Federal Court for the Northern District of Illinois, defendant Harrison Jeffries was sentenced to three years probation, the first four months of which are to be served as home confinement with electronic monitoring. Jeffries was also ordered to pay \$9,718 in restitution and a \$100 special assessment. As a condition of his probation, Jeffries must undergo a mental health evaluation and cannot file for bankruptcy or participate in a real estate transaction without approval from the Court. From 1990 to 2000, Jeffries was part of a scheme to defraud HUD by obtaining two FHA insured loans for the same property under two different names and subsequently filing 16 bankruptcy petitions. He was able to file the bankruptcy petitions by using four different aliases and Social Security numbers in an attempt to forestall the foreclosure process regarding one of his properties.

Defendant Twannette Holland, a real estate agent, was sentenced in **Norfolk, VA**, in Federal Court for the Eastern District of Virginia, to 21 months in prison and one year supervised release, and was ordered to pay \$9,071 in restitution to HUD and a \$100 special assessment fee. The total loss to HUD was \$81,872.

Holland was involved in at least seven fraudulent real estate transactions. The total value of the loans involved was \$898,136. Each transaction contained numerous false statements in the FHA case binder, including false pay statements, W-2 forms, tax returns, bank statements, credit documents, and gift letters. To qualify for FHA insured mortgages, Holland created fictitious identities for some of her home purchases. On at least one purchase, Holland used the name and Social Security number of a minor. In another case, she used the identity of her deceased mother-in-law. To execute the schemes, Holland created fraudulent power of attorney documents. In some instances, she assisted homebuyers who were unable to purchase a home because of their poor credit standing. In other instances, Holland resided in the properties she purchased but failed to make the mortgage payments. To forestall foreclosure proceedings and to allow her or others to live in the properties for a longer period of time, Holland fraudulently filed for bankruptcy under the names of the minor and the fictitious identities, including the name of her deceased mother-in-law. Holland resold one property to another fraudulent identity in a pre-foreclosure sale and continued living in the property.

Defendants Timothy W. Burke and Paul Ligas were sentenced in **Newark, NJ**, in Federal Court for the District of New Jersey, after pleading guilty to one count of conspiracy to commit equity skimming and mail fraud. Burke was sentenced to 60 months incarceration, three years probation, a \$10,000 fine, and a \$100 special assessment fee. Ligas was sentenced to 57 months incarceration, two years probation, and a \$100 special assessment fee. The defendants admitted that between 1993 and 1999, they participated in a conspiracy to defraud homeowners who had defaulted on their FHA insured mortgages or had fallen behind on payments. More than 100 homeowners deeded their

homes to Burke and Ligas, who began collecting rents from the persons living in the properties, failed to make the mortgage payments, and allowed the properties to go into foreclosure. The scheme netted the two over \$1.4 million.

A Federal Judge in the Northern District of Illinois ordered a judgment of forfeiture of six **Chicago, IL** properties belonging to attorney Robert Voltl to partially satisfy a forfeiture judgment amount of \$1,658,073. In addition, the Judge imposed Voltl's final sentencing order consisting of 63 months imprisonment and three years supervised release. Voltl is also ordered to pay restitution in the amount of \$3,862,844.

In Voltl's capacity as a real estate attorney, he participated in approximately 80 fraudulent property flip deals between late 1995 and early 1998. Of the 80 deals, 30 properties were FHA insured. In total, 49 properties went into foreclosure. HUD suffered losses on 15 of these properties. As a result of the investigation, 20 subjects were federally convicted. Voltl is the last subject to be sentenced.

Marvis "Swamp Dog" Bownes pled guilty in **East St. Louis, IL**, in Federal Court for the Southern District of Illinois, to an information charging him with one count of mail fraud and one count of money laundering. Bownes, owner of *The Property Management Company* in East St. Louis, engaged in a property flipping scheme. From 1997 through 2002, Bownes purchased dilapidated homes in and around East St. Louis and sold them to unqualified buyers after obtaining falsely inflated appraisals. Bownes admitted to defrauding numerous mortgage companies by providing false gift letters, appraisals, W-2s, verifications of employment, and backdated bonds for deeds. He generated approximately \$4 million in revenue from his illegal property investment activities. In the plea agreement, Bownes agreed to forfeit to the United States \$939,000 in cashiers' checks previously seized, 21 investment properties, and his property management office building. Previously, Bownes also pled guilty to a two-count indictment charging him with making two death threats via interstate communications to a newspaper reporter. Bownes will be sentenced for

the death threats along with mail fraud and money laundering in the same sentencing hearing.

A settlement of Program Fraud Civil Remedies Act (PFCRA) violations was reached with defendant George Schiaffino, a real estate agent and speculator. OIG referred this case to the Enforcement Center subsequent to Schiaffino's pleading guilty to making false statements in a property flipping case. In the criminal case, Schiaffino was sentenced in **Baltimore, MD**, in U.S. District Court for the District of Maryland, to six months incarceration and five years probation, and paid \$342,341 in restitution to HUD. He was also debarred from participation in HUD programs for six years. The PFCRA complaint focused on 30 out of 92 loans identified in the criminal case for which Schiaffino paid borrowers' down payments, closing costs, and gift funds. A settlement was reached with Schiaffino in which he paid \$225,000 to settle all potential claims on the 92 HUD insured loans. According to the Office of General Counsel, this is the largest recovery in any PFCRA case brought to date by the Department.

Defendant Kelli Davis, a loan officer at *RE Mortgage Group, Inc.*, in **Los Angeles, CA**, was convicted in Federal Court, Central District of California, on six counts of wire fraud for her involvement in a single family loan origination fraud scheme. Davis and other real estate professionals purchased fraudulently prepared employment, income, and credit documents from Maggie Quevas, a forger who was previously convicted in Federal Court in August 2002. She then packaged the fraudulent documentation into mortgage loan applications for unqualified borrowers for approximately 80 FHA insured loans valued at more than \$11.4 million. The resulting loss to HUD exceeds \$5.2 million.

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendant David B. Finzi, a real estate investor, pled guilty to three counts of wire fraud and aiding and abetting. Finzi engaged in a single family property flipping and loan origination fraud scheme by locating multi-unit residential properties in the \$50,000 - \$150,000 value range. He then entered into contracts to

purchase the properties, and while the transactions were pending, he and others prepared second contracts for the sale of the same properties, purporting to transfer them to other fictitious persons. The second sales were inflated by approximately \$100,000 per property. Finzi and others then prepared fraudulent loan applications in the names of fictitious purchasers for the second sales and submitted the documents to HUD. The mortgage insurance applications in the names of the fictitious purchasers contained false employment documents, verifications that the down payments were made from either the buyers' personal funds or were gifts, when in fact Finzi had made the down payments, and inflated real estate appraisals. Finzi's actions caused approximately \$12,500,000 in fraudulent loans to be funded with FHA insured mortgages, and resulted in losses to HUD of \$3,161,942.

Defendant Alma Vidal pled guilty in the same court to conspiracy and wire fraud. Vidal, a notary public, falsely notarized loan documents indicating that she had met with borrowers when in fact she had not. Vidal also facilitated the submission of false W-2's and pay stubs to qualify borrowers. She caused \$455,738 in fraudulent FHA insured loans to be submitted to various commercial lending institutions. Defendant Sandra Duran was charged with wire fraud, aiding and abetting, and causing an act to be done. Duran allegedly engaged in a scheme to purchase false loan documents and include them in loan files that were submitted to FHA.

In **Philadelphia, PA**, defendants Gary Sweitzer, a developer, Michael Sedor, a closing attorney, Brian Hoch, sales manager of Barwood Estates, and Louis Fierro, a loan officer, pled guilty in Federal Court for the Middle District of Pennsylvania, to conspiring to defraud HUD. An investigation disclosed that the defendants allowed Gary Sweitzer to use fraudulent gift letters and sweat equity to provide mortgagors in his Barwood Estates development with most or all of the funding required to purchase FHA insured homes, including funds for the down payments and funds to pay off debts to ensure that they qualified for the mortgages.

Additionally, appraiser Thomas D. Meagher was removed from the FHA Appraisal Roster for a

period of twelve months after an investigation found evidence that Meagher's appraisals contained inflated property values and inaccurate comparables. Meagher appraised properties involved in this scheme that led to the issuance of over \$16.6 million in FHA insured mortgages. To date, HUD has paid claims totaling \$2.5 million.

Defendant Morteza Eghbal, a real estate investor, pled guilty in **Los Angeles, CA**, in Federal Court for the Central District of California, to one count of conspiracy and three counts of false statements. Eghbal, owner of *Morry's Investments*, engaged in a property flipping scheme. From 1994 through at least 2001, he purchased numerous HUD foreclosed homes and later sold them to buyers who did not qualify for FHA insured loans. Eghbal purchased cashiers' checks and provided the funds used for the buyers' down payments. He acted as the seller of the properties and signed HUD forms fraudulently stating that he did not provide any of the funds for the buyers' down payments. In total, Eghbal paid, or caused to be paid, the down payments for approximately 62 loans. This has caused approximately \$5,542,000 in fraudulent loans to be funded with FHA insured mortgages, and has caused an approximate loss of \$2,056,000 to HUD. As part of the plea agreement, Eghbal agreed to pay applicable special assessments and restitution at or before the time of sentencing.

Defendant Arturo Aranda pled guilty to three counts of wire fraud. As part of the scheme, Aranda recruited several unqualified buyers to purchase properties with FHA insured loans. In order to make the buyers appear qualified, Aranda purchased fraudulent employment and credit information such as W-2 forms and pay stubs from forgers. The fraudulent information was submitted to other co-conspirators, who in turn forwarded it to HUD for insurance. Defendant Art Tapia, a former loan officer at *CTX Mortgage Company* and a recruiter, was indicted in Federal Court for the Central District of California, on eight counts of wire fraud and aiding and abetting, and one count of false statements. Tapia, along with Aranda, recruited non-qualified buyers to purchase FHA insured properties.

For her part in the scheme, defendant Virginia Montenegro, owner of *Desert View Realty*, was indicted in the same court on five counts of wire fraud and one count of false statements. Montenegro recruited non-qualified buyers to purchase FHA insured properties. To facilitate the scheme, she purchased fraudulent documents from known forgers and provided the funds used for the buyers' down payments to enable them to qualify for the loans.

Defendant Marilyn Sylvia Trujillo pled guilty in the same court to one count of conspiracy and two counts of false statements. From 1994 to at least September 2001, Trujillo purchased foreclosed homes from HUD and later sold the homes to individuals who did not qualify for the FHA insured mortgages.

Defendant William Dunn, a property speculator in **Baltimore, MD**, pled guilty in Federal Court, District of Maryland, to conspiracy to make false statements. He admitted that he used fraudulent documents to obtain government backed mortgages for buyers of houses sold by his company. On at least seven occasions, Dunn and partner Michael Dronet bought houses, refurbished them, and sold them at sometimes inflated prices to buyers who were not qualified for the FHA insured mortgages. Further, Dunn assisted in the creation of fraudulent gift letters, tax returns, and W-2's to qualify individuals to purchase his properties. In some instances, Dunn would falsely state that he had met with purchasers in face-to-face interviews to take the loan applications when in fact he had not. A number of purchasers defaulted on the properties, resulting in a loss to FHA totaling \$1.5 million.

Defendant Delores Lewis Jones, a former real estate agent, pled guilty in **Camden, NJ**, in Federal Court for the District of New Jersey, to one count of conspiracy to commit mail fraud. Jones admitted that between 1997 and 2001, she participated in a conspiracy to defraud HUD, the Department of Veterans Affairs, and private lending institutions by providing falsified documents to unqualified homebuyers who submitted those documents to obtain their mortgages. The loss, plus Jones' commissions, totaled over \$392,000 on 14 properties.

Defendants William E. Fallon and Michael Henschel, doing business as *Homeowner Services of Arizona*, pled guilty in **Mesa, AZ**, in Federal Court for the District of Arizona, to wire fraud and aiding and abetting. The defendants, doing business as *Proserve* in **Van Nuys, CA**, were previously indicted on five counts of wire fraud. An investigation disclosed a scheme in which homeowners whose mortgages were in default and facing foreclosure were contacted by Fallon and told that *Homeowner Services* could buy them some time. During this time period, Fallon collected rent and fees from the homeowners, while Henschel filed fraudulent bankruptcies in California to delay the foreclosure process. Henschel originated the same scheme in California and Fallon moved to Arizona to continue the fraud. Over 1,000 property owners in California signed deeds and paid fees to *Proserve*, which included about 120 FHA insured properties and 40 Department of Veteran Affairs (DVA) guaranteed properties. In addition, Henschel caused over 200 fraudulent bankruptcies to be filed in California using fictitious names and Social Security numbers. Fallon secured deeds from 39 homeowners in Arizona, 18 of which involved FHA insured properties. Fallon then collected about \$51,000 in fees/rent from the homeowners during the period he operated *Homeowner Services* in Arizona. Losses to the government total about \$390,000 based on claims submitted to HUD and DVA.

Four **Portland, OR** individuals pled guilty in Federal Court for the District of Oregon to charges including conspiracy and fraud for their part in originating 24 fraudulent mortgages worth an estimated \$10 million and involving multiple loan origination schemes. Loan officers Ryan Bonneau and Misty Byrd pled guilty to three counts of wire fraud, money laundering, and bank fraud, and one count of making false statements on a loan application, respectively.

Defendant Mack James Gentry, a former loan officer assistant and loan processor, pled guilty to making false statements on a HUD loan application and aiding and abetting. Gentry stipulated to a total HUD loss of between \$120,000 and \$200,000 and restitution of \$24,600. Todd Mikal Troen, an associate of *Bonneau and Byrd* and a strawbuyer, pled guilty to wire fraud and stipulated to a total

monetary loss not to exceed \$200,000. As part of his plea negotiation, Troen voluntarily gave up his appraisal license regulated by the State of Oregon.

In **Los Angeles, CA**, defendant Patricia Ledesma, a strawbuyer, was convicted in Federal Court, Central District of California, on one count of wire fraud for her involvement in a single family loan origination scheme. Ledesma persuaded mortgage brokers to falsely verify employment information and certifications of face-to-face interviews for herself and other co-borrowers who applied for an FHA insured mortgage with *Countrywide Home Loans, Inc.* The fraudulently obtained loan resulted in a loss to HUD exceeding \$154,000.

Defendant Tanya Stephenson-First pled guilty in **St. Louis, MO**, in U.S. District Court for the Eastern District of Missouri, to one count of conspiracy to commit bank fraud. Stephenson-First, a former mortgage broker for *Prism Mortgage, Paradigm Mortgage, and Accent Mortgage*, admitted to engaging in an illegal property flipping scheme between October 1999 and January 2002. She used false documentation and Social Security numbers to qualify herself and other potential homebuyers for conventional and FHA insured loans. The investigation also disclosed that Stephenson-First filed for bankruptcy protection using her true Social Security number, and three days after the filing, purchased additional real estate using a different Social Security number. Stephenson-First's real estate activity, which involved approximately \$450,000 in fraudulently originated loans, resulted in \$90,000 in losses.

Defendant Edwin Billones, a Whittier real estate agent, pled guilty in **Los Angeles, CA**, in Federal Court for the Central District of California, to one count of wire fraud. Billones worked as a real estate investor, doing business as *E.B. and Associates, Holding L.L.C., Rising L.L.C., and South Central L.A. Properties*. As an investor, Billones was responsible for obtaining loans for the purchase of his real properties. He allegedly caused fraudulently prepared employment, income, and credit documents to be submitted to HUD along with loan applications for funding and approval by FHA. As a result of this fraud, Billones caused over \$8.6

million in fraudulent FHA insured loans to be submitted to various lending institutions and HUD.

In **New York, NY**, defendant Francine Sweet, an outside contractor working with *American International Mortgage Bankers (AIMB)* in **Lake Success, NY**, pled guilty in Federal Court for the Eastern District of New York to conspiracy to commit equity skimming and mail fraud, and submitting false statements to HUD. Several employees and outside contractors involved with *AIMB* assisted in obtaining FHA insured loans from questionable homebuyers located in the New York 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-2s, rent verifications, verifications of employment and deposit, credit worthiness letters, gift letters, and credit reports.

Defendant Anthony Cocomello, a real estate appraiser, pled guilty in **Central Islip, NY**, in Federal Court for the Eastern District of New York, to loan origination fraud. Cocomello prepared fraudulent appraisals that were included in mortgage loan applications submitted to HUD for insurance. More than 60 false appraisals were submitted to HUD through three separate mortgage banking institutions.

In **Philadelphia, PA**, defendants Ronald Banks and Denea Langston, creators of the fictitious nonprofit organization called *Unity Foundation*, each pled guilty to theft by deception, forgery, and criminal conspiracy, all of which are felony Pennsylvania State Crime Code violations. These charges stem from the defendants' scheme to illegally solicit approximately \$125,000 from at least five victims. As part of the scheme, victims were told they were investing money by purchasing lots or abandoned properties that were going to be developed into low-income housing with a grant from HUD. The defendants created fake documents, such as deeds and real estate tax statements, to back up their claims. They even created a letter with the forged signature of former HUD Secretary Henry Cisneros to support their scheme.

In **Charlotte, NC**, in Federal Court for the Western District of North Carolina, defendant Theodore Peterson, a former certified public accountant (CPA), was indicted on four counts of submitting false statements and four counts of submitting false statements to HUD. Peterson allegedly submitted false and fraudulent annual financial statements to GNMA/HUD for FY 1999. According to the indictment, Peterson made false statements to HUD in a 1999 audit letter and reports, in which he claimed he was a CPA and had performed certain audits of First Beneficial Mortgage Corporation's (FBMC) financial statements in compliance with HUD program requirements. Peterson, however, was not a CPA as his certification had been suspended, and he did not perform the tests and verifications as he represented. The indictment further alleges that GNMA/HUD relied on Peterson's audit letter and reports in extending FBMC's authority to issue up to \$50 million in government guaranteed mortgage-backed securities. Had Peterson conducted the necessary tests and verifications, he would have discovered that FBMC engaged in a massive fraud by creating fictitious mortgages that it sold on the secondary mortgage market. During the time that GNMA/HUD relied on Peterson's audit letter and reports, FBMC issued approximately \$10 million in government guaranteed securities backed by fictitious and fraudulent mortgages.

Defendant John Acevedo, former real estate agent at *Exclusive Right Realty*, was indicted in **Los Angeles, CA**, in Federal Court for the Central District of California, on one count of aiding and abetting and one count of wire fraud. On the same date, defendant Sofia Fernandez, an unlicensed loan processor at *Consortio Lending*, was indicted on one count of aiding and abetting and three counts of wire fraud. Acevedo and Fernandez participated in a fraudulent loan origination scheme wherein Acevedo recruited several unqualified strawbuyers to purchase FHA insured properties. Fernandez provided the strawbuyers with fraudulent credit and employment information to make them appear qualified for the loans. She also provided false verifications of employment. In total, the scheme caused about \$8.5 million in fraudulent loans to be funded with FHA insured loans. Both defendants have been arrested.

Defendant Dora Medrano, a real estate agent, was indicted in **Los Angeles, CA**, in Federal Court for the Central District of California, on charges of wire fraud and false statements. While working as a real estate agent for *Sunset Investments*, Medrano acquired false employment, credit, and income documents that were submitted to lenders for FHA insured loans. Medrano's actions caused \$6.4 million in fraudulently insured loans to be submitted to HUD and various lending institutions.

Defendants Marcelo Giglio, Elias Zepeda, and Ruth Chacon were charged in the same court with wire fraud, aiding and abetting, and causing an act to be done. The defendants allegedly engaged in a scheme to purchase false loan documents and include them in loan files that were submitted to HUD.

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendants Paul Peterson, president of *Peterson Land and Development*, and William Peterson, a real estate agent who worked for *Peterson Land and Development*, were each indicted on one count of conspiracy and four counts of false statements. *Peterson Land and Development* developed residential properties, some of which were sold with FHA insured mortgage loans. Allegedly, the defendants knowingly conspired and agreed to make materially false, fictitious, and fraudulent statements in their dealings with HUD. The loss to HUD is \$4,020,883.

Mortgage brokers and speculators Ronald Burger and Sage Gibbons, doing business as *Century Mortgage*; real estate agent Sally Gibson; real estate appraiser John Hansen; and escrow officer Cathy Patrick were indicted in **Spokane, WA**, in U.S. District Court for the Eastern District of Washington, on one count of conspiracy and 16 counts of wire fraud for their role in a scheme to defraud lenders. An investigation revealed that from July 1997 through November 2000, Burger and Gibbons purchased and then flipped numerous homes, including HUD real estate owned properties, at inflated prices to individuals whom they made appear qualified by using a variety of falsified documents. The fraudulent loans were then sold on the secondary market; buyers of the loans included Ginnie Mae and Freddie Mac. Since the homes

were sold at inflated prices, and the loans were at high interest rates, many buyers were forced into foreclosure because they were unable to make the payments, refinance the loans, or sell the properties. It is anticipated that losses could exceed \$1.4 million.

Theft of Funds

Defendant Carrie Wilson was arraigned in State Court, **Suffolk County, NY**, on a four-count indictment. She was charged with one count of second degree grand larceny and three counts of offering to file a false instrument. Reverend Wilson and her nonprofit organization, *New Life Christian Ministries*, are charged with defrauding the FHA Insurance Program by wrongfully taking over \$500,000 from the County of Suffolk for expenses that were either not incurred or were unrelated to the nonprofit homeless shelters.

Defendant Wendy Elder was charged with felony theft and uttering in a superseding 16-count indictment issued in the Circuit Court for **Montgomery County, MD**. From 1998 through 2001, while employed at *Shapiro and Shapiro* as a settlement agent and an assistant to Mitchell Shapiro, Elder allegedly fraudulently generated and negotiated 28 checks. The checks were drawn from the business escrow account of *Shapiro and Shapiro*, which handled both FHA insured and conventional loans. Elder falsely recorded 25 different reasons for issuance of the checks to mislead *Shapiro and Shapiro* and conceal the fact that she made the checks payable to her own personal bank account at Potomac Valley Bank. She stole a total of \$212,674, most of which she used to pay her mortgage and purchase cars. Elder was on probation for another theft conviction when she was stealing from *Shapiro and Shapiro*. A bench warrant has been issued for Elder's arrest.

The Federal Court for the Western District of Michigan indicted defendants Terrance Hansen, former real estate owned supervisor for HUD in **Grand Rapids, MI**, Judy Hansen, former multi-family specialist for HUD in Grand Rapids, and Chad and Dawn Elve, Judy Hansen's son and daughter. The defendants were indicted on multiple

counts of wire fraud, theft of government property, bank fraud, and theft of government funds over \$1,000. Terrance Hansen allegedly used his position at HUD to sell HUD owned properties to his family for \$600 when their appraised value was between \$70,000 and \$100,000. Later, Hansen family members refinanced and cashed out equity, totaling approximately \$70,000. Chad Elve, Dawn Elve, and Judy Hansen each bought a property while Terrance Hansen was in his position of responsibility at HUD.

Defendant Dennie Washington was indicted in **St. Louis, MO**, in Federal Court for the Eastern District of Missouri, on two counts of bank fraud for allegedly manufacturing counterfeit checks drawn on the St. Louis City and St. Louis County Housing Authorities. The indictment alleges that Washington engaged in a scheme beginning in October 2002 and continuing until April 2003 to obtain moneys by means of material false and fraudulent pretenses. During that time period, Washington created and transacted over \$80,000 in fraudulent Housing Authority checks. Along with losses incurred by financial institutions, the St. Louis County Housing Authority lost over \$28,000 from its Section 8 account.

Officer/Teacher Next Door Program

Defendant Ismael Rodriguez was sentenced in **Newark, NJ**, in Federal Court for the District of New Jersey, for making false statements. Rodriguez was sentenced to six months home arrest and five years probation, and was ordered to pay \$63,600 in restitution and a \$100 special assessment fee. The prosecution of Rodriguez included the successful imposition of a two-point upward adjustment in Rodriguez's base offense level to reflect his abuse of a position of public trust. This successful imposition of the adjustment is the first of its kind in an Officer Next Door (OND) Program criminal investigation. The investigation disclosed that in December 1999, Rodriguez, who had been employed as a Sheriff's Officer by the Essex County Sheriff's Department, purchased a home via the OND Program at a 50 percent discount of \$13,600. In May 2000, approximately nine months later, Rodriguez

purchased another house via the OND Program at a 50 percent discount, realizing a savings of \$50,000.

In **Chicago, IL**, defendant Terrance Tabb, a Police Officer with the Cook County Sheriff's Department, paid \$65,000 to the U.S. Attorney's Office, Civil Division, for the Northern District of Illinois, which was essentially double damages for the \$32,500 discount he received on his purchase of an Officer Next Door Program property. Tabb rented the property to Section 8 tenants following his June 1999 purchase, instead of occupying the property as required by HUD regulations.

In **Pittsburgh, PA**, the Real Estate Owned Branch (REO) of the Philadelphia Home Ownership Center, received a certified check in the amount of \$10,400. The REO ordered Carolyn D. Lewis to repay \$10,400 to HUD as a result of her submitting false statements in order to purchase a discounted property under HUD's Officer Next Door/Teacher Next Door Program (OND/TND) in January 2001. Lewis, a teacher, was identified as one of 10 OND/TND recipients in the greater Pittsburgh area to purchase a home within the past three years. She previously certified that she would maintain the TND property as her primary residence and that she would not own any other property. An investigation found that Lewis was still the owner of two properties in Philadelphia.

The U.S. Attorney's Office in the Northern District of Illinois filed a suit seeking treble damages amounting to \$185,000 against defendant Robert Mohedano, a former **Chicago, IL** Police Officer. Mohedano purchased a HUD property for \$61,500 through OND and agreed to live in the house, located in an economically distressed area, for a minimum of three years in return for a 50 percent discount of the sale price. Instead of living in the home, Mohedano allegedly rented the OND property to a market rate tenant while he lived elsewhere. Two months after he purchased the property, Mohedano refinanced the house using a fictitious lease agreement between him and his girlfriend and received about \$70,000 in cash proceeds. While still bound by the OND three-year commitment to live in the HUD property, Mohedano refinanced his other two properties and purchased an additional two properties, one of which was an

FHA insured property in Puerto Rico. He indicated on all the loan applications that he would occupy the properties as his primary residence.

In **Miami, FL**, in Federal Court for the Southern District of Florida, three law enforcement officers who purchased homes through HUD's OND Program were indicted on charges of making false statements to HUD and to federal law enforcement officers. Gwendolyn Okotogbo, a Corrections Officer for the Metro-Dade Department of Corrections, and Torris Cooper, a Police Officer for the South Miami Police Department, were charged with falsely claiming that they used/intended to use their HUD OND homes as their sole residences during the three-year occupancy requirement. Charles Brunson, a police officer for the City of Opa Locka Police Department, was charged with making a false statement to federal law enforcement officers and using a false document in order to support his false statement to the officers.

Defendant Stacey L. Orr, a former Police Officer, was indicted in **Milwaukee, WI**, in U.S. District Court for the Eastern District of Wisconsin, on two counts of making false statements to the Department of Veterans Affairs (DVA) in connection with two uniform residential loan applications used to obtain guarantees on two mortgages for two separate properties located in Kenosha, WI. The indictment charges that Orr failed to disclose the existence of loans from the Kenosha Police and Fire Credit Union on which he was making payments. On the dates of the alleged false statements, the unpaid balances were identified as \$35,688 and \$29,183, respectively. The second count of the indictment charges that the false statement therein related to the refinancing of a property obtained through HUD's OND Program. The indictment states that both mortgages subsequently went into foreclosure and as a result, Orr failed to complete his required three-year residency under the OND, and the DVA paid out \$27,183 due to the guaranty.

A five-count False Claims Act civil complaint was filed in the Southern District of Texas by the **Houston, TX** U.S. Attorney's Office against Charles Anthony, a deputy with the Harris County Sheriff's Department. An investigation disclosed

that Anthony violated OND Program regulations by failing to live in a home that 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 **Buffalo, NY**, defendant Deborah Floyd, a New York State Corrections Officer, entered into a Program Fraud Civil Remedies Act settlement with HUD whereby she agreed to repay \$15,000 in monthly installments after an initial payment of \$1,000. In 1998, Floyd falsely certified to HUD that she would use a home purchased under the OND Program as her primary residence for a period of three years from the date of closing, but instead rented the property to a Section 8 tenant. Floyd received a \$17,000 discount on the property.

Debarments

Albert R. Coccia, former general manager of *Arco Redevelopment Corporation* in **Philadelphia, PA**, was notified of his immediate debarment from procurement and non-procurement transactions with HUD and throughout the Executive Branch of the Federal Government. The debarment is pursuant to Coccia's guilty plea to a multiple count indictment, including false statements to HUD and money laundering. He was sentenced to 27 months in prison and three years supervised release, and was fined \$900. Coccia was also ordered to forfeit \$5,157 in property and pay \$14,421 in restitution to HUD.

Defendant John W. Carson, a former loan officer for the now closed **Bensalem, PA** branch of *Market Street Mortgage Corporation, Inc.*, has agreed to an 18-month debarment from participation in primary covered transactions and lower-tier covered transactions, including procurement contracts, as a participant, principal, or contractor with HUD and throughout the Executive Branch of the Federal Government. Carson's debarment was based on his facilitating and allowing false documents to be submitted to HUD. These documents were used in the origination and endorsement of three FHA insured loans.

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 of completing an investigation, and is often the only way to put together the necessary pieces of an investigative case.

Two defendants were sentenced in **Phoenix, AZ**, in U.S. District Court for the District of Arizona. Julio Hidalgo, Sr., a real estate broker at *Julio and Associates* in **Mesa, AZ**, was sentenced to six months home confinement, three years probation, 80 hours of community service, fines totaling \$5,100, and restitution of \$24,552 to HUD. Julio Hidalgo, Jr., also a real estate agent at *Julio and Associates*, was sentenced to six months in prison, one year probation, and restitution of \$24,552 to HUD, and was ordered to pay \$25,785 to former real estate clients. Both Hidalgos previously pled guilty to one count of submitting false statements to HUD. They were 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 stole money from homebuyers claiming additional funds were needed for closing, and produced numerous false W-2's, pay stubs, letters of credit, and verification of employment forms for the purchase of homes with FHA insured mortgages. About 72 loans originated by the Hidalgos were identified as fraudulent, with FHA insurance totaling over \$6.1 million.

In **Chicago, IL**, defendant Craig Hendrick, former loan officer for *Challenge Mortgage* in **Oak Forest, IL**, pled guilty in Cook County Court in two separate investigations. The conviction for forgery stemmed from a State of Illinois/Attorney General investigation which disclosed that Hendrick was responsible for stealing the identities of deceased individuals and paying strawbuyers to assume those identities and obtain FHA insured mortgages at grossly inflated rates. Six different FHA insured loans were involved in this scheme. HUD's losses were in excess of \$300,000.

The other conviction stemmed from a Cook County State Attorney's Office investigation which disclosed that Hendrick falsified deeds in order to sell properties he did not own, and again stole the identities of deceased individuals and paid strawbuyers to use these identities to obtain FHA insured loans. Specifically, Hendrick admitted to selling two properties he did not own through the fraudulent deed scheme, while on five occasions he participated in the stolen identity/strawbuyer/FHA loan scheme.

In each of the cases, Hendrick acted as the seller and loan officer, but failed to disclose this through the use of an alias in his role as seller. In total, Hendrick was sentenced to four years incarceration for the State of Illinois investigation and six years incarceration for the Cook County case. He was ordered to serve those sentences concurrently. Hendrick's co-defendants in the Attorney General case, Tom Fazy and Ruben Walden, have been convicted and sentenced. Relative to the Cook County case, Stacey Johnson has been convicted and sentenced, while Tom and Julie Fazy have yet to plead guilty.

Homestead Financial Services of Syracuse, NY, was fined \$50,000 by HUD's Mortgagee Review Board. Tim Ward, president of *Homestead Financial Services*, illegally diverted a portion of the closing costs associated with FHA mortgages from homebuyers to his personal bank account. In addition, Homestead used non-approved mortgage brokers to process FHA loans.

In **Mesquite, TX**, Darlyn Lawson was debarred from future participation in procurement and non-procurement activities with HUD and the Executive Branch for a period of three years from the time of her suspension (January 15, 2002). This investigation stemmed from a project to identify mortgage companies with a high rate of defaults on FHA loans. *American Investment Mortgage (AIM)*, as well as *Royal Lending*, a net branch of *AIM*, were both reviewed because of their high default rates. An examination of *Royal Lending's* files revealed that, in some cases, false documents were relied on to approve FHA insured loans.

In **Riverhead, NY**, defendants Brian Bass, S. Charles Buschemi, Michael Capasso, Thomas Capasso, Ronald Davies, Ronald Farr, Michael Grunfast, Irwin Izen, William Porter, Eric Sackstein, Barry Segal, Gary Smith, and Alan Wolinsky, all Long Island real estate attorneys, and *Covenant Abstract Company, Inc.*, a title abstract company, have agreed to a civil settlement with HUD and the U.S. Attorney's Office for alleged violations of the anti-kickback statutes of the Real Estate Settlement Procedures Act (RESPA). The individual defendants referred title business to *Covenant Abstract*, and in direct violation of Section 8(a) of RESPA, *Covenant* compensated them for such referrals based solely on the volume of business each referred to *Covenant*. The defendants have agreed to pay HUD a \$200,000 penalty. In addition, the attorneys and the title company agreed to be barred from title work for a three-year period.

In **Philadelphia, PA**, a removal letter was issued to a HUD employee in the Real Estate Owned (REO) Division, Mid-Atlantic Region, after an investigation found evidence that the employee used a strawbuyer to purchase an REO property. The employee admitted to obtaining a personal loan and providing the proceeds to the strawbuyer for the purchase of the property. The investigation revealed that she referred to the strawbuyer as her spouse in documents she submitted to HUD to become a Voluntary Leave Transfer Program recipient. The "spouse" quit-claimed the property for \$1.00 to the employee, who failed to disclose ownership of the property on her Financial Disclosure Report. In addition, HUD requires its employees to provide, in writing, a request for approval to bid on HUD owned properties. The employee failed to do so, and evidence of her knowledge of the requirement was determined when she requested this approval when her brother purchased an REO property prior to this incident. HUD charged the employee with a violation of the Standards of Ethical Conduct and falsification of a Financial Disclosure Report. A Merit Systems Protection Board judge reversed the removal of this employee; however, HUD submitted an appeal to the full Board who will return a decision within 120 days.

In **Washington, DC**, the HUD Enforcement Center filed a three-count complaint charging an Officer Next Door (OND) Program recipient under the Program Fraud Civil Remedies Act (PFCRA). This matter was the result of an investigation that disclosed that defendant Michael Pinto provided false certifications on his Sections 203(k) and 203(b) FHA mortgage loan applications, certifying that the property for which he was receiving a mortgage would be his primary residence. He also provided a false certification on his OND certification in which he certified that he did not own any other residential real property, when in fact he owned an investment property for which he obtained the 203(k) and 203(b) mortgages. The complaint sought \$98,000 from the defendant under PFCRA for the FHA and OND matters.

Jerald Leonard Bohannon was notified by the HUD Enforcement Center in **Washington, DC**, that he has been immediately suspended from participation in transactions with the Executive Branch of the Federal Government, and that HUD has proposed his debarment from any involvement with the Federal Government for a period of three years. Bohannon was suspended after pleading guilty in Federal Court for the Northern District of Georgia to using a false Social Security number to obtain a Title I HUD insured property improvement loan. The false Social Security number was used to hide his true credit situation. Additionally, Lynda Elaine Bohannon, his wife, entered into a pre-trial diversion agreement for her part in making the false statements.

In **Denver, CO**, defendant Elena Romero received notification of her proposed debarment from participation in procurement and non-procurement transactions as a participant or principal with HUD and throughout the Executive Branch of the Federal Government for a three-year period. At the same time, *Romero, Torres and Associates* was notified of their proposed debarment. Defendant Andres Torres was notified of his proposed debarment for an indefinite period. The parties previously pled guilty to conspiracy in a real estate scheme involving Andres Torres, his former wife, Elena Romero, Michael Slavens, and other strawbuyers. Torres acquired properties in the

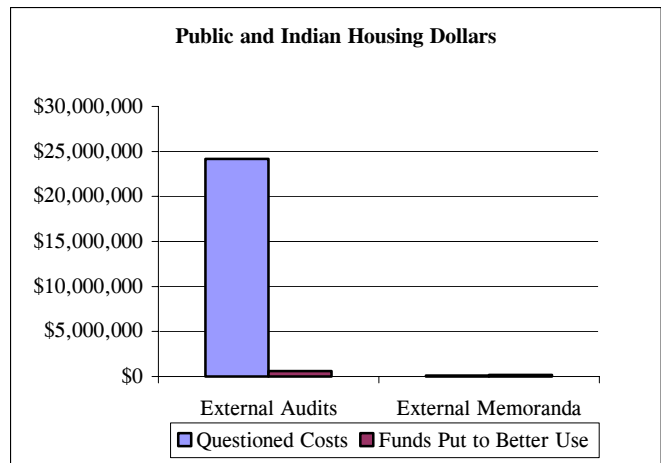
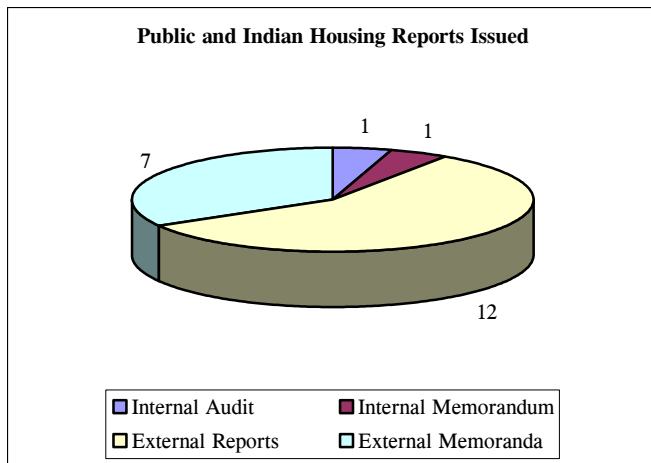
Denver metro area using Romero as the real estate agent. Together they obtained strawbuyers to purchase properties while providing them with false information so they would qualify for the loans. Slavens and Martinez acted as strawbuyers on a number of the properties. Martinez also provided false income tax returns/W-2 forms, and both Slavens and Martinez provided false income information for the strawbuyers.

Chapter 3 — HUD’s Public and Indian Housing Programs

HUD provides grants and subsidies to approximately 4,200 public 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.

Audits

During this reporting period, the OIG issued 21 reports; one internal audit, one internal memorandum, twelve external audits, and seven external memoranda in the Public and Indian Housing Program area. These reports disclosed over \$24 million in questioned costs, and almost \$1.9 million in recommendations that funds be put to better use. We conducted reviews of HUD’s Public and Indian Housing Information Center, property management contracts, various activities in Section 8, Low-Income Housing Programs, and the general administrative activities of some HAS.



PIH Information Center

In **Washington, DC**, we completed an audit of the management, operational, and technical controls over the security of HUD’s Public and Indian Housing Information Center (PIC). PIC is a technologically advanced web-based information system designed to facilitate a more timely and accurate exchange of data between public housing agencies (PHAs) and local HUD offices by allowing PHAs to electronically submit information to HUD. We found deficiencies and weaknesses in controls including: (1) inadequate queries and reports for monitoring and controlling user access to PIC; (2) lack of a comprehensive process for monitoring and controlling PIC user access; (3) inadequate access controls over the PIC Security Administration Sub-Module; (4) no segregation of duties over the Security System Administration function; (5) inadequate controls for safeguarding confidential and sensitive PIC data; (6) weak access controls for identifying and authenticating PIC users; and (7) not using system and application audit logs for security and system maintenance purposes.

A comprehensive assessment of vulnerabilities and risks was not performed during the initiation or development/acquisition phases of the PIC system life cycle. Furthermore, a comprehensive security policy was not prepared before security aspects of the PIC system were developed.

These deficiencies and weaknesses expose PIC data to unnecessary risk of loss of confidentiality, integrity, and availability. HUD's Office of Public and Indian Housing (PIH) has taken action to correct several control weaknesses. However, more remains to be done. Risks of system disruption, exploitation of data for identity theft and fraud, and destruction of data by malicious hackers or disgruntled employees remain.

We recommended that PIH conduct a comprehensive vulnerability and risk assessment, develop a comprehensive security plan for PIC, and correct deficiencies and weaknesses in operational and technical controls. (Report No. 2003-DP-0001)

Property Management Contracts

An OIG audit of the **Chicago, IL** Housing Authority's outsourced property management contracts found that the Authority failed to properly monitor and administer its management agreements with nine private management firms and two resident management corporations. The Authority did not properly monitor its contractors' compliance with requirements of the Minority, Women, and Disadvantaged Business Enterprises and Section 3 Programs. The management contractors also failed to adhere to their management agreements and other requirements for maintenance, work orders, unit inspections, and tenant recertifications.

We recommended that HUD ensure that the Authority: (1) imposes all available remedies against the contractors for their noncompliance or obtains all necessary documentation to support unsupported program expenses of over \$11 million; (2) implements policies and procedures to monitor the performance of its contractors and maintains the required documents to support the contractors' compliance; (3) provides training and refresher courses for the management contractors to assure that contractors are fully aware of federal requirements and standards; (4) implements policies and

procedures to correctly perform and document unit inspections at housing developments, and to generate and address repair work orders timely; and (5) implements policies and controls to recertify tenants on their move-in anniversary dates and maintains signed documentation for all tenants at the housing sites. (Report No. 2003-CH-1018)

Section 8 Programs

In response to a request from HUD's Public Housing Program Center Coordinator, Indianapolis Field Office, we audited the **Fayette County, IN** Housing Authority's Section 8 Housing Program and found that the Authority did not administer its Section 8 Program in an efficient and effective manner, and failed to comply with HUD's housing quality standards for its rental units. Contrary to HUD directives, the Authority requested over \$538,000 in excess Section 8 funds from HUD over a four-year period to cover prior operating losses. HUD ordered the Authority to cease this practice in February 2000. The Authority did not have adequate cash to repay the funds to HUD, and will take over 27 years to return the over-claimed subsidy at the current repayment rate of \$20,000 per year.

We also found that the Authority did not adequately control its receipt and use of cash and did not adequately maintain 15 units it rented to Section 8 tenants. A March 2002 OIG inspection of the units identified 240 housing quality standards violations. The Authority's former housing inspector failed to identify 113 of these existing deficiencies at the time of his inspections between 1998 and 2001. The Authority had identified 40 of the 240 violations, but failed to correct them.

We recommended that HUD: (1) take administrative action against the Authority's former executive director and board members for the excessive Section 8 fund requests, improper use of Section 8 funds, and their failure to properly maintain Section 8 rental units; (2) require the Authority to provide adequate supporting documentation for expenditures cited in the report and repay its Section 8 Voucher Program from non-federal funds for ineligible and unsupported items; and (3) require the Authority to repay its Section 8 Voucher Program from non-federal funds for the Section 8 subsidies it received

for rental properties that it owned but did not properly maintain. (Report No. 2003-CH-1019)

We audited the **Philadelphia, PA** Housing Authority's Tenant-Based Section 8 Program to determine why the Authority was not fully utilizing its tenant-based Section 8 funding to assist the maximum number of families under the program. Although the Authority has steadily increased the number of vouchers it issued since March 2000, it has consistently and significantly underutilized its available Section 8 funding from HUD. For example, for its fiscal year ending March 2000, the Authority did not use \$24.7 million of its available budget authority of \$96.6 million, and \$23.9 million of its available budget authority of \$107.6 million for its fiscal year ending March 2001. Since the Authority was not able to fully utilize its available funding, HUD recaptured \$47.9 million of Section 8 funds from the Authority in August 2001. However, about 18,000 families remained on the Authority's Section 8 waiting list as of January 2002. We estimate that the Authority could have assisted an additional 3,200 families.

In our audit, we identified a number of weaknesses in the Authority's Section 8 administration that adversely impacted its ability to fully utilize its Section 8 funding. Specifically, we found the Authority needed to more effectively implement required procedures to improve utilization; supervise employees; collect, maintain, and analyze key program data; follow up on its landlord and voucher holder outreach efforts; and address external factors it believed contributed to low utilization. Further, we noted the Authority requested and received more than 3,700 additional vouchers, from April 1999 through April 2001, that it could not reasonably accommodate; this only exacerbated its utilization problem.

In February 2002, HUD signed an agreement with the Authority accepting it into a new flexible housing demonstration program known as Moving to Work. Although the Authority's Moving to Work agreement included a Section 8 component, it marked the end of the Authority's traditional Section 8 Program until April 2008. Under Moving to Work, HUD exempted the Authority from many Public Housing and Section 8 Program rules, and

the Authority now has the flexibility to allocate Section 8 funds not used on vouchers for other housing activities, including capital programs. Even though the Authority is now under the demonstration program, the operational issues identified in this report are still pertinent and need to be addressed to improve operations. The Authority recognized this and took corrective action to address a number of the issues during the audit. However, further actions need to be taken to address the remaining issues.

We recommended, among other things, that the Authority be directed to implement measures required by its Administrative Plan to analyze the adequacy of its payment standards annually; develop supervisory procedures to ensure that Section 8 employees enter complete management data into the Authority's computer system and adequately maintain client files; and collect and analyze data recommended in HUD's Housing Choice Voucher Program Guidebook to include response rates from waiting lists, voucher success rates, and staffing required for lease-up, and use the results to develop a strategy to improve utilization. (Report No. 2003-PH-1803)

In **Belmont, CA**, in response to concerns of the Director of Public Housing in the HUD San Francisco Office, we completed an audit of the Housing Authority of the County of San Mateo's (HACSM) Conventional Low-Rent Housing and Section 8 Subsidy Programs. The objective of the review was to determine if HACSM could improve the effectiveness of operations and compliance with federal requirements over its procurement and contracting practices.

We identified serious problems relating to HACSM's procurement and contracting practices. This included the continued use of a vendor/contractor for rehabilitation without following appropriate procurement, bidding, and contracting practices as required by the Codes of Federal Regulations and HUD handbooks. HACSM also contracted with the County of San Mateo, a related party, without following procurement practices or maintaining records to substantiate expenses. In addition, HACSM failed to follow appropriate purchase order procedures. As a result, HACSM in-

curred over \$230,000 in excessive and unreasonable costs and \$90,000 in questionable and unsupported expenditures charged to federally funded programs.

We recommended that HUD require HACSM to revise its procurement policies to ensure they comply with appropriate requirements, return excessive unit turnover maintenance costs of over \$230,000 to the project's operating account, develop procedures and controls to ensure it only reimburses the County of San Mateo for actual expenses, and provide support for all questionable costs. (Report No. 2003-LA-1002)

We reviewed the **Union County, NJ** Division of Community Development to determine: (1) the cause of a misappropriation of Section 8 funds; (2) the total amount of Section 8 funds misappropriated; (3) if Community Development Block Grant (CDBG) rehabilitation funds were misappropriated; and (4) whether the County has procedures in place to monitor the activities of a consultant that is currently administering the County's Section 8 Program. The review disclosed that an employee of a former consulting firm, which administered a portion of the County's Section 8 Program, embezzled over \$209,000 of program funds, and that the existence of various program participants is questionable. The review also disclosed that the County did not submit the required Section 8 year-end settlement forms to HUD for the years ended December 31, 2000, and 2001. This occurred because the County completely relied on consultants to administer its Section 8 Program, and because one consultant did not maintain adequate program records. As such, the County failed to properly monitor the consultants to ensure adherence with program requirements, and to obtain assurances that funds were being properly safeguarded. We questioned housing assistance payment costs of over \$73,000 due to inadequate supporting documentation.

The review disclosed that the County currently has procedures in place to monitor the activities of the consultants administering its Section 8 Housing Assistance Program, and that there were no indications that funds under the County's CDBG Rehabilitation Program were misappropriated.

We recommended that HUD instruct the County to: (1) reimburse all ineligible costs to the Section 8 Program from non-federal funds; (2) determine the eligibility of all unsupported housing assistance payments; and (3) submit the year-end settlement forms for the appropriate fiscal years so that HUD can perform the year-end settlement reconciliations. We also made recommendations that should improve the County's internal controls and enhance compliance with HUD requirements and regulations. (Report No. 2003-NY-1801)

In response to a citizen's complaint, we audited the **Seattle, WA** Housing Authority's administration of its HUD subsidized Welfare-to-Work (WTW) Section 8 Tenant-Based Assistance Program. The complaint alleged that the Authority is not properly administering its WTW Program when selecting program voucher recipients, and procuring the services of nonprofit organizations to assist and recruit prospective WTW program applicants. We found that the complaint was generally valid. We believe that in its haste to get its WTW Program vouchers leased up by the deadline, the Authority disregarded program requirements, and did not provide adequate management oversight over program implementation. As a result, the Authority did not achieve the objective of the WTW Program to assist eligible families in transitioning from welfare to work. In addition, the Authority denied many long-time Section 8 waiting list applicants the opportunity to participate in a program that would help them transition from welfare to work. Although the Authority followed its procurement requirements, it spent over \$130,000 of WTW funds on ineligible costs.

We recommended that HUD require the Authority to take corrective action to comply with WTW Program requirements and reimburse the program for ineligible costs. We also recommended that HUD review the Authority's performance as a designated Moving to Work (high performer) Authority. (Report No. 2003-SE-1003)

As part of our audit of public housing authorities (PHAs) in Massachusetts and their administration of the mobility/portability features of housing choice vouchers, we performed a limited review of the **Brockton, MA** Housing Authority. We found

that the Authority was generally administering the mobility/portability features of its housing choice vouchers effectively and efficiently. However, our review disclosed that families terminated from the Authority's Section 8 Program were not removed from the reimbursement rolls of the initial PHA in all cases. We attributed this to the fact that the Authority failed to reconcile its Section 8 Portability-In Accounts Receivable Accounts. The Authority's General Ledger and Subsidiary Accounts for Portability-In Accounts Receivable were out of balance by almost \$417,000 at October 31, 2002.

We recommended, among other things, that the Authority be required to explain how the unreconciled balance of almost \$417,000 will be refunded or collected. The Authority should also assure HUD that the repayments or collections will not be reflected in any current, future, or prior year-end settlement with HUD, and that the handling of repayments or collections will not conflict with the changes in administrative fee reserves included in the FY 2003 Appropriation Act. (Report No. 2003-BO-1004)

General Activities

In **Baltimore, MD**, an audit of the Housing Authority of Baltimore City's Homeownership and Opportunity for People Everywhere (HOPE VI) Program found the Authority's procurement and contract administration practices violated regulations; managers did not maintain accurate financial records as required; and administration of the Community and Supportive Services Program was not effective. As a result, a number of deficiencies in the Authority's operations were noted. Among the most notable was that the Authority spent \$28.5 million above the Total Development Cost (TDC) limits on two developments. The Authority's former executive director provided misleading information to HUD and did not fully disclose other information related to the development activities. Because HUD relied on the former executive director's assertions, it did not have all the facts and granted waivers to exceed development standards and award contracts.

The Authority did not document key procurement actions, initiated and completed a number of

improper contracting actions, and did not adequately administer its HOPE VI contracts. These deficiencies occurred because the former executive director did not establish an adequate internal control environment for the program's administration.

In addition, the Authority: did not follow HUD requirements when drawing funds from the HUD Line of Credit Control System (LOCCS); did not maintain accurate and complete accounting records; and displayed various other deficient financial management practices. These deficiencies occurred because Authority managers did not provide adequate supervision and oversight and did not establish proper procedures to ensure the Authority was in full compliance with grant agreements and other applicable requirements. The Authority's poor financial management resulted in several deficiencies, including: over \$31.7 million in funds drawn from LOCCS that could not be readily supported; accounting records containing errors of more than \$37.2 million and which disagreed with HUD's records by approximately \$27.9 million; development costs authorized by HUD that were exceeded by over \$2 million for one development and were on track to be exceeded for a second development; and duplicate funding of nearly \$917,000 that was inappropriately retained.

During the audit, the current executive director took a number of actions to improve the management of the HOPE VI Program. We recommended that administrative action be taken against the former executive director. We made additional recommendations to improve the Authority's administration of its HOPE VI Program and to return funds to HUD. (Report No. 2003-PH-1003)

We audited the operations of the **Portsmouth, VA** Redevelopment and Housing Authority and found significant weaknesses in the way the Authority awarded and administered a number of its modernization contracts. Specifically, we found that the Authority awarded three consecutive contracts valued at about \$8 million from FYs 1997 to 2001 to a single contractor who substantially missed deadlines, performed substandard work, and failed to comply with contract specifications. The Authority also used its own maintenance staff to make repairs

covered by the contract warranty and did not ensure the contractor performed work in accordance with Occupational Safety and Health Agency guidelines. These problems generally occurred because the Authority did not adequately consider the contractor's ability to perform the work and did not maintain an adequate contract administration system to ensure contractors performed in accordance with the terms, conditions, and specifications of their contracts. A HUD housing inspector could only validate work estimated at about \$3.5 million for the \$8 million the Authority expended on the three modernization contracts. As a result, we questioned the entire \$8 million value of the contracts. Further, the Authority selected the developer of its \$24.8 million HOPE VI grant without adequately documenting the reasons why the developer was selected, and could not support HOPE VI costs totaling about \$75,000.

We also identified significant weaknesses in the Authority's maintenance of its low-income housing and administration of its Section 8 Program. However, during the audit, the Authority took corrective actions to significantly improve its performance in these areas. For example, the Authority increased its physical condition scores under HUD's Public Housing Assessment System for its four developments by 11 to 77 percent from September 2001 to December 2002. Further, the Authority provided about 500 additional low-income families with Section 8 assistance from June 30, 2001, through June 30, 2003.

We recommended that HUD determine the actual value of work completed on the three modernization contracts for which the Authority paid \$8 million. For work the contractor failed to perform or did not perform in accordance with contract specifications, we recommended that HUD require the Authority to enforce the terms of the contracts, recover the value of work that was not completed according to contract specifications, or repay HUD the value from non-federal funds. We further recommended that HUD take appropriate administrative action to prevent the contractor from performing additional work for the Federal Government, and as appropriate, against Authority officials to protect the taxpayers from future waste and abuse. (Report No. 2003-PH-1005)

We audited selected aspects of the **Scranton, PA** Housing Authority's (SHA) Low-Income Housing and Section 8 Programs and found that the SHA's public housing developments were well maintained and in excellent repair. However, we identified other weaknesses in the SHA's operations. Specifically, the SHA: (1) charged HUD's Conventional Program over \$89,000 for garbage removal and nearly \$120,000 for general administrative salary costs that should have been charged to its city owned project; (2) improperly received about \$9,000 in subsidy for three units used as temporary offices; (3) removed the majority of units in a development from the rental market until the entire development was completely rehabilitated, unnecessarily increasing the number of vacant units used by HUD to pay operating subsidies, and reducing the number of units available for low-income families; (4) did not properly establish waiting lists or account for or process all tenant applications, and, contrary to HUD requirements, allowed applicants to wait for units at specific developments; (5) did not perform adequate outreach efforts to find qualified applicants for its vacant units; (6) hired family and/or relatives of the executive director and board members; and (7) did not perform accurate inspections to ensure Section 8 units met housing quality standards.

During the course of the audit, the executive director took immediate action to correct the SHA's operating policies and procedures and repaid the Conventional Program nearly \$300,000. Since the SHA completed all the required actions prior to report issuance, and we verified the corrective actions were completed, the report contained only one recommendation. We recommended HUD complete an on-site review within one year from report issuance to ensure the SHA continues to make satisfactory progress. (Report No. 2003-PH-1006)

In **Wewoka, OK**, based on complaints made by former executive directors, we audited the Housing Authority of the Seminole Nation of Oklahoma and found that Authority officials improperly procured housing rehabilitation services, land, and mobile homes with Indian Housing Block Grant funds. Specifically, officials procured: (1) housing rehabilitation services without required bid solicitations, contracts, work specifications, and accurate inspec-

tions; (2) land without required appraisals and environmental reviews; and (3) mobile homes without competitive proposals and properly executed contracts. The improper procurements occurred because officials disregarded the Authority's procurement policy and HUD requirements. As a result, the Authority misspent over \$780,000 in grant funds.

Authority officials paid for: (1) poor workmanship and work not done on housing rehabilitation; (2) land without assurance of satisfaction of environmental requirements and that it was fairly priced; and (3) mobile homes without assurance of delivery and that they were priced competitively. In addition, officials should put to better use about \$91,000 of grant funds intended for mobile homes that were not delivered.

We recommended that HUD take action to ensure that the board of commissioners and the executive director have the necessary training and knowledge of procurement policy and Native American Housing Assistance and Self-Determination Act regulations. In addition, we recommended reimbursement of misspent grant funds of over \$780,000 and the avoidance of ineligible grant expenditures of about \$91,000. (Report No. 2003-FW-1005)

At the request of the Director of the Office of Public Housing in San Francisco, we reviewed 16 procurement actions at the City of **Las Vegas, NV** Housing Authority (LVHA). Our objective was to review the four HUD approved procurement methods: sealed bids, competitive proposals, noncompetitive proposals, and small purchase procedures. We concluded that, in some cases, policies and procedures were not adequate to ensure compliance with federal regulations, contracts were awarded without competition, and services in excess of the small purchase limit were obtained without a contract. Also, when contracts did exist, the terms were often not enforced or included open-ended escape clauses that favored the contractor. Our review of the procurement actions identified ineligible costs of \$57,000 and unsupported costs of almost \$102,000.

We recommended that HUD ensure that the LVHA: (1) revises its procurement policy to comply

with applicable federal and HUD policies and adheres to those policies; (2) adopts contract administration procedures to ensure that payments for services are in accordance with contracts; (3) repays ineligible and unsupported costs from non-federal funds; and (4) removes specific inappropriate clauses from its current and future contracts. (Report No. 2003-LA-1801)

In response to a Congressional request resulting from constituents' complaints, we performed a limited review of the Housing Authority of the City of **San Angelo, TX**. The review disclosed that a conflict of interest did not exist between the Authority and the rental of apartments to Colt Baseball players. However, a conflict of interest did exist between the assistant executive director and a vendor wherein the Authority obtained goods from a vendor directly related to the assistant director; the Authority did not take appropriate steps to remediate mold at the Cedar Crest Knickerbocker Project; and the Authority did not perform its fiduciary duty during the construction of the elderly duplexes, and therefore the duplexes cost \$500,000 but were appraised at only \$334,000. In addition, Authority management disregarded and circumvented controls in procurements, accounts payables, and grants management.

We recommended that the Office of Public Housing require the Authority to implement management controls to prevent management's ability to circumvent controls, reimburse the City of San Angelo for ineligible and unsupported grant funds, and take appropriate administrative action against those responsible officials to protect the Authority from further abuse. We also recommended that the Office of Community Planning and Development require the City of San Angelo to repay HUD for ineligible costs of over \$2,000 and unsupported grant costs of nearly \$77,000. (Report No. 2003-FW-1804)

Federal official blasts PHA practices

Fiscal issues, mold conflict of interest among complaints

By NICOLE C. BRAMBILA
Staff Writer

After nearly a year of waiting, the Inspector General with Housing and Urban Development released the official audit denouncing the San Angelo Public Housing Authority on its fiscal management, administrative conflict of interest and the mishandling of black mold at a low-rent apartment complex.

Last July, U.S. Rep. Charles Stenholm, D-San Angelo, requested HUD

audit the PHA after failing several complaints from constituents, including former Mayor Rudy Izard.

The findings state that a conflict of interest existed between PHA Assistant Director Mark Lambert and a company he owned, Hard Drive Call. From May 2003-August 2001, the PHA purchased computer equipment totaling \$23,148 from Hard Drive Call while Lambert was acting director.

"Even looking past the obvious conflict of interest, this transaction demonstrates a complete disregard of management controls and proper segregation of duties," the report stated.

In an interview prior to the release of the audit, Lambert said he was not the owner of Hard Drive and that it was his father who owned equity in the company.

Related story

The Public Housing Authority recently was under fire after local auditors had the locks changed and placed several thousand documents under guard. Page 1A.

However, Court documents show Lambert was named as a defendant in 2003 for litigation with the city and Hard Drive Call resulting from HUD's 2003.

Then Lambert said that the conflict "didn't occur to me. I didn't know that purchases were being made."

But documents obtained by the Standard-Times in a Freedom of Information request show Lambert, on at least three separate occasions, signed PHA checks and credit card purchases for equipment and services to Hard Drive Call. The purchases totaled more than \$4,500.

Lambert then said he acknowledged the conflict to board commissioners, saying he was "wrong and embarrassed." This admission came after twice filing documents denying a conflict of interest, the audit stated.

Because management circumvented fiscal controls, "the PHA paid for work not performed, made duplicate payments and incurred ineligible costs" in dealing with Hard Drive Call, the report stated.

Board Chairman Kenneth McNease said that providing misleading information for an audit was "shocking." Commissioners presently are conducting an investigation with the help of local authors Webb and White, McNease said.

"You can't go off firing the gun," he said. "You've got to get your facts down before you can do anything... we're taking all the necessary prudent steps, but you're got to build an investigation like a house, brick by brick."

McNease cited controls commissioners approved at its May board meeting, such as purchases exceeding \$1,000 requiring a signature from the chief or vice chief on where they are addressing the problem.

In addition, the audit — which was prepared by D. Michael Beard, the regional inspector general for audit in Fort Worth — found the PHA "built clearly duplicate at a cost significantly more than their approved value."

Please see PHA, back page

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In response to a citizen's complaint, the OIG reviewed the **Mount Airy, NC** Housing Authority and found that some of the citizen's allegations were valid. Specifically, the Authority: (1) allowed identity-of-interest companies to bid against one another and then allowed losing bidders to perform the work as subcontractors; (2) did not perform required cost and price analyses, enforce contractor performance, or consistently obtain formal contracts; (3) split the cost of one contract into separate contracts in an attempt to reduce costs; and (4) allowed the executive director and other staff to use Authority owned vehicles to commute daily between their homes and work without reporting the taxable employee fringe benefits.

We recommended, among other things, that HUD ensure that the Authority obtains adequate training for procurement staff, prepares independent cost estimates before receiving bids or proposals and performs cost and price analyses, executes formal contracts as appropriate, discontinues the practice of splitting purchases, and either discontinues the practice of allowing staff to use Authority owned vehicles for commuting or complies with related IRS requirements. (Report No. 2003-AT-1007)

In **Baltimore, MD**, an audit of the Housing Authority of Baltimore City's relocation of HOPE VI residents found that the Authority generally did an adequate job in assisting displaced HOPE VI tenants in finding suitable alternative housing. The Authority demolished six developments with 4,194 units. Of the 2,246 occupied units, we found the Author-

ity assisted 1,992 families in finding adequate alternative housing. The other tenants were either evicted, deceased, departed without paying rent, or their status could not be determined due to incomplete Authority records. Further, despite some initial setbacks, the Authority established a process to ensure that displaced tenants received priority in reoccupying units in the newly completed HOPE VI developments in accordance with their HUD approved Relocation Plan. For the two developments the Authority had redeveloped by the beginning of the audit, Lafayette Courts and Lexington Terrace, 1,484 units were replaced with 729 units. Altogether, 198 of the displaced tenants were placed in the 404 available public housing units.

We did, however, identify a number of deficiencies in the Authority's administration of its tenant relocation process. Specifically, the Authority did not follow the appropriate HUD handbook when it processed relocation payments. This caused the Authority to make over \$64,000 in relocation assistance overpayments and nearly \$21,000 in underpayments to several tenants. We also questioned the Authority's administration of the moving contract used to relocate several tenants. The contractor over-billed the Authority for nearly \$24,000 and the Authority also failed to include an appropriate liability clause in the moving company's contract, which would have saved the Authority nearly \$10,000 in relocation expenditures.

We made a number of recommendations to assist the Authority in improving its relocation process. (Report No. 2003-PH-1004)

Civil False Claims

In **Twinsburg, OH**, at the request of the U.S. Attorney's Office for the Northern District of Ohio, the OIG reviewed *J.T. Eaton & Company, Inc.*, to identify OIG subsidized housing authorities that purchased pest control products from *J.T. Eaton* and the amounts paid for those products. Of the 659 housing authorities we contacted, we received one positive response from the Lucas Metropolitan Housing Authority in Toledo, OH. In addition, we received positive responses from the New York City Housing Authority and the Wilmington, DE Housing Authority after expanding our review. The responses demonstrated that between November 1, 1996, and January 12, 2001, the housing authorities paid more for animal repellants and pesticide products manufactured by *J.T. Eaton* than previously identified to the U.S. Attorney's Office. The U.S. Attorney's Office followed up with the manufacturer and the suppliers we identified. Based on that follow-up, the U.S. Attorney's Office revised the estimate of HUD related damages from nearly \$34,000 to over \$79,000. The U.S. Attorney's Office negotiated a settlement agreement effective September 18, 2003, that includes a recovery for damages to HUD.

We recommended that HUD follow up with the U.S. Attorney's Office to ensure that HUD receives the \$79,000 due under the settlement agreement with *J.T. Eaton*. (Report No. 2003-CH-1803)

Investigations

During this reporting period, the OIG opened 910 investigation cases and closed 454 cases in the Public and Indian Housing Program area. Final judicial action taken on these cases during the period included \$233,454 in recoveries/receivables, \$5,109,274 in restitution, \$22,768 in fines, 150 convictions, pleas, and pre-trial diversions, 377 indictments/informations, 29 administrative sanctions, 514 arrests, and 1,632 months in prison. The results of our more significant investigations are described below.

Section 8 Assistance

Management and Program Officials/ Employees

Defendant Tracy Michelle Roach, former Section 8 coordinator for the City of **York, SC** Housing Authority, was sentenced in Federal Court for the District of South Carolina to 15 months confinement and three years supervised release, ordered to pay \$98,457 in restitution, and fined \$100. Roach previously pled guilty to embezzling over \$98,000 in federal funds for her personal use. She embezzled the funds by writing duplicate housing assistance payment checks to Section 8 landlords.

In **Rochester, NY**, in Federal Court for the Western District of New York, defendant Mark Fulmer, a former housing rehabilitation specialist for the Rochester Housing Authority, pled guilty to one count of filing a false income tax return. Between 1993 and 1999, Fulmer solicited and received kickbacks from Authority contractors. Fulmer either increased the contract amount, which allowed the contractors to complete the work at full salary with an additional amount remaining for Fulmer, or gave them a job that required little or no work. Fulmer received a sentence concurrent with a previous sentence. In May 2002, he was sentenced to five years probation, six months home confinement, and 200 hours of community service, and was ordered to pay \$90,000 in restitution to HUD. In addition, Fulmer will have to pay tax on the \$90,000 he received plus interest and penalties that will be determined by the IRS.

In **Hartselle, AL**, in Federal Court for the Northern District of Alabama, defendant Brenda Ford, former executive director of the Regional Housing Authority of Lawrence, Cullman, and Morgan Counties, was sentenced to 10 months incarceration and 36 months supervised release, and ordered to pay \$50,000 in restitution. Ford previously pled guilty to making false statements to HUD. She used Authority funds for her personal benefit.

In **Reno, NV**, in Federal Court, District of Nevada, defendant Shannon Thompson, a former employee of the Te-Moak Indian Housing Authority, was sentenced to 10 months incarceration and three years supervised release, and ordered to pay \$29,999 in restitution. Between July and November 2001, Thompson embezzled approximately \$30,000 of Housing Authority funds for his own use. He previously pled guilty to one count of embezzlement from a Tribal organization.

Defendant Julio Perez, III, former Housing Authority of **Corpus Christi, TX** (HACC) manager of information systems, was sentenced in Federal Court for the Southern District of Texas to 18 months in prison and three years supervised release, and ordered to pay \$25,000 in restitution, a \$3,000 fine, and a \$100 special assessment fee. Perez pled guilty in February 2003 to theft or bribery concerning programs receiving federal funds. Perez embezzled \$133,645 from the HACC, committed wire fraud, and laundered funds through his wife's financial institution. He devised a scheme to obtain money from HACC through a commercial bribery scam in which he influenced the HACC board of directors in connection with the awarding of a computer upgrade contract. As part of the bribery scheme, Perez was treated by *Pantex Computers, Inc.*, as an independent "consultant" and received kickbacks in exchange for his influence.

In **New York, NY**, in Federal Court for the Southern District of New York, defendant Robert Swinton was sentenced to one year and one day in jail, three years supervised release, and \$20,500 in restitution. Swinton pled guilty in March 2003 to extortion. While serving as deputy director of the New York City Housing Authority's Department of Facility Planning, Swinton attempted to extort \$28,000 in cash from a Harlem shopkeeper whose store was located in Rangel Houses, a HUD subsidized residence.

Defendant Janelle Johnson was sentenced in **Albuquerque, NM**, in U.S. District Court for the District of New Mexico, to six months home detention and five years probation, and ordered to pay \$15,851 in restitution. Between July 1999 and April 2001, while employed as the executive direc-

tor of the Maxwell Housing Authority, Johnson stole tenant rent proceeds and caused herself to receive salary overpayments.

Defendant Brian Panich, the former executive director of the **Liberty, NY** Housing Authority, was sentenced in Federal Court, Southern District of New York, to two years probation for theft or bribery concerning Section 8 Program funds. From 1997 to 2001, as executive director, Panich used \$22,000 in Section 8 funds as personal loans to himself.

In **St. Louis, MO**, defendant Lesa Gruber, former executive director of the Oran Housing Authority, signed a pretrial agreement in which she admitted embezzling funds from HUD's Section 8 Program while she was the executive director. Gruber embezzled the funds by cashing unauthorized checks made payable to herself and drawn on the Authority's account. She also embezzled funds by cashing Section 8 portability checks written to the Oran Housing Authority from the Chaffee Housing Authority. Gruber resigned her position as executive director in 1999, shortly after she admitted to OIG that she embezzled the funds and used the money to support her gambling habit. Gruber agreed to pay \$17,646 in restitution.

Defendant Patricia Wilson-Heath was sentenced in **New Haven, CT**, in U.S. District Court for the District of Connecticut, to five years probation, three months of which must be served in home confinement with electronic monitoring, 100 hours of community service, and restitution of \$13,812 to the Housing Authority of the City of New Haven (HANH). Wilson-Heath, a former HANH employee, previously pled guilty to an information on one count of theft and conversion of government funds. While employed at the HANH, she accessed the computer records of certain landlords and altered the information, causing HANH checks to be issued to her sister in Florida under the payee identification numbers of those landlords.

Defendant Eddy Lee Summers, former deputy executive director of the Wheeling Housing Authority (WHA), was sentenced in **Wheeling, WV**, in U.S. District Court for the Northern District of

West Virginia, to two years supervised probation and ordered to pay \$1,100 in fines and court costs. Summers previously pled guilty to embezzling \$3,496 from the WHA's petty cash account by submitting falsified invoices for equipment and services. Summers furthered the fraud by identifying these expenditures as emergencies and by-passing the WHA's financial control system. Summers was also ordered to pay \$12,240 in restitution, which includes petty cash reimbursement, legal expenses, and fees for the forensic audit conducted at the WHA. The investigation was initiated after finance representatives from the WHA noticed inconsistencies as well as an inordinate amount of "emergency" expenditures made by Summers.

Defendant Carol Pagaduan, former Port Gamble S'Klallam Tribe Housing Authority staff accountant, was sentenced in **Seattle, WA**, in Federal Court for the Western District of Washington, to five years supervised probation and was ordered to pay \$9,591 in restitution. Pagaduan previously pled guilty to one count of theft of federal program funds. While employed as the staff accountant, Pagaduan used her position to embezzle \$9,591 in rent funds. These funds were received in cash from Housing Authority tenants; the funds were stolen between November 2001 and May 2002.

Defendant Rhonda Jenkins, former executive director of the Clay County Housing Authority, and defendant Velma Kathryn Ray, a friend of Jenkins, were sentenced in **Little Rock, AR**, in U.S. District Court for the Eastern District of Arkansas, to 10 months imprisonment and 36 months probation, and were ordered to pay \$50,158 in restitution. Defendant Greg Ray signed a pretrial diversion agreement with the U.S. District Court, Eastern District of Arkansas, admitting to embezzlement and conspiracy to embezzle funds from the Clay County Housing Authority. Greg Ray agreed to pay \$3,619 in restitution in return for 18 months of deferred adjudication. The defendants established Section 8 accounts in the names of fictitious landlords/tenants, wrote Authority checks payable to the fictitious landlords, and received and cashed these checks for their personal use. Jenkins also used the Authority's credit card for personal purchases.

In a related case, defendant Jeffery Midgett was sentenced in U.S. District Court for the Eastern District of Arkansas to 24 months probation and restitution of \$1,469. Midgett, the boyfriend of Rhonda Jenkins, previously pled guilty to one count of submitting false statements to HUD. Although Midgett was not qualified to receive housing assistance, Jenkins provided Midgett with rent-free housing by tendering Section 8 checks belonging to the Authority to Midgett's landlord. On HUD benefit certification forms, Jenkins and Midgett listed as the tenants of Midgett's residence other individuals who qualified for housing assistance.

Also in a related case, defendant Joyce Goodman was sentenced in U.S. District Court for the Eastern District of Arkansas to 24 months probation and was ordered to pay \$2,815 in restitution and a \$250 fine. Goodman, a friend of Rhonda Jenkins and the property manager for Corning Farm Supply, a landlord in Clay County, AR, previously pled guilty to one count of submitting false statements to HUD. Acting in her capacity as property manager, Goodman knowingly allowed Jenkins and Midgett to occupy a residence in Corning. At the same time, she listed other individuals as tenants for this residence and accepted Section 8 checks in the names of these fictitious tenants.

Defendant Angelica White signed a pretrial diversion agreement in **Little Rock, AR**, in Federal Court for the Eastern District of Arkansas, admitting to embezzling funds from the Clay County Housing Authority and failing to report the embezzlement of funds by others. White agreed to participate in a substance abuse treatment program and pay restitution of \$2,673 in return for 18 months of deferred adjudication. From August 2001 to March 2002, White, along with others, including the executive director, created false Section 8 landlords and tenants in the Authority's books and records. They then received payments from the Authority in the names of the false landlords and used the funds for their personal benefit.

Defendant Brenda Ford pled guilty in **Huntsville, AL**, in U.S. District Court for the Northern District of Alabama, to two counts of theft of government funds and two counts of false state-

ments. Ford, the former executive director of the Hartselle Housing Authority, was previously charged with theft of HUD funds from the Authority. She was ordered to pay \$50,000 in restitution.

In **Philadelphia, PA**, defendant Charmaine Mabry pled guilty in U.S. District Court for the Eastern District of Pennsylvania to extortion under color of the official right (Hobbs Act), conspiracy to commit an offense against the United States, and theft concerning a program receiving federal funds. Mabry, a former Philadelphia Housing Authority Section 8 eligibility specialist, received bribes in return for manipulating and bypassing the Authority's Section 8 lottery system, which is intended to be used to fairly and properly select eligible Section 8 recipients. This allowed each recipient to illegally obtain Section 8 vouchers. In addition, Mabry was suspended from participation in procurement and non-procurement transactions as a participant or principal with HUD and throughout the Executive Branch of the Federal Government.

Section 8 recipients Adrienne Albright, Vernell Devan, Delores Dolison, Dorris McCullough, Charles Moore, and Cornetha Sneed each pled guilty to conspiracy to commit an offense against the United States and theft concerning a program receiving federal funds. The individuals paid Mabry bribes ranging from \$400 to \$1,000. As a result of this fraud, Section 8 vouchers in excess of \$74,000 were fraudulently paid on behalf of these individuals.

In **Eden, NC**, in Federal Court for the Middle District of North Carolina, defendant April Deese, a former Section 8 manager, pled guilty to two counts of theft of government funds. Deese was the on-site manager for five housing complexes, two of which were Section 8 developments. From 1999 to 2001, Deese deposited tenant rents in her personal bank account and used the funds for her own benefit. She caused a loss of approximately \$55,000 to HUD.

Defendant Theresa Coughlin, a former employee of the Housing Authority of **Lycoming County, PA**, pled guilty in the Lycoming County Court of Common Pleas to one consolidated felony

count of theft by failure to make required disposition of funds received. Coughlin had been charged with 208 counts of theft for failure to make required disposition of funds, tampering with public records, and receiving stolen property. She was employed as the housing coordinator at the Pennvale public housing development when the thefts occurred. Coughlin stole the cash rent payments that she had received from tenants, and lowered the rents for other tenants without justification or authorization. The Housing Authority suffered a loss of approximately \$28,000.

Defendant Antonio Essex pled guilty in **St. Louis, MO**, in Federal Court, Eastern District of Missouri, to 14 counts of theft of government funds. Essex admitted that he stole funds from the HUD funded Clinton-Peabody Tenant Association. He obtained Association checks, had the checks made out in his name, personally endorsed the checks, and cashed them at various locations. The total amount of the theft was \$5,450.

Defendant Susan Adams, executive director of the Auburn Housing Authority, was indicted in **Auburn, NE**, in Federal Court for the District of Nebraska, on one count of embezzlement. Adams embezzled \$15,881 from the Authority by fraudulently receiving duplicate paychecks. She also submitted vouchers and received multiple reimbursements for the same business expenses.

Defendants Joe R. Calabaza, Jerry B. Nieto, Howard Tenorio, and Lorenzo F. Coriz were indicted in **Albuquerque, NM**, in Federal Court for the District of New Mexico. Each defendant was charged with one count of conspiracy. In addition, they were all charged with embezzlement and theft from Indian Tribal Organizations and aiding and abetting; Calabaza was charged with 29 counts, Nieto with one count, Tenorio with two counts, and Coriz with three counts. The four were also charged with theft of federal program funds; Calabaza was charged with 10 counts, Nieto with one count, Tenorio with one count, and Coriz with three counts. Calabaza, who is a the former executive director of the Santo Domingo Tribal Housing Authority (SDTHA), and Nieto, Tenorio and Coriz, who are former SDTHA board members, allegedly

embezzled over \$200,000 from SDTHA. Most of the embezzled money came from a SDTHA bank account that the defendants opened with SDTHA/HUD funds. The account was set up solely for their personal use. Calabaza would make the cash withdrawals from the account and then distribute some of the funds to the other three defendants. On several occasions, the other three defendants also made some of the cash withdrawals themselves. When the funds in the account ran low, the defendants transferred additional money from other SDTHA bank accounts. The embezzled money was used by the four defendants for personal expenses and entertainment, including gambling, vehicle purchases, and payment of personal debts.

In **New Orleans, LA**, in Federal Court for the Eastern District of Louisiana, defendant Debra Smith, the former Section 8 housing assistance manager for the Housing Authority of Bogalusa, was charged in a three-count information with submitting false statements to HUD. From January 1997 to March 1999, Smith allegedly used her position to create and approve fraudulent Section 8 housing assistance payment contracts in the names of family and friends. The scheme resulted in the payment of approximately \$25,000 in fraudulent Section 8 assistance to landlords who are Smith's relatives.

Defendant Paul Howard was indicted in Platte County District Court on one count of felony theft. Howard stole a credit card from the Housing Authority of **Kansas City, MO** (HAKC), upon termination of his employment in July 2002. From the date of his termination through October 2002, Howard stole \$12,179 from the HAKC by using the credit card to obtain gas, cash, and other miscellaneous items.

Defendants Wilfred Nieto and his wife Laura Nieto, also known as Laura Tapp, were indicted in **Oklahoma City, OK**, in Federal Court for the Western District of Oklahoma, on charges of conspiracy, theft from an Indian Tribal Agency, and aiding and abetting. An investigation disclosed that while acting as the executive director of the Wichita Indian Housing Authority, Wilfred Nieto set up a fictitious company identified as the Native Ameri-

can Processing Center. Wilfred Nieto designated his wife as the president of this fictitious company, and then generated Indian Housing Authority checks payable to the fictitious company. He hand carried these checks to his wife. At Wilfred Nieto's direction, Laura Nieto cashed multiple fraudulent checks and returned the cash proceeds to her husband. The loss to the government is \$7,500.

In **New York, NY**, defendants Jacquelyn Rogers, Lakisha O'Neal, and Wanda Bonilla were arrested and charged in State Court with grand larceny in the third degree. The defendants used their ATM cards to withdraw funds from the Municipal Credit Union (MCU). The MCU computer systems were disabled during the World Trade Center (WTC) attacks in September 2001. As a result, there was no limit on the amount of funds that could be withdrawn. These individuals withdrew the money during the weeks following the WTC attacks. The funds withdrawn were far in excess of the defendants' account balances. Rogers is an employee at the New York City Housing Authority (NYCHA), and O'Neal and Bonilla are NYCHA tenants.

In a related case, 68 individuals were arrested and charged in State Court with grand larceny in the third degree. These individuals also used their ATM cards to withdraw funds from the MCU in excess of their account balances. Of the 68 individuals, the following NYCHA employees were arrested: Maritza Diaz, Quanbie Green, Ronald Lyons, Lamont McCorkle, Jose A. Ramos, Lance John Stephenson, Rhasheeda Thigpen, and Charles Williams. Twenty of the arrestees were NYCHA tenants: Gigi Lofton, Paul Williams, Ingrid Carter, Belinda Robinson, Kim Ward, Latayna Simpson, Yolanda Dixon, Rosalyn Stevenson, Theresa Alcantaro, Angela Wiggins, Kamau Christian, Alan Godfrey, Regina Wooden, William Polanco, Louise Davis, Pamela Harvell, Mario Osman, Bowana Robinson, Roheen Oats, and Kim Darkins.

In another related case, defendants Addie Moses, Charise Stewart, and Keshia Nimmons were arrested and charged in State Court with grand larceny in the third degree. The defendants used their ATM cards to withdraw funds from the MCU in excess of their account balances. Stewart and

Nimmons were NYCHA employees, while Moses was a NYCHA tenant.

Defendant Beverly Lewis, former executive director of the Housing Authority of the City of **Canton, GA**, voluntarily surrendered to the City of Canton Police Department. Lewis was charged in State Court, Cherokee County, with theft for unlawfully appropriating a property belonging to the Housing Authority. Lewis resigned as executive director on May 14, 2003, after a fee accountant discovered that she had inappropriately used the Authority's credit card for personal use.

In **Berlin, CT**, defendant Denise Guite was arrested pursuant to a Connecticut State arrest warrant on 11 counts of larceny in the first degree and four counts of larceny in the second degree. Guite, the former executive director of the Berlin Housing Authority, allegedly embezzled \$111,422 from the Authority between November 2000 and November 2002. This dollar amount includes cash withdrawals, unauthorized retail purchases, unauthorized travel, and excess wages.

The **San Angelo, TX** Housing Authority board of commissioners fired defendant Alex Tafolla, executive director of the San Angelo Housing Authority. The firing followed months of allegations of mismanagement and abuse, findings by the OIG, and reports by the accounting firm Webb and Webb. The commissioners began formal proceedings to discipline Tafolla and Mark Lambert, assistant director of the Housing Authority, in June. Lambert submitted his resignation on July 21, before the commissioners could take any disciplinary action against him.

OIG highlighted several incidents including a conflict of interest that arose when Lambert's company, *Hard Drive Cafe*, sold goods and services to the Authority. OIG also reported that the Authority expended \$76,800 in unsupported grant funds on constructing duplexes, and failed to use minimal Environmental Protection Agency mold remediation safety standards. The Webb report, which was conducted at the request of the board, found duplicate employee reimbursements for gas purchases and mileage, \$160,000 in unreported payments to

the IRS, and unapproved retroactive pay raises for Tafolla and Lambert.

In **Little Rock, AR**, HUD sent the former executive director of the Clarksville Housing Authority, defendant Gregory Wilson, a notice of suspension from participation in procurement and non-procurement transactions as a participant or principal with HUD and throughout the Executive Branch of the Federal Government. This action was based on a criminal information filed in the Circuit Court of Pope County. Wilson was arrested for possession and sale of illicit drugs both on and off Clarksville Housing Authority property.

Defendant George Douglas Linicomn, former executive director of the **Corsicana, TX** Housing Authority (CHA), was notified that HUD has placed him on immediate suspension 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 was based on his indictment on one count of theft by a public servant (\$1,500 or more but less than \$20,000). Linicomn admitted his wrongdoing to the HUD Office of Public Housing in Fort Worth, as well as the CHA board of directors, after an investigation revealed that he had CHA property in his possession.

Tenants

In **Staten Island, NY**, six individuals were sentenced and another pled guilty in Federal Court, Eastern District of New York, for their involvement in providing false statements to the management company of Parkhill, a Section 8 housing development, during the annual recertification process. The investigation disclosed that a number of these rental assistance recipients were in fact homeowners who lived in other parts of the United States. They traveled back to Staten Island once a year to participate in the recertification process.

Bamidele T. Lawal was sentenced to 16 months incarceration and 36 months supervised release, and ordered to pay \$77,674 in restitution. Vincent E. Esoga was sentenced to five months incarceration and five months house detention. He also received 36 months supervised release to run

concurrently, and was ordered to pay \$74,438 in restitution and \$3,000 in fines. Presley A. Hanson and Stephen Freeman were sentenced to two years probation for mail fraud and ordered to pay \$44,604 in restitution. Jeneba Swaray was sentenced to three years probation and ordered to pay \$41,888 in restitution. Joy Pope pled guilty to mail fraud.

In **Canton, OH**, defendant Berniece Jackson was sentenced in Stark County Court to three years in prison for masterminding a fraud scheme. Three additional defendants, Elijah Baldwin, Latasha Stokes, and Evette Brown, were placed on three years probation and ordered to serve 200 hours of community service.

As part of the scheme, bank account numbers of the Stark Metropolitan Housing Authority (SMHA) were used to counterfeit SMHA checks. The counterfeit checks were subsequently used to buy computer equipment, which in turn was used to print more fictitious checks. The scam caused a loss to SMHA in excess of \$45,000. Investigators believe the defendants were able to garner the SMHA bank account numbers via utility checks sent to public housing residents to assist them with paying utility bills.

In **Chicago, IL**, defendant Marjorie L. Butler, a Section 8 tenant, pled guilty in Cook County Court to a State of Illinois felony count of forgery. Butler admitted that she did not disclose her and her boyfriend's income during her Section 8 recertification for the years 2000 through 2002, during which time she was employed and earning more than \$40,000 per year. She received \$36,346 in HUD Section 8 benefits to which she was not entitled. Butler was sentenced to 30 months probation and ordered to pay \$36,346 in restitution.

Defendants Wanda Rhodes and Mathew White, former Section 8 tenants at the Freeport Housing Authority, were sentenced in **Brooklyn, NY**, in Federal Court for the Southern District of New York, to five years probation and six months home confinement, and were ordered to pay \$32,828 in restitution to the Authority and a \$100 special assessment. White and Rhodes previously pled guilty to conspiracy to commit mail fraud. In

addition to underreporting their income, they purchased a home with an FHA insured mortgage while receiving Section rental assistance. They then used their Section 8 subsidy to pay their monthly mortgage payments. The defendants also admitted to conspiring to submit false documentation in order to qualify for the FHA insured mortgage and using the mail to help further the fraud scheme.

In **St. Louis, MO**, defendant Annie Dismuke, also known as Annie Cistrunk, was sentenced in Federal Court, Eastern District of Missouri, to four months home confinement and five years probation, and ordered to pay \$29,651 in restitution. Dismuke, a Section 8 tenant, received rental assistance under one Social Security number while working under a Social Security number belonging to a different individual. She also obtained vehicle loans and opened bank accounts under the same false Social Security number. Her sentence was based on her plea of guilty to one count of making false statements to HUD.

In **St. Louis, MO**, in Federal Court for the Eastern District of Missouri, defendant Bryant Butler was sentenced to five years probation and ordered to pay \$27,599 in restitution to the St. Louis County Housing Authority. Butler previously pled guilty to a three-count indictment charging him with making false statements to HUD. Bryant received Section 8 rental assistance from 1994 to 2001 under one Social Security number while working full-time under a different Social Security number. He failed to report his employment income, thereby causing a \$27,599 loss to HUD.

Defendant Christy Murchinson, also known as Christy Miller, was sentenced in **St. Louis, MO**, in Federal Court for the Eastern District of Missouri, to seven months imprisonment and three years probation, and ordered to pay \$24,416 in restitution to the St. Louis County Housing Authority. Murchinson previously pled guilty to one count of making false statements to HUD. According to Housing Authority records, Murchinson was an unemployed single mother receiving Section 8 rental assistance. An investigation disclosed that she was in fact employed, earning \$18 per hour and married to a firefighter who earned \$75,000 per

year. Murchinson also used a false Social Security number to purchase a vehicle and a computer. She later filed a Chapter 7 bankruptcy petition using the same false Social Security number in which she listed over \$100,000 in debts.

Defendants Monizha Karimi, a Section 8 landlord, and Shah Lal, a Section 8 tenant, pled guilty and were sentenced in Dakota County Court, **Burnsville, MN**. Both defendants were sentenced to four years probation and ordered to jointly pay \$22,116 in restitution. Karimi was also sentenced to 45 days of electronic home monitoring, while Lal was sentenced to 25 days of home confinement. Karimi, as a landlord, collected Section 8 benefits on behalf of Lal in spite of the fact that the property was being subleased to a non-Section 8 tenant. The defendants actually occupied another Section 8 unit that belonged to another family member, who has yet to be charged in this case.

In **Cleveland, OH**, defendant Charmane Lowe was sentenced in Federal Court, Northern District of Ohio, to three years probation and was ordered to pay the Cuyahoga Metropolitan Housing Authority (CMHA) \$20,410 in restitution after pleading guilty to one count of mail fraud. In 1999, Lowe applied for a mortgage loan using her minor daughter's name, Social Security number, and credit. She used associates to act as Section 8 landlords and funnel housing assistance payments back to her while she was the Section 8 tenant. The loan was brokered by *Bevel, Bevel & Associates*. Between July 1999 and July 2002, Lowe fraudulently received \$20,410 in Section 8 rental assistance payments by falsely claiming to be a tenant of the property she actually purchased and owned.

Former Section 8 recipient Helen Elliott was sentenced in **Charlottesville, VA**, in U.S. District Court, Western District of Virginia, to five years probation and four months home confinement, and was ordered to pay \$16,439 in restitution to HUD. Elliott failed to report income from her principal employer over a four-year period when recertifying for her Section 8 assistance. The defendant previously pled guilty to one count of making false statements to HUD.

Defendant Tonya Bolden pled guilty in State District Court in **Houston, TX**, to a criminal complaint of theft that was filed on May 19, 2003. Bolden was sentenced on the same day to five years probation, fined \$300, and ordered to pay \$16,149 to the Housing Authority of the City of Houston (HACH). On May 6, 2003, Bolden received in error a \$16,149 check from the Houston Housing Assistance Partnership (HHAP), which is the Section 8 contractor for HACH. Bolden was notified by HHAP on several occasions that the funds were mistakenly sent to her and was advised that she needed to return the funds; Bolden refused.

In **Topeka, KS**, in Federal Court for the District of Kansas, defendant Verel T. Westover was sentenced to one year and one day in prison and two years supervised release, and was ordered to pay \$15,200 in restitution for making false statements to obtain rental subsidies and food stamps. Westover was involved in a scheme to obtain rental assistance from HUD and food stamps from the Department of Agriculture Food Stamp Program by submitting statements indicating that he was unemployed when in fact he was employed as a truck driver.

Defendant Daisy Womack, a Section 8 tenant, pled guilty in Commonwealth of Pennsylvania State Court to one count of theft by deception and was sentenced to 60 months supervised release and ordered to pay \$14,492 in restitution to the **Philadelphia, PA** Housing Authority (PHA). An investigation found that Womack fraudulently obtained housing assistance payments to which she was not entitled. Between September 1999 and March 2003, Womack concealed her assets from the PHA, including the cash purchase of four Philadelphia homes. During this time, she was receiving Section 8 benefits. The PHA confirmed that Womack never disclosed the purchase of the homes when she signed her recertification forms.

In **Fort Worth, TX**, defendant Christi Michelle Wright pled guilty in Tarrant County State Court to two separate indictments. In the first indictment, Wright pled guilty to a state jail felony charge of making false statements to HUD on her application for housing assistance. Based on these false state-

ments, she received \$13,706 in Section 8 benefits to which she was not entitled. Following the second indictment, Wright pled guilty to a third degree felony for making false statements to the Texas Department of Human Services (TDHS) on her application for assistance by failing to report her live-in boyfriend and his income. Based on these false statements, she received \$24,134 in Texas Aid for Needy Families assistance to which she was not entitled. Wright was sentenced to five years probation and restitution of \$13,706 on the HUD charge, and 10 years probation and restitution of \$24,134 on the TDHS charge. Her probation will run concurrently.

In **Rockville, MD**, defendant Anita Cowan, a former Montgomery County Housing Opportunities Commission (HOC) tenant, was sentenced in Maryland State Court on felony theft charges. She received five years probation and was ordered to pay \$11,760 in restitution to the public housing agency. An investigation disclosed that from March 2001 through April 2002, Cowan failed to report to the HOC that, along with her husband, she purchased an FHA insured property. Cowan also failed to report the income that she received from other family members when she subleased her subsidized unit to them. Cowan's Section 8 housing assistance was terminated.

In **Columbia, MO**, in Federal Court for the Western District of Missouri, defendant Christina Berruz entered into a pre-trial diversion agreement. Berruz, a Section 8 tenant, failed to report her income to the Columbia Housing Authority. She previously admitted to providing false statements to the Authority to intentionally misrepresent her household income in order to qualify for assistance to which she was not entitled. According to the agreement, Berruz will be on a 12-month diversion program and will pay \$8,084 in restitution.

In **Cleveland, OH**, in Federal Court for the Northern District of Ohio, defendant Aubrey Benjamin was sentenced following his guilty plea to fraudulently accepting \$7,663 in Section 8 funds. He received five months in prison and two years supervised release, was fined \$3,000, and was ordered to pay \$7,663 in restitution to the

Cuyahoga Metropolitan Housing Authority (CMHA). Benjamin acted as the Section 8 landlord of a single family property that he acquired with an FHA insured mortgage. He also lived in the FHA insured property while falsifying Section 8 documents, submitted to the CMHA, regarding his true address. Benjamin's girlfriend, Pamela Phillips, also resided with him at the FHA insured property as a Section 8 tenant. This case is noteworthy from the standpoint that while Benjamin was on trial for drug offenses, he admitted to the HUD fraud during his testimony.

In **Norfolk, NE**, defendant Laurie Vaughn, a Section 8 tenant, was sentenced in Madison County District Court to 24 months probation and ordered to pay \$7,635 in restitution after being charged with one count of theft by deception. Vaughn defrauded the Norfolk Housing Authority by failing to accurately report her household income.

Defendant Aimee Mostek, a Section 8 tenant of the Columbus Housing Authority, was sentenced in Polk County District Court, **Osceola, NE**, on one count of theft by deception. She received 24 months probation and 120 hours of community service, and was ordered to pay \$7,140 in restitution. Mostek was initially charged for failing to report her correct household income and composition to the Columbus Housing Authority. She did not report her employment as well as the income generated by subleasing a portion of her residence. The total loss to the government is \$7,140.

Defendant Larry Stewart, a former **Cambridge, MD** Housing Authority (CHA) Section 8 tenant, pled guilty in Dorchester County District Court to felony theft charges and was sentenced 30 days incarceration and two years probation, and ordered to pay \$7,000 in restitution to the CHA. From August 1998 through November 2001, Stewart failed to disclose on official recertification forms his employment at a local automobile shop. His fraudulent activity was discovered when a CHA official completed a random check of the Maryland Department of Labor and Licensing files, which disclosed that Stewart had been employed since May 1999. Stewart was terminated from the Section 8 Program by the CHA.

Defendant Marilyn Stone was sentenced in State Superior Court, **Nevada County, CA**, to 120 days in jail, three years probation, fined \$870, and ordered to pay \$5,312 in restitution to the County of Nevada. Stone failed to disclose to the Nevada County Housing and Community Development and Human Services Agency that she had signed over care, custody, and control of her daughter. Stone signed annual certifications that her household composition had not changed and that her daughter still lived with her. An investigation disclosed that Stone provided false statements to the Authority and the Human Services Department.

In **Milford, OH**, after being charged in Clermont County Court with theft by deception for failure to report her correct household income and/or composition, defendant Flora Nicolazzo, a Section 8 tenant, pled guilty to a lesser count of misdemeanor theft. Nicolazzo also admitted to defrauding the Clermont County Office of Job and Family Services and the Social Security Administration. Specifically, she failed to inform the Clermont Metropolitan Housing Authority that her husband, who was employed, lived with her in the Section 8 unit. On the day of her plea, Nicolazzo was sentenced to Clermont County jail for 180 days, with 180 days suspended, and five years probation. She was also ordered to pay \$4,027 to the Authority.

In **Batavia, OH**, defendants Anne and Dwayne Hunt, Section 8 tenants, pled guilty and were sentenced in Clermont County Court for their role in benefits fraud against the Clermont Metropolitan Housing Authority. Specifically, they failed to report their correct earnings to the Authority. They were each sentenced to five years probation and ordered to pay joint restitution of \$4,569.

In **Fort Worth, TX**, in Federal Court for the Northern District of Texas, defendant Cecilia A. Rosales was charged with violating her probation and was arrested. Rosales was sentenced to five years probation after pleading guilty on February 26, 2001, to making false statements to HUD on her Section 8 application and recertifications. The false statements included her income and family composition. This resulted in a \$24,337 loss to the Department.

In **Brooklyn, NY**, defendant Vivien Carter, a former Section 8 tenant, signed a deferred prosecution agreement for a term of one year. The U.S. Attorney for the Southern District of New York and the defense agreed to an arrangement for Carter to pay full restitution of the amount owed and declined to prosecute Carter due to the relatively small amount of money involved (\$5,974). Carter was accused of underreporting her income to the New York City Housing Authority in order to receive Section 8 rental assistance.

Defendant Dawn Kirkley pled guilty in **St. Augustine, FL**, in State Court for the Northern District of Florida, to public assistance fraud and was sentenced to 18 months probation and ordered to pay \$3,500 in restitution. Kirkley previously pled guilty to making false statements and housing fraud and was ordered to pay \$4,404 in restitution. She failed to comply with the order, and a state warrant was issued for her arrest. Kirkley was arrested while residing in Flagler Village Apartments, a HUD Section 8 complex.

Defendant Priscilla French, a Section 8 tenant, was sentenced in **Nashville, TN**, in State Court, Middle District of Tennessee, for reporting false income to the Metropolitan Development and Housing Agency, resulting in a \$13,832 overpayment of Section 8 assistance. French was sentenced to two years (suspended), two years supervised probation, and ordered to perform 240 hours of community service in lieu of restitution.

Defendants Marilyn Williams, Anthony Williams, Tonya Denise Wiggins, Sherry Alexis Washington and Tanisha Scott were each sentenced in **Jacksonville, FL**, in State Court for the Northern District of Florida, on public assistance fraud charges. Marilyn Williams was sentenced to five years probation, ordered to pay \$7,228 in restitution, and fined \$350. Anthony Williams received one-year probation and was ordered to pay \$772 in restitution and \$298 in fines. Tonya Denise Wiggins was sentenced to two years probation, ordered to pay \$660 in restitution, and fined \$323. Sherry Alexis Washington was sentenced to two days incarceration and ordered to pay \$606 in restitution to the Jacksonville Housing Authority and \$276 in

finances and court costs. Scott was sentenced to six months supervised probation and 15 hours of community service, and ordered to pay \$229 in restitution to the Authority and \$505 in fines and court costs.

On the same day, defendant Belinda Collins was sentenced for felony public assistance fraud to five years probation and ordered to pay \$5,042 in restitution to the Authority and \$506 in fines and court costs. Collins also provided false statements to receive Section 8 assistance to which she was not entitled. Also, defendant Latrell Rena Boykins failed to appear for her pre-trial hearing for felony public assistance fraud. A warrant has been issued for her arrest.

Other individuals have been arrested and charged in this case. The defendants included Latasha Mobley, Linda Montfort, Mounita Plant, Ethel Steward, Sherry Washington, Michelle Marshall, Tanika Harris, and Maria Collins. They were charged in State Court, Middle District of Florida.

In **Kansas City, MO**, defendant Jacqueline S. Ferguson pled guilty in Clinton County District Court to stealing by deceit. She was sentenced to five years probation and was ordered to pay restitution for the entire amount of the theft. Ferguson fraudulently received Section 8 benefits from ABCD Public Housing Agency and the State of Missouri. The total loss to the government is \$30,904.

Defendant Sheryl Cannamore pled guilty in **St. Louis, MO**, in Federal Court for the Eastern District of Missouri, to making false statements on public housing recertification forms and applications for food stamp benefits. Cannamore, a resident of the Clinton-Peabody public housing development, failed to report her income as a full-time employee of the Federal Reserve Bank of St. Louis on her annual tenant recertifications. She listed her only income as monthly cash grants from the Missouri Department of Social Services. Housing benefit overpayments for Cannamore for the period July 1994 through April 2002 amounted to \$28,569. The amount of overpayment of Cannamore's food stamp benefits for 1996 through 2002 was \$17,789, while the amount of overpay-

ment of monthly cash grants from the Missouri Division of Family Services was \$34,964.

The following residents of the **Yonkers, NY** Municipal Housing Authority have made or are suspected of making false statements to HUD and the Authority:

Defendant Thelma Young pled guilty in Federal Court for the Southern District of New York to theft of government funds. The defendant defrauded the Section 8 Program since 1996 by concealing her employment income from the management agent of the East River Houses, causing a \$7,000 overpayment of Section 8 assistance.

Defendants Shelli Phoenix and Shirley Jones pled guilty to federal benefits fraud. Phoenix held two rent subsidized apartments and failed to disclose her true income to the Housing Authority. Jones, who lived in one of the apartments, benefited from the fraud.

Defendants Amara and Abdallah Makhlof were indicted on charges of theft of public money and making false statements. From July 1998 through April 2003, the defendants failed to accurately report their income and household composition to the Authority. This resulted in the overpayment of approximately \$52,705 in HUD housing subsidies.

Defendants Daifallah Rabadi, Amal Rabadi, Nouf Rabadi, Amanda Soto, Bilal Mehdawi, Lamy Makhlof, Ana Medina, Angela Montas, Enrique Perez, Giselle Baez, Augustin Scharron, Jeannette Torres, Salvatore Moliterno, Latonia and Dave Morris, Hilda Concepcion, and Nelson Henriquez were arrested on charges of theft of government funds. The defendants either provided false statements to the Authority during the annual recertification process by misrepresenting their family composition, income, and assets, or benefited from the Section 8 assistance received by those who provided the false statements. Defendant Fayroz Ahmad Assaf was arrested on charges of theft of government funds and Social Security fraud. Assaf, a Section 8 landlord, failed to inform the Authority that a tenant had moved and continued to receive Section 8 payments for this tenant for several months.

In related cases, Pamela Riddick pled guilty in Federal Court for the Southern District of New York to theft of government funds. Defendant Calvin Powell pled guilty in the same court to conversion of government funds. Defendant Kimberly King received a deferred prosecution for a term of six months. King has agreed to pay \$50 a month toward the \$300 restitution she owes, and in February 2004, she will be required to sign a confession of judgment for \$3,345, the remaining amount she owes. King previously surrendered in relation to a criminal complaint charging her with theft of federal funds for underreporting her income in order to receive Section 8 assistance to which she was not entitled.

Defendant Alberta Cowan pled guilty in **St. Louis, MO**, in Federal District Court for the Eastern District of Missouri, to one count of making a false statement to HUD. Cowan applied for and received a Section 8 rental voucher in Mexico, MO, in May 2000 and subsequently transferred the voucher to Mount Vernon, NY. She then leased a rental unit in Mount Vernon, receiving rental assistance of over \$850 per month for over two years. In reality, Cowan never moved from Missouri to New York. Cowan's daughter, who was employed and earning over \$60,000 per year, occupied the rental unit in New York. Cowan then applied for rental assistance at the Chevy Chase Apartments, a project-based HUD subsidized property in Mexico, MO, in March 2002. Between May and September 2002, HUD paid subsidy for Cowan in both Missouri and New York. Cowan made numerous false statements on her certifications, including failing to report real property, her bank accounts, a \$38,972 workers' compensation settlement, a \$27,867 disability back pay settlement, and a \$80,469 divorce settlement, all of which she received during the two-year period.

Defendants Gary and Linda Clark, Section 8 tenants, were indicted in **Sioux City, IA**, in Federal Court for the Northern District of Iowa, on one count of conspiracy to commit fraud. An investigation found that the Clarks had owned and operated a business for over 10 years. During this time period, they failed to accurately report their income on Social Security Administration and HUD certifi-

cations. The loss to the government is approximately \$146,425.

In **Wichita, KS**, in Federal Court for the District of Kansas, defendant Chaketha Johnson was indicted on two counts of making false statements to the Wichita Housing Authority. Allegedly, Johnson fraudulently received \$73,827 in rental assistance over a 12-year period. The indictment charged her with making false statements concerning household composition and unreported income for the years 1998 and 1999. This case was filed with the OIG in 2000 after the Wichita Housing Authority received an anonymous tip that Johnson's husband, DerWard Johnson, had lived with her since 1989.

In **Colorado Springs, CO**, in Federal Court for the District of Colorado, defendant Denise Souser, a former Section 8 tenant, was indicted on five counts of making false statements. Souser began receiving rental assistance from the Colorado Springs Housing Authority in 1994. On her yearly recertifications, she claimed that her only source of income was child support and/or alimony. However, an investigation disclosed that Souser had been employed as a nurse's aide since 1994. The Authority overpaid \$38,100 in rental subsidies to Souser.

Defendant Patrick E. McHugh, Jr., was indicted in **Boston, MA**, in Federal Court for the District of Massachusetts, on two counts of theft of government money. McHugh allegedly received \$33,341 in Section 8 benefits to which he was not entitled by failing to claim his accurate income on Section 8 recertifications between 1998 and 2003. McHugh also received \$65,575 in Social Security benefits to which he was not entitled.

Defendant Candy Renee Anderson, a former Section 8 tenant, pled guilty in **Richmond, CA**, in U.S. District Court for the Northern District of California, to one count of theft of government monies. Anderson failed to disclose to HUD her part-time employment from 1996 to 2001. As a result, HUD provided more than \$27,900 in overpaid Section 8 housing assistance on Anderson's behalf.

Defendant Lorraine Lobato, a former public housing tenant, was indicted in **Denver, CO**, in Federal Court for the District of Colorado, on three counts of making false statements. An investigation disclosed that Lobato's partner moved in with her in January 2001 and lived with her until the Denver Housing Authority (DHA) evicted them in May 2003. During her yearly recertifications, Lobato failed to inform the DHA that another individual resided with her; she also failed to report the individual's income. As a result of the false statements, the DHA overpaid \$18,095 in rental subsidies to Lobato.

Defendant Sandra Garcia, a Section 8 tenant, was indicted in **Chicago, IL**, by the Illinois Attorney General's Office on one count of State benefits fraud. Garcia allegedly failed to report her income and assets to HUD and the Illinois Department of Public Aid. In doing so, she received more than \$13,000 in Section 8 and public assistance benefits.

Defendant Joyce Marie Dykes, also known as Lecretta Jones and Lecretta J. Dykes, was indicted in **San Antonio, TX**, in Federal Court for the Western District of Texas, on one count of theft of public money. From January 2001 to September 2002, Dykes fraudulently received \$12,254 in Section 8 housing assistance payments. Dykes, who applied for and received Section 8 assistance at a San Antonio residence, also owned this same residence under the alias name of Lecretta Jones. The deed for the property also lists Lecretta J. Dykes as the owner. In reality, Dykes, as the Section 8 tenant, and Jones, as the Section 8 landlord, are one and the same person. In order to further the scheme, Dykes falsified owners' certification forms and Section 8 housing assistance payment contracts.

Defendant Farhan Ahmed Mohammed was indicted in **San José, CA**, in Federal Court for the Northern District of California, on two counts of false statements and one count of operating a money transmitting business without a license. An investigation disclosed that Mohammed received income and commissions from a money transmitting business in which he had an ownership. This business affected interstate and foreign commerce in that it

caused checks and money to be transmitted from the State of California to the State of Minnesota, from the State of Minnesota to Dubai, United Arab Emirates, and from Dubai to Somalia without a money transmitting license. Mohammed failed to report income and commissions received to the local housing authority, resulting in a \$11,319 loss to HUD.

In **Chicago, IL**, defendants Robert and Sabrina Guthrie, both Section 8 tenants at the DuPage Housing Authority, were indicted separately on three State of Illinois felony counts of state benefits fraud, theft, and conspiracy. The indictments allege that the defendants received excess Section 8 benefits to which they were not entitled by failing to report their full time employment and income to HUD for the period October 2001 to December 2002. The loss to HUD is approximately \$10,502.

Defendant Shereth Martin surrendered to the U.S. Marshals Service and was charged in **Newark, NJ**, in Federal Court for the District of New Jersey, with making a false statement to HUD. An investigation disclosed that Martin, an employee of the Railroad Retirement Board, resided in the Sam Sica Homes, a low-income housing development operated by the Carteret Housing Authority (CHA), from 1999 to August 2003. From July 2001 through July 2003, Martin submitted forged pay stubs from her employer, which she had altered to delineate a deduction for the repayment of sick leave, when in fact no such deduction had been taken. This fraudulent deduction appeared to lower Martin's pay, which resulted in the CHA's lowering her rent. Martin also forged a letter from her employer and a verification of employment form sent to her employer by the CHA. Based on Martin's actual income, she should have paid approximately \$10,600 more for her rent for the time period covering the fraud than she actually paid.

Defendant Evita Dawson was arrested in **Atlanta, GA**. A sealed criminal complaint was filed in the Southern District of New York charging Dawson with one count of embezzlement and theft of public money, property, or records. Dawson received \$46,901 in Section 8 subsidies to which

she was not entitled by defrauding the New York City Housing Authority while residing in Georgia.

Defendant Denise Gardner, a former Section 8 tenant at the **Philadelphia, PA** Housing Authority, was arrested and charged in the Eastern District of Pennsylvania, under Pennsylvania Criminal Code, with theft by deception, theft in general, false swearing, and unsworn falsification to authorities as a result of her lying on Section 8 eligibility documentation. An investigation disclosed that Gardner lied about her true income and suppressed the fact that she held a job with the State of Pennsylvania. She made these false statements over a period of more than five years, and caused a loss to HUD of \$34,463 before she was terminated from the Section 8 Program. In order to perpetrate the scheme, Gardner produced false income verifications from one of her sisters, who is co-owner of a New Jersey based contracting firm.

An information was filed in **Richmond, CA**, in Federal Court for the Northern District of California, charging Candy Renee Anderson with one count of theft of government monies. Anderson, a former Section 8 tenant at the Richmond Housing Authority, allegedly failed to report her part-time employment from 1996 to 2001. As a result of her nondisclosure, HUD overpaid \$27,912 in Section 8 housing assistance on Anderson's behalf.

In **Harrisburg, PA**, in Federal Court for the Middle District of Pennsylvania, a one-count information was filed against defendant Trina Hobart, a resident of Perry Manor Town Homes, a HUD assisted development. Hobart was charged with making false statements to receive Section 8 rental assistance payments to which she was not entitled. An investigation disclosed that, beginning when she applied for assistance in May 1998 and continuing over a two-year period, Hobart failed to report her annual income of at least \$55,000 from a cheerleading school that she owned. She received \$14,616 in excess rental assistance benefits.

Defendants Icelean Lockwood and Sharon Barnes, two **New York City** Housing Authority (NYCHA) tenants, were arrested in the Southern District of New York on charges of making false

statements. The defendants falsified their annual recertification forms by not declaring their salaries or the income of tenants living in their apartments, and not reporting property listed in their names. They were released on their own recognizance.

Defendant Evet Cedrez, also a NYCHA tenant, was arrested in the Eastern District of New York on federal false statement charges. Cedrez, who lived in the Grant Houses, falsified her annual recertification forms by not declaring the income of her husband, who resided with her, and the fact that he owned property. Cedrez's husband purchased property in Florida a few years ago, and was employed from 1995 through 2001. Deferred prosecution agreements are currently being prepared by the U.S. Attorney's Office, Southern District of New York, for all three defendants.

Others

In **Detroit, MI**, in Federal Court for the Eastern District of Michigan, defendant Regina Solomon, a former field office director and senior community builder for HUD and a local attorney, was sentenced to two years probation and 200 hours of community service, fined \$1,000, and ordered to pay \$300 in restitution after pleading guilty to misusing a government owned vehicle for personal use. In an earlier sentencing hearing, Solomon provided the Court with a cashier's check for \$2,863 as final restitution to a complainant in this case who lent Solomon \$5,000. Solomon used the money to pay an outstanding debt on a credit card issued for government travel only; she originally used the credit card for personal purchases. As part of a plea bargaining arrangement, Solomon agreed to leave her position at HUD.

Defendants Alfredo Schoemann, Irene Murillo, Maria Rodriguez, Norma Hernandez, Josefina Aguilar, Concepcion Padilla, Sabina Salazar, and Amalia Varela each pled guilty in Texas State Court in **El Paso, TX**, to unauthorized possession/redemption of food stamps. Schoemann was sentenced to five years probation and ordered to pay \$7,190 in restitution. Murillo, Rodriguez, and Aguilar were each sentenced to two years community supervision and ordered to pay restitution in the amounts of \$838, \$1,258, and \$210, respec-

tively. Hernandez and Padilla were each sentenced to nine months community supervision and ordered to pay restitution in the amounts of \$223 and \$997, respectively. Schoemann preyed on primarily female tenants receiving public housing in the El Paso area. He would allow tenants to cash in food stamps in exchange for cash and charge them a percentage on the total amount, which he kept for himself.

Salazar and Varela, both public housing tenants, were sentenced to nine months community supervision and ordered to pay \$361 in restitution; and two years community supervision and ordered to pay \$1,954 in restitution, respectively. They redeemed their food stamps with certain store owners and received cash instead of food, up to 50 percent of the total amount they redeemed. They ultimately failed to report their illegal proceeds to the local housing authority to determine their eligibility to receive housing.

In **Tampa, FL**, in State Court, Middle District of Florida, defendant Terrence Alonzo, doing business as *ACT Environmental and Construction Services*, was ordered to pay a \$6,000 fine for providing inadequate exhaust ventilation, lack of leak proof containers, and regulated material not adequately wet. Alonzo contracted with the Punta Gorda Housing Authority to perform asbestos removal from specific complexes.

Defendant José Rafael Padilla-Suncar, owner and president of *All Quality Roofing Corporation*, was sentenced in **San Juan, PR**, in Federal Court for the District of Puerto Rico, on charges of conspiracy, aiding and abetting, and violations of the Anti-Kickback Act. He received four months home detention and one year probation, and was fined \$5,000. Padilla-Suncar provided \$15,000 in kickback payments to Edwin Rafael Cornier-Ortiz, a management agent and president of *Erco Enterprises, Inc.*, in exchange for the awarding of a contract for the sealing and repair of roofs at a HUD subsidized public housing project at the Puerto Rico Public Housing Administration (PHPHA). Padilla-Suncar also conspired with Federico Mathew-Sepulveda, a PHPHA contract employee, to embezzle, steal, and obtain \$15,741 from the Federal Government.

Defendant Edward Zamborsky was sentenced in **White Plains, NY**, in Federal Court for the Southern District of New York, to one year and one day in prison and ordered to pay \$3,830 in restitution for soliciting and accepting bribes in exchange for inflating contracts at the Yonkers Municipal Housing Authority. Defendant Norman Scotland was also sentenced to one year probation and ordered to pay \$3,830 in restitution for accepting bribes and performing the contracting work at the Authority.

In **St. Louis, MO**, in Federal Court for the Eastern District of Missouri, defendant Dennie Washington pled guilty to one count of bank fraud for manufacturing counterfeit checks drawn on the St. Louis County Housing Authority. Washington admitted engaging in a scheme, beginning in October 2002 and continuing until April 2003, to obtain money by means of material false and fraudulent pretenses. During that time period, he created and transacted over \$80,000 in fraudulent Housing Authority checks in the St. Louis metropolitan area. Along with losses incurred by financial institutions, the St. Louis County Housing Authority lost over \$28,000 from its Section 8 account. Washington also made counterfeit checks drawn on the St. Louis City Housing Authority and Bluecross Blueshield Insurance Company.

In **Cleveland, OH**, in Federal Court for the Northern District of Ohio, defendants Donte Wade, Keona McDonald, Tina McDonald, Sylvia Kind, and Lekita Hall, who were previously charged along with nine other defendants, pled guilty. The original indictment charged the defendants with conspiracy to defraud local banks, merchants, and businesses, including the Cuyahoga Metropolitan Housing Authority (CMHA), as part of a loosely connected ring formed to counterfeit payroll and business checks. This investigation disclosed that defendant Vaden Anderson, who had recently been released from State prison for attempting to cash a counterfeit check using a false identity, sought others whom he used as “recruiters” who, in turn, would seek out individuals who were willing to provide their identification and in some cases their own bank accounts to deposit counterfeit checks which Anderson created on a home computer. Anderson, the recruiters, and the check “passers”

would then split the proceeds; Anderson received the largest share of these proceeds. Counterfeit check amounts ranged from as little as \$300 to in excess of \$16,000. Loss estimates exceed \$49,500. Other individuals indicted in the conspiracy include Gregory Carr, Tina Cannon, Preston Sales, Sharon Smith, Leona McDonald, and Sharita Clayton.

Additionally, defendant Margaret Picard was indicted in the same court on one count of bank fraud regarding two counterfeit checks deposited in her Huntington National Bank account. Allegedly, Picard used the monies for more than \$27,000 in personal expenses. Defendants Raysheen Sharp and Anthony Norman, who were included in the original indictment, pled guilty to their roles in the scheme.

In a related case, defendants James Ensley, Quintina Smith, Christine Nichols, Jennifer Johnson, Danine Harvell, and James McKinney were indicted in the same court for passing bad checks that displayed either the payroll or Section 8 bank account numbers of CMHA. The indictment alleges that legitimate CMHA checks are being used as templates for counterfeiters to manufacture bogus checks by using computerized business checking programs purchased at local office supply stores. One individual was surprised when a local tavern owner snapped his picture after recognizing him as having cashed a counterfeit check just one week prior to his attempting to cash a second bogus check. A second individual, who had been photographed by a store security camera, admitted to cashing at least 10 checks in excess of \$5,000. The total value of the counterfeit checks under this indictment exceeds \$15,000.

In **Cleveland, OH**, defendant Donna Robertson was indicted on 32 State of Ohio felony charges for her part in a conspiracy to defraud the Section 8 Rental Assistance Program. Charges included forgery, uttering, tampering with records, and obstructing justice. According to the indictment, Robertson used a false identity and knowingly signed documents posing as a landlord when in fact she knew that the “tenant” for whom the subsidy was being paid actually owned the property. The investigation also disclosed that this same “tenant” may have some ownership in a local business and

may have been the landlord for Robertson’s daughter, who was also receiving Section 8 rental assistance. The loss has been estimated at more than \$40,000.

Defendant William Hudgens, a police officer assigned to the **Cave Spring, GA** Housing Authority, was arrested based on a sworn complaint charging him in State Court with embezzling \$23,910 from the Authority. Hudgens was charged with 14 counts of theft by deception. He was given blank checks by the Authority’s director to make purchases, but instead made the checks payable to himself and deposited them in his personal bank account. The theft took place between July and December 2002.

Defendant Hud T. Thompson was charged in Maryland State Court, **Rockville, MD**, with six counts of felony theft for his role in a stolen property ring that was run out of a public housing apartment. In late 2002, Thompson ordered about \$65,000 in computer equipment using the company name “*HUD Enterprises.*” The checks he used to pay for the computer equipment were bad. The equipment was delivered via FedEx to the public housing apartment and ultimately sold. Thompson is currently incarcerated.

In **Fergus Falls, MN**, defendants Roger West and Sharon Kaiser-West, Section 8 landlords, were indicted in State Court, Ottertail County, MN. Roger West was charged with one count of theft and four counts of perjury and Sharon Kaiser-West was charged with two counts of theft and four counts of perjury. Allegedly, the Wests, who were State of Minnesota public aid recipients, claimed that no one in their household was gainfully employed or had any assets, when in reality they had over \$300,000 in assets, including the Section 8 rental unit in question and a family owned business. The Wests failed to report any of these assets when applying for public assistance. As a result, they received over \$20,835 in assistance for which they were ineligible.

Criminal Violation Initiatives

A Southwest Region Criminal Violation Initiative was created in the State of **Arkansas** to identify and remove tenants in public housing who commit fraud and other criminal violations in order that qualified individuals on the housing subsistence waiting list can be placed in housing. Pursuant to this initiative, 36 tenants were charged with criminal violations. These tenants have been evicted or are in the process of being evicted. The defendants are Vegie Anderson, Sunny Nguyen, Shirley Rideout, Shemika Thurman, Shilese Leia Scruggs, Phillis Bragg, Natasha McRay, Monica Bell, Michelle Smith, Michael Wayne Alston, Leroy Stevenson, Latoya Collins, Jessica Clark, Darreon Greer, Daniella King, Da'Anna Kennedy, Christine Ann Lester, Calvin Milo Alvarez, Belinda Jones, William Histrohaker, Teresa Porter, Sondra Robinson, Michelle Harrison, Larry D. Baker, Jaimie Lee Williams, Julia Jenkins, Jerry Dean Decht, Jeremy Walker, Ina D. McCullar, Diana Jones, DeQuene Kennedy, Dana M. Johnston, Charlene Soard, Amanda Becker, Craig Eugene Wilson, and Craig Clinton. These individuals committed the following criminal violations, among others: theft of property, battery in the third degree, domestic violence, possession of a controlled substance, delivery of a controlled substance, possession with intent to distribute a controlled substance, misdemeanor possession, breaking and entering, and domestic battery on a spouse. The investigation is continuing in order to remove the remaining tenants from the housing subsistence program and to pursue other tenants committing criminal violations on public housing property.

A Southwest Region Criminal Violation Initiative was created in **San Antonio, TX**, to identify and remove tenants and non-tenants who commit fraud and other criminal violations involving the San Antonio Housing Authority's Section 8 and Low-Income Housing Programs in order that qualified individuals on the housing subsistence waiting list can be placed in housing. Pursuant to this initiative, 13 defendants were charged with criminal violations. The defendants are Michael Franks, Cynthia Maciel, John Navejar, Rafael Lopez, Richard Rodriguez, John Gamez, Oscar

Arguello, Juan Lopez, Zenaida Garcia, Juan Jesus Alvarez, Armando Aranda, Moses Johnson, and Miguel Gonzales. These individuals were unlawfully living at various public housing developments while committing the following violations: possession and/or delivery of a controlled substance, possession with intent to distribute a controlled substance, felon in possession of a weapon, criminal trespass, aggravated robbery, possession of a prohibited weapon, possession of marijuana, and alias warrant violation. Also included were federal charges of conspiracy to possess with intent to distribute marijuana (537 pounds) and possession of marijuana (537 pounds) with intent to distribute. The investigation is continuing in order to remove tenants who assisted the violators in fraudulently residing in or utilizing public or assisted housing developments to continue their criminal activities.

A Greater Houston Housing Violation Initiative was created in **Houston, TX**, to identify and remove tenants and non-tenants who commit fraud and other criminal violations in Section 8 and Low-Income Housing Programs in order that qualified individuals on the housing subsistence waiting list can be placed in housing. Pursuant to this initiative, 17 defendants were charged with criminal violations. The defendants are: Crystal Shantel Williams, Jessica Taplin, Corina Bibbs, Demetrice Poole, Camilla Clark, Belinda Sanders, Gwendolyn Fontenot, Edward Penn, Erik Wayne Colbert, Kendrick York, Lakisha Wise, Marguisha Johnson, Pinkie Roberson, Renita Hawthorne, Theresa Garza, Angelique Johnson, and Bertha Morin. These individuals were unlawfully living at various public housing developments while committing the following violations: aggravated assault, possession of a controlled substance, assault, harassment, hindering the apprehension of a felon, aggravated assault of a family member, possession of marijuana, delivery of a controlled substance, possession with intent to distribute a controlled substance, and probation violation. The tenants were evicted or are in the process of being evicted. The investigation is continuing in order to remove tenants who assisted violators in fraudulently residing in or utilizing public or assisted housing developments to continue their criminal activities.

OIG Offices of Audit and Investigation – Joint Efforts

Defendant Juanita Norris English was sentenced in **Greenville, NC**, in U.S. District Court for the Eastern District of North Carolina, for falsifying a rental application for a former Benson Housing Authority board member. She was sentenced to six months home confinement and ordered to pay \$30,000 in restitution. English abetted and counseled former Benson Housing Authority chairperson Maxine Holley in making a materially false, fictitious and fraudulent statement in an application for continued occupancy in public housing. Holley pled guilty in February 2002 to a one-count criminal information and was sentenced to two years probation, six months home confinement, and 100 hours of community service, and was ordered to pay \$48,762 in restitution to the Benson Housing Authority.

English served as Housing Authority director from 1992 until January 2000, when she resigned. An OIG audit revealed that English misspent \$1.6 million in federal money, including nearly \$1 million she paid to *Turnage Construction Company* for general construction work without bids or a written contract. In violation of conflict of interest restrictions, English hired the owner of *Turnage Construction* as Housing Authority maintenance supervisor and paid him \$79,000. English's husband, Wayne English, was hired as a subcontractor and paid \$37,600. The audit also found that English and Holley were responsible for the loss of \$37,000 in rental income.

Defendant Roberta Jean Salmon Ahdunko was sentenced in **Tulsa, OK**, in U.S. District Court for the Northern District of Oklahoma, to five years probation and ordered to pay \$3,445 in restitution and a \$600 special assessment fee. Ahdunko previously repaid \$1,137 to the Pawnee Nation Housing Authority (PNHA). She was convicted early this summer on one count of embezzlement from an Indian Tribal Organization and five counts of mail fraud. Ahdunko was employed as the finance manager for the PNHA, which receives all of its funding from HUD through the Native American Housing Assistance and Self-Determination Act

Indian Housing Block Grant Program. During Ahdunko's employment, she 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 PNHA funds. The total loss attributable to Ahdunko was \$4,582. Ahdunko was also involved in another \$22,500 of unallowable expenses.

Defendant Robert Marion Carter, former modernization/rehabilitation inspector employed by the Seminole Nation Housing Authority, pled guilty in **Muskogee, OK**, in District Court for the Eastern District of Oklahoma, to one count of embezzlement from an Indian Tribal Organization. Carter embezzled funds by falsifying inspection reports and invoices for work his company and three other companies submitted to the Tribal Organization. Carter's fraudulent activities caused \$161,119 in losses.

Defendant Troy Goforth, owner of *Goforth Construction*, pled guilty in U.S. District Court for the Eastern District of Oklahoma to one count of embezzlement from an Indian Tribal Organization. Goforth submitted fraudulent invoices for work that his company billed to the Seminole Nation Housing Authority. His fraudulent activities caused \$42,895 in losses to the Housing Authority.

Robert Sellers, former executive director of the Seminole Nation Housing Authority, was indicted in the same court on one count of embezzlement from an Indian Tribal Organization. Sellers concealed his identity by using a "doing business as" company name on a "Request for Payment" form he submitted to the Authority. As a result, Sellers was paid \$4,000 for work that was never performed.

In a related case, defendant Wayburn Ray Earhart, former modernization/rehabilitation coordinator at the Seminole Nation Housing Authority, was indicted on one count of theft from an Indian Tribal Organization. Earhart resigned from the Authority and immediately was contracted to perform modernization/rehabilitation work for the Authority. Doing business as *A&R Maintenance*, Earhart billed and was paid for work that he did not perform, did not complete, or was substandard. As a result of Earhart's activities, the Authority's losses are \$23,550.

Defendant Tamica Waters was indicted in **Birmingham, AL**, in Federal Court for the Northern District of Alabama, on four counts of making false statements to the Fairfield Housing Authority to obtain Section 8 benefits. Waters received \$10,404 in rent subsidies to which she was not entitled.

In the same case, defendant Carolyn Canada was indicted on two counts of making false statements to the Fairfield Housing Authority to obtain \$7,434 in Section 8 rent subsidies to which she was not entitled.

Additionally, defendants Georgia and Kevin Smith and Sheryl and Luquita Wallace each pled guilty to two counts of making false statements to HUD. These defendants were previously indicted for making false statements to the Fairfield Housing Authority to obtain Section 8 benefits.

Defendant Leslie Skaggs, a public housing tenant under the jurisdiction of the Housing Authority for the City of **Topeka, KS**, was referred for eviction. An investigation disclosed that Skaggs failed to report on her initial application for occupancy/tenancy that she had a prior conviction for a controlled substance violation.

Fugitive Felon Initiative

OIG recently launched a fugitive felon initiative to identify HUD housing assistance recipients who are criminal fugitives from justice. Section 903 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), Pub. Law No. 104-193 (Aug. 22, 1996), amended 42 U.S.C. §§ 1437d(1)(9) and 1437f(d)(1)(B)(v), to make fugitive status a ground for the termination of tenancy. The law applies to any tenant who is fleeing to avoid prosecution for a felony, fleeing to avoid confinement for conviction of a felony, or is violating a condition of probation or parole imposed for the commission of a felony.

On September 25, 2002, the General Accounting Office (GAO) issued GAO Report No. 02-716, Welfare Reform: Implementation of Fugitive Felon Provisions Should Be Strengthened. The GAO report

evaluated several agencies' efforts to implement various PRWORA provisions that related to fugitives receiving benefits from federal assistance programs, and critically noted that HUD had not conducted a data match to identify fugitives receiving rental assistance. GAO further determined that HUD had effectively delegated its responsibilities to PHAS, and that HUD had not monitored or evaluated the efforts of PHAS in this regard.

In furtherance of Section 903 of the PRWORA, and in partial response to the GAO's findings, OIG initiated a joint effort with the U.S. Marshals Service to identify and apprehend fugitives and probation/parole violators who may be living in HUD assisted housing. OIG's Fugitive Felon Initiative commenced in FY 2003, and as of August 31, 2003, OIG the U.S. Marshals Service had identified and arrested 98 fugitives residing in HUD assisted housing.

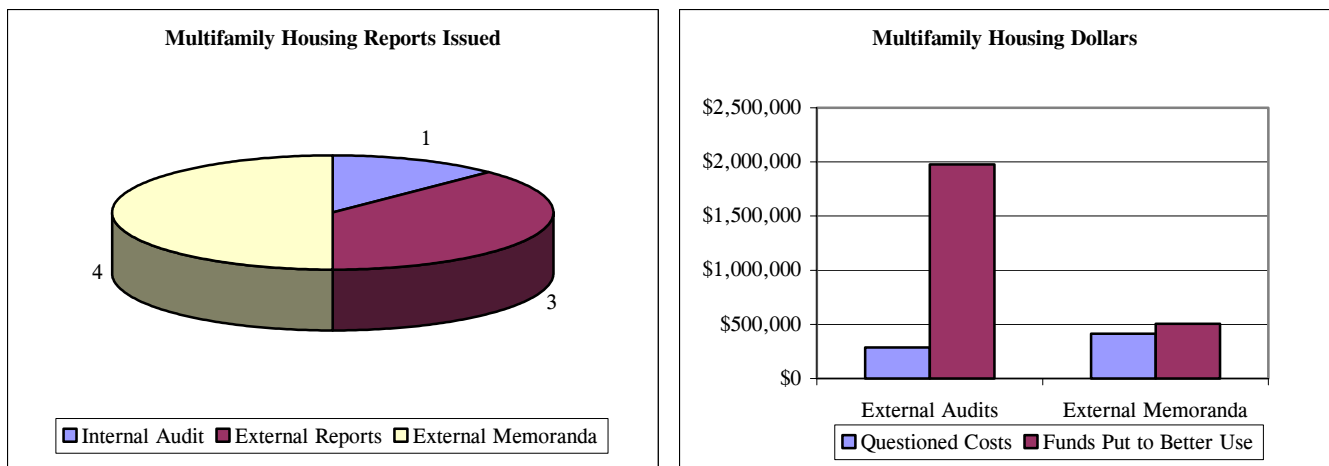
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Chapter 4 — HUD’s Multifamily Housing Programs

In addition to multifamily housing developments with HUD held or HUD insured mortgages, the Department owns multifamily projects acquired through defaulted mortgages, subsidizes rents for low-income households, finances the construction or rehabilitation of rental housing, and provides support services for the elderly and handicapped.

Audits

During this reporting period, the OIG issued eight reports in the Multifamily Housing Program area: one internal memorandum, three external audits, and four external memoranda. These reports disclosed almost \$700,000 in questioned costs and nearly \$2.5 million in recommendations that funds be put to better use.



We audited owner and management agent operations at several multifamily projects and a multifamily accelerated processing lender. The results of our more significant audits are described below.

Owner and Management Agent Operations

At the request of the U.S. Attorney’s Office for the Southern District of Indiana, the OIG reviewed Federal Property Management Corporation (FPMC), **Indianapolis, IN**, to determine whether FPMC used project funds in compliance with the Regulatory Agreements and HUD’s requirements and maintained the units according to HUD’s housing quality standards. We found that FPMC inappropriately claimed Section 8 housing assistance payments from HUD for units at all six projects it managed that did not meet HUD’s housing quality standards and/or its tenant income recertification requirements. In addition, FPMC violated the Regulatory Agreement by improperly disbursing Savoy-Hoosier Apartments project funds for ineligible costs. As a result of FPMC’s mismanagement, the projects defaulted on their HUD insured mortgages.

Housing company settles with HUD

Target of investigation to pay \$400,000 but admits no offense

By John Hill
jhill@indystar.com
An apartment management company accused of providing shoddy, low-income apartments throughout Indianapolis has agreed to pay the federal government \$400,000.

Federal Property Management Corp. agreed to pay the Department of Housing and Urban Development but did not admit to any wrongdoing, said a spokeswoman for the U.S. attorney's office.
The Coral Springs, Fla., com-

pany owned seven low-income housing projects in Indianapolis, including a boarded-up building at Meridian and Vermont streets Downtown. The company lost all seven complexes through foreclosures or sold them in the past five years.

A review by HUD's inspector general of the company's records and interviews with former tenants, county health and welfare officials, and others found that:

1997, Federal Property Management claimed that apartments met HUD's minimum safety and sanitary requirements when they did not.

"This agency only pays for housing that meets safety and sanitary standards," said Will Ely, spokesman for Indiana's HUD office.

Federal Property Management Corp. was awarded seven low-income housing projects in Indianapolis.

insurance proceeds stemming from a fire at Savoy Apartments, 401 N. Illinois St., but more than \$96,000 of that went to company managers and attorneys, not apartment repairs as claimed.

In addition to the \$400,000 that must be paid by Dec. 31, Federal Property Management voluntarily agreed to a two-year exclusion from seeking new contracts with HUD

or any other agency in the executive branch of government.

U.S. Attorney Susan Brooks was pleased with the settlement.

"This result is gratifying because it sends the message that if landlords who receive HUD funds don't live up to their end of the bargain, they will suffer the consequences," Brooks said in a statement.

"The Section 8 program is de-

See HUD, Page B5

The Indianapolis Star, October 1, 2003

We referred our draft audit findings to the U.S. Attorney's Office for the Southern District of Indiana for civil matters. HUD and the U.S. Attorney's Office executed a settlement agreement with FPMC effective September 18, 2003. Under the terms of the settlement, FPMC, without any admission of wrongdoing, agreed to pay the Federal Government \$400,000 on or before December 17, 2003. Also as part of the settlement, FPMC agreed to a two-year voluntary exclusion from seeking new contracts with HUD and any other agency of the Executive Branch of the Federal Government.

We recommended that HUD ensure that FPMC pays the Federal Government \$400,000 as required by the settlement agreement. (Report No. 2003-CH-1802)

At the request of the Director of the Houston Multifamily Housing Program Center, and to fulfill an escrow and payment agreement requirement, we attempted to conduct an audit of the multifamily housing projects Haverstock I, Haverstock II, Haverstock III, and Coolwood Oaks in **Houston, TX**. The objective was to determine if the owner, Herbert J. Zieben, complied with HUD regulations, the Regulatory Agreement, and the Compliance Agreement when he made: (1) transfers of funds between the projects; and (2) payments from the projects to identity-of-interest companies. We did not conduct a full audit because the projects and identity-of-interest companies did not provide complete financial books and records.

We concluded that Zieben improperly transferred \$230,000 from Haverstock I, \$190,000 from Haverstock II, and \$25,000 from Coolwood. In addition, Zieben improperly withdrew funds from the projects by having his identity-of-interest companies bill the projects inflated amounts for materials and labor. Due to the lack of records, we could not determine the exact amount Zieben overcharged the projects. However, the projects overpaid at least \$304,000 for materials and up to \$983,000 for labor. Zieben used the unauthorized distributions and improper billings to inappropriately enrich himself and his other business ventures.

Since our audit work identified equity skimming, the OIG will be seeking recovery action. However, HUD should continue to hold the \$1.95 million in escrow until recovery actions are complete. (Report No. 2003-FW-0803)

As a result of a referral from the Honolulu HUD Office of Multifamily Housing, we completed an audit of the Jack Hall Waipahu, Westlake, and Kulana Nani projects managed by Chaney, Brooks and Company (CBC) in **Honolulu, HI**. The audit disclosed serious problems in the use of project funds, including a lack of management controls by both the owners and management agent. Specifically, we noted repeated instances where excessive and duplicate charges were approved for payment, fictitious and/or altered bids and invoices were used to substantiate the selection of a particular company and inflate costs, and contracted renovation work was

performed by in-house project maintenance personnel. Subsequent to the completion of our review, the owner of Jack Hall Waipahu prepaid the HUD insured mortgage and is no longer bound by the terms of the Regulatory Agreement; therefore, repayment of over \$200,000 in excessive and duplicate charges was not required. However, the owner of the other two projects, the City and County of Honolulu, is still required to abide by the terms of the Regulatory Agreement.

We recommended that HUD require the City and County of Honolulu to repay Westlake approximately \$145,000 and Kulana Nani nearly \$50,000 for excessive and duplicate costs approved by the CBC property manager. We also recommended that HUD impose administrative sanctions against CBC until it demonstrates that it has developed and implemented adequate written procedures and controls over its accounting, procurement, on-site manager training, and monitoring responsibilities. (Report No. 2003-LA-1001)

Based on a recommendation from Houston Multifamily staff, we conducted a review of Colonial Oaks Apartments in **Houston, TX**, to determine whether the owners operated the project in accordance with HUD requirements. We found that the owners were not adequately managing the project. Although the owners kept the mortgage current, they did not establish or maintain controls, procedures, or financial records that met HUD's requirements because they were either not familiar with the requirements or believed HUD required too much paperwork for such a small property. As a result, the owners: (1) did not maintain the project's physical condition; (2) did not properly collect, record, and deposit rental receipts; (3) lacked leases for 43 percent of their tenants; (4) lacked support for payments totaling over \$9,000; (5) improperly paid at least \$4,000 in management costs from project operating funds; (6) did not submit audited financial statements to HUD timely; and (7) did not prepare an affirmative marketing plan.

Since these problems date back to the owners' assumption of the project, we recommended that HUD terminate the owners' self-management and require them to obtain the services of an independent property management agent. In addition, we recommended that HUD require the owners to reimburse the project for any improper or unsupported disbursements. Further, HUD should either require the owners to submit audited financial statements or seek appropriate sanctions against the owners. (Report No. 2003-FW-1806)



Missing gutter and rotted fascia boards at Colonial Oaks project.



Missing breaker box cover and exposed wiring at Colonial Oaks project.

In response to a complaint, we reviewed Shawnee Hills, Inc., in **Charleston, WV**, a former management agent of HUD assisted multifamily properties. Shawnee Hills filed for bankruptcy protection in May 2002. Subsequently, questions were raised about whether Shawnee Hills properly used federal funds. We found that, for the most part, Shawnee Hills' financial records were not auditable, and therefore a detailed review or accounting of the funds could not be performed. We did find, however, that Shawnee Hills improperly used \$9,000 in reserve for replacement funds just prior to filing for bankruptcy protection.

We recommended that HUD initiate appropriate action to prohibit Shawnee Hills and its officers from being awarded future contracts with the Federal Government. (Report No. 2003-PH-1802)

Multifamily Accelerated Processing Lender

As part of a targeted effort to review the new Multifamily Accelerated Processing (MAP) Program, we completed an audit of CWCapital LLC in **Needham, MA**. This is the first of several audits we will conduct to evaluate lender performance in producing insured multifamily mortgages that represent a reasonable risk for the FHA insurance fund. The audit found that CWCapital's MAP application and procedures during the construction phase met HUD requirements, and its loan underwriting estimates were reasonable. Although CWCapital complied with its Quality Control Plan, changes can be made to enhance its MAP loan process.

We recommended that CWCapital LLC be required to make changes to its current Quality Control Plan to ensure that HUD identified deficiencies are reviewed at the corporate level by the chief underwriter, and if appropriate, advise senior management of recommended changes to improve the MAP loan process. CWCapital revised its Quality Control Plan, which we reviewed and confirmed that the revisions fully comply with the intent and purpose of the recommendation. No further action is required. (Report No. 2003-SE-1004)

Investigations

During this reporting period, the OIG opened 63 investigation cases and closed 16 cases in the Multifamily Housing Program area. Final judicial action taken on these cases during the period included \$629,074 in recoveries/receivables, \$5,197,410 in restitution, \$1,588,000 in fines, 16 convictions, pleas, and pre-trial diversions, 59 indictments/informations, 20 administrative sanctions, 62 arrests, and 119 months in prison. The results of our more significant investigations are described below.

Equity Skimming/Conspiracy

In **Baltimore, MD**, in Federal Court for District of Maryland, the Department of Justice and HUD signed a settlement agreement with *HAI Management, Inc.*, a developer and management agent, to resolve allegations of fee splitting and civil equity skimming on FHA insured multifamily projects. *HAI* agreed to pay \$500,000 and accept two years voluntary exclusion from doing new business with the government. From 1998 through 2001, *HAI* was the management agent for five Maryland multifamily projects owned by Morton Sarubin or members of the Sarubin family. In 1998, *HAI* and Morton Sarubin reached an agreement whereby *HAI* would manage the properties only if 50 percent of the management agent's fee was split with Sarubin. To further the scheme, *HAI* and the Sarubin family created a pair of shell corporations through which to funnel and conceal fee splitting payments of \$750,000. Furthermore, *HAI* collected for itself unauthorized and excess fees from the projects totaling \$151,000. As part of the settlement, *HAI* will continue to cooperate in the investigation.

In **Indianapolis, IN**, in Federal Court for the Southern District of Indiana, an investigation into violations of the False Claims Act and HUD's equity skimming statute on the part of *Federal Property Management Corporation (FPM)* resulted in a negotiated settlement agreement. Analysis of tenant files and other records disclosed that *FPM*, a multifamily housing project management company, billed for vacant units, falsely certified housing quality

standards requirements, claimed rent subsidies for tenants whom it did not certify, and misused fire insurance proceeds in violation of the Regulatory Agreement. As part of the settlement agreement, *FPM* agreed to pay the government \$400,000 and to voluntary exclusion from future transactions with HUD and the Executive Branch of the Federal Government for two years.

The U.S. Attorney filed a civil complaint in **Buffalo, NY**, in Federal Court for the Western District of New York, against defendant Charles R. Livecchi and *CRL Management, Inc.*, for multifamily equity skimming. In March 1997, Livecchi, the owner of Cambridge Court Apartments and president of *CRL Management, Inc.*, the management agent for Cambridge Court, defaulted on the project's FHA insured mortgage. While the mortgage was in default, Livecchi and *CRL Management* received and retained \$368,305 in project assets and income. Livecchi also authorized \$145,939 of expenditures contrary to the project's Regulatory Agreement. These expenditures included payments for the owner's mortgage, credit card, home equity loan, and an unsecured line of credit. The civil complaint seeks damages in the amount of \$1,028,489, which is double the value of the assets and income used in violation of the Regulatory Agreement, plus \$514,244 for breach of contract and unjust enrichment.

Defendant Robert Vaughan, a former attorney and manager of an FHA insured elderly housing development in Flint, MI, was sentenced in **Detroit, MI**, in Federal Court for the Eastern District of Michigan, following his earlier guilty plea to multifamily equity skimming. Vaughan skimmed money for his personal law practice and personal debts from Flint Heights, a 196-unit apartment building, between 1998 and 2000. Vaughan resigned from his management position in 2000 and lost his license to practice law in 2002 after failing to turn over funds from a guardianship. He was sentenced to 21 months in prison and ordered to pay \$369,405 in restitution.

The following judicial actions, which took place in **Shreveport, LA**, in Federal Court for the Western District of Louisiana, resulted from an investi-

gation into conspiracy to commit equity skimming, mail fraud, wire fraud, and money laundering in conjunction with a scheme to defraud the Low-Income Housing Tax Credit Program.

Defendant Maurice Riemer Calhoun, Jr., a developer, owner, and manager of multifamily properties in Louisiana and Texas, and the former owner of *Calhoun Property Management*, a multifamily development and management company in Mansfield, LA, was sentenced to 60 months incarceration and three years supervised release on each count, to be served concurrently, was fined \$500,000, and was ordered to pay \$3,208,521 in restitution. Calhoun also agreed to sign a \$1,155,162 promissory note to the Federal Home Loan Bank of Dallas, TX. Calhoun pled guilty in March 2003 to a two-count bill of information which charged him with one count of wire fraud and one count of conspiracy.

T.F. Management, Inc., a company owned and operated by Maurice Riemer Calhoun, Jr., was sentenced to 60 months probation and fined \$500,000. *T.F. Management* pled guilty in March 2003, through its owner, to a one-count bill of information which charged the company with one count of wire fraud.

Defendant James C. Howell, Jr., a former employee of *Calhoun Property Management*, was sentenced to six months incarceration and one year supervised release, and was fined \$5,000. Howell pled guilty in December 2002 to a one-count bill of information charging him with misprision of a felony involving a multifamily equity skimming scheme.

Defendant Joseph W. Ham, a former general contractor for *Calhoun Property Management* who was responsible for the rehabilitation of 37 multifamily properties in Texas and Louisiana with a government insured loan amount of approximately \$14 million, was sentenced to four months incarceration and two years supervised release, and was fined \$60,000. Ham was previously issued a suspension by HUD from participation in procurement and non-procurement transactions as a participant or principal effective June 6, 2003. Ham's sentence was a downward departure from the sentencing guidelines due to his cooperation in the

prosecution of Maurice Riemer Calhoun, Jr. Ham pled guilty in November 2002 to a two-count bill of information charging him with one count of conspiracy to commit mail and wire fraud and forfeiture.

Defendant Thomas L. Frye, an officer of *Calhoun Property Management*, was sentenced to two months incarceration and one year supervised release, and was fined \$60,000. Frye's sentence was a downward departure from the sentencing guidelines due to his cooperation in the prosecution of Maurice Riemer Calhoun, Jr. In coordination with others, Frye created and caused to be created numerous false invoices and certificates of actual cost related to the rehabilitation of multifamily properties. He pled guilty in December 2002 to a two-count bill of information charging him with one count of conspiracy to commit mail and wire fraud and forfeiture.

Defendant Murray E. Howell, an employee of Joseph W. Ham, was sentenced to five months incarceration and three years supervised release, and was fined \$60,000. Howell's sentence was a downward departure from the sentencing guidelines due to his cooperation in the prosecution of Maurice Riemer Calhoun, Jr. Howell pled guilty in November 2002 to a one-count bill of information charging him with one count of conspiracy to commit mail and wire fraud.

Defendants Marvin Gold and Jeffrey Gold pled guilty in **Brooklyn, NY**, in Federal Court for the Eastern District of New York, to one count each of conspiracy to defraud HUD and the IRS. Marvin Gold was the owner of Marvin Gold Management, a real estate management company. Jeffrey Gold was the vice president. The company managed numerous properties in New York which received HUD subsidies and loan guarantees. Between January 1992 and April 1999, Marvin and Jeffrey Gold received over \$80,000 and \$17,000 in kickbacks, respectively, from vendors for work performed at buildings managed by Marvin Gold Management. Marvin Gold approved payments to other individuals for an additional \$210,000 in kickbacks. These kickbacks were included in vendor contracts as costs for services provided.

Defendants Eric Dubbs, former building manager for the Amsterdam Building in Manhattan, NY, Angelo Scudiero, former building manager for Taino Towers in Manhattan and Dayton Towers in Far Rockaway, NY, and Arnold Zabinsky, president of Elm Management, a real estate management company in Elmhurst, NY, pled guilty in **Central Islip, NY**, in Federal Court for the Eastern District of New York, to conspiracy to defraud HUD and the IRS. All the buildings involved in this case received HUD subsidies and loan guarantees. Dubbs, Scudiero, and Zabinsky received \$4,000, \$20,000, and \$11,000 in kickbacks, respectively, from vendors for work performed at the buildings their companies managed. The kickbacks were disguised in the vendor invoices as costs of services provided.

In **Los Angeles, CA**, in Federal Court for the Central District of California, defendant Michael Clarence Jones pled guilty to conspiracy and mail fraud. Jones admitted to being paid a salary by American Development Company (ADC), a company that managed Section 8 properties, when in reality he was a ghost employee who rarely did any work for ADC. Jones also used ADC employees to perform construction work at a private residence for a construction company he controlled while the employees were being paid by ADC. The dollar loss to HUD was \$206,000.

Embezzlement/Theft

Defendant Theresa Sheppard pled guilty in State Court, Howard County, **Big Spring, TX**, to theft of more than \$20,000 but less than \$100,000. She was sentenced to seven years in prison, ordered to pay \$50,000 in restitution, and fined \$233 for court costs. Sheppard admitted embezzling more than \$57,000 in rents from two Saint Mary Episcopal Retirement Homes, both of which are HUD projects. At the time she committed this crime, Sheppard was on probation for a prior embezzlement charge.

In **Charlottesville, VA**, in U.S. District Court for the Western District of Virginia, defendant Rodney Crump, former assistant property manager, was sentenced to 15 months incarceration and 36 months supervised release, and was ordered to pay

\$23,219 in restitution for his part in a conspiracy to embezzle funds from Blue Ridge Commons Apartments (BRC). Crump and the former property manager, Nancy Besemer, conspired to embezzle \$23,219 in cash payments and blank money orders from residents of BRC. Instead of depositing these funds in a bank account belonging to BRC, Crump and Besemer kept the funds for their own benefit. Two arrest warrants have been issued for Besemer, who has fled the jurisdiction. One warrant is related to this matter and one is for probation violation.

Defendant Sandra Pullett, a multifamily specialist, was sentenced in **Philadelphia, PA** District Court for the Commonwealth of Pennsylvania to 12 months supervised release and was ordered to pay \$16,000 in restitution and fines. Pullett previously pled guilty to one count of conspiracy and one count of theft by deception. An investigation disclosed a \$40,000 embezzlement scheme that took place at the Overmont House multifamily development. The investigation found that in the past year and a half, Pullett and an accomplice embezzled rental payments from HUD assisted multifamily and Section 8 tenants living at Overmont. Pullett and her accomplice deposited cash payments, cashed money orders, and split the illegal proceeds. Pursuant to her guilty plea, Pullett stipulated that she will pay Overmont House \$16,000 in restitution.

Defendant Anita Young was sentenced in **Topeka, KS**, in Federal Court for the District of Kansas, to three years probation and was ordered to pay \$13,226 in restitution to HUD. Young, who pled guilty to a one-count superseding information charging her with false statements and embezzlement, received Section 8 project-based rental assistance at the Highland Park Apartments multifamily development. She fraudulently received \$13,266 in rental assistance after she falsified her annual recertifications by failing to disclose her true income.

Defendant Roger Younts was arrested and charged in **Lexington, NC**, in State Court for the Middle District of North Carolina, with 11 counts of felony embezzlement of approximately \$600,000. Younts allegedly embezzled the money from Housing Management, Inc., which manages

dozens of Section 8 public housing complexes across the Southeast. Younts was indicted earlier this month for embezzling money from seven entities managed by Housing Management, Inc.

Defendant Diane L. Galloway, manager of Branson Manor Apartments, was charged by the State of Missouri in **Branson, MO**, with one count of financial exploitation of an elderly person and one count of theft by deceit when she failed to disclose financial assets owned by a tenant receiving subsidized housing. Branson accepted at least \$167,443 from an elderly Branson Manor resident. To retain access to the resident, Galloway falsified certifications by underreporting the resident's income and assets. The total loss to HUD is \$6,012.

In **St. Louis, MO**, in Federal Court for the Eastern District of Missouri, defendant Nueil Edwards was indicted on charges of theft or bribery concerning programs receiving federal funds. Edwards was the former operations manager for the Roosevelt Towne Apartments, a multifamily Section 8 property. He allegedly stole monies from the property's reserve fund checking account by remitting checks payable to a bank account he had set up in the name of the complex. He used this money, alleged to total more than \$135,000, for his personal benefit.

Defendant Ronald McCoy, owner of ABC Construction, Inc., was arrested and charged in State Court, **Philadelphia, PA**, on seven felony Pennsylvania State Crime Code violations. These violations include bribery, criminal conspiracy, bid rigging, theft by unlawful taking, theft by deception, attempted theft by deception, and deceptive or fraudulent business practices. McCoy allegedly paid bribes in the form of home improvements to Allan Brown, former deputy director of the Philadelphia Housing Development Corporation (PHDC). In return for these bribes, McCoy, doing business as ABC Construction, received repair and service contracts for multifamily housing units managed by PHDC. Brown was convicted on related charges in July 2001.

Defendants Phillip Colley, Vernon Strauch, and Sherrie Bussleman were arrested and named in a

22-count indictment in **Lincoln, NE**, in Federal Court for the District of Nebraska, for charges involving Section 8, mortgage, Social Security, and Medicare fraud, as well as firearms violations. Serenity Place, the subject of the investigation, is an organization that provides food, shelter, and entertainment for disabled people in the Lincoln area. This entity is owned and operated by Colley and Strauch, who operate numerous other businesses from this same location. Serenity Place receives money from HUD, the Social Security Administration (SSA), the Department of Health and Human Services (HHS), and various state agencies for subsistence, transportation, lodging, and medication. Colley and Strauch have allegedly deprived the occupants of money to which they are entitled, and provided false statements to HUD, SSA, and HHS to receive funding for which they fail to qualify.

Forgery

In the 20th Judicial Circuit Court, **Grand Haven, MI**, defendant Karen Englert, a manager at Spring Lake Presbyterian Housing Corporation (SLPHC), was sentenced to 180 days incarceration and 60 months probation, and ordered to pay \$77,385 in restitution. Englert, without board approval, paid \$4,249 for her daughter's health insurance and made purchases at local merchants using SLPHC issued credit cards and checks. In addition, she admitted to writing over \$33,000 in SLPHC checks to herself and forging the check stubs to avoid detection. In total, Englert embezzled \$45,000 during fiscal years 2001 and 2002.

In Cook County State Court, **Chicago, IL**, defendant Odessie Allen, a schoolteacher, pled guilty to one count of felony forgery and was sentenced to pay a minimum of \$12,500 in restitution. Allen failed to report her income while receiving Section 8 benefits at a multifamily HUD subsidized development. Allen tendered \$6,500 in a money order made payable to HUD, and will make the remaining payments over the next 30 months. The Attorney General's Office has the option of requesting an increase in restitution if Allen's financial situation changes.

Davis-Bacon Act Violations

Defendant Avner Leibovitch, also known as Avner Electric, pled guilty in **Columbus, OH**, in Federal Court for the Northern District of Ohio, to concealing and falsifying material facts relating to prevailing wage violations at Terraces at Northridge, a HUD insured multifamily development. Leibovitch was the sole proprietor of Avner Electric, which was an electrical subcontractor at Terraces at Northridge. Because the mortgage was insured by HUD, the construction of the project was subject to the provisions of the Davis-Bacon Act and labor laws, which required the general contractor and subcontractors to pay construction workers at least the "prevailing wage" for their work classification, as determined by the Department of Labor. Leibovitch paid certain workers less than the required prevailing wages and prepared false payroll forms which concealed that fact and contained false statements and certifications relating to the wages actually paid to the workers. Four other subcontractors (Robert Adkins, doing business as Adkins Drywall, Andrew Sandor, doing business as Sunrise Decorating, Chris Gorges, doing business as Austin Electric, and Robert Gregoric, doing business as Precision Cuts), all of whom worked at Terraces at Northridge, have already been charged federally and convicted.

In the same case, defendants Dennis Breiding, Douglas Lund, Joginder Singh, and Rajinder Singh were indicted on the same charges relating to three HUD insured multifamily residential housing projects. According to the indictment, Gatehouse Building Company was the general contractor on three HUD insured multifamily housing projects owned by separate limited partnerships — the Enclave at Rosemont Ridge, the Terraces at Northridge, and the Terraces on the Green. Defendants Breiding, Lund, and Joginder Singh were employees of Gatehouse, with responsibility for the projects; Rajinder Singh had a financial interest and was involved in controlling the business of Austin Electric, Inc., a company which performed work as an electrical subcontractor on the three housing projects. The indictment alleges that the four defendants entered into a conspiracy, an objective of which was to reduce the general contractor's costs on the projects by paying workers less than the

required prevailing wages and to conceal the failure to pay prevailing wages from those personnel at the Departments of Labor and HUD. The subcontractors allegedly caused the forms to be submitted to the general contractor, who in turn submitted them to HUD.

Four other subcontractors who worked on one or more of the projects – Edward C. Gorges (a principal of Austin Electric), Robert A. Gregorek (a framing contractor), Andrew E. Sandor (a painting contractor), and Robert Adkins (a drywall contractor) – pled guilty in 2002 to separate but similar conspiracy charges.

Obstruction of Justice

Defendant Jocelyne Martinez, an investigator for the State Attorney General’s Office, was arrested and charged in **Central Islip, NY**, in Federal Court for the Eastern District of New York, on charges of loan origination fraud and obstruction of justice. Martinez allegedly defrauded HUD by illegally obtaining \$1.7 million in federally insured mortgages to purchase four multifamily buildings in the Bronx, and then coached a witness to lie to investigators about the transactions.

False Statements

Knudson Management Company, Inc., owner of two Section 8 multifamily apartment complexes in Humble, TX, agreed to a civil settlement, through the U.S. Attorney’s Office in **Houston, TX**, Southern District of Texas, to pay HUD \$133,500 to settle allegations of fraudulent vouchering practices at the apartment complexes. *Knudson Management Company* billed HUD for Section 8 tenants who were actually deceased or who were no longer residents of the properties.

Defendant Michelle Uzzle, a former Section 8 tenant, was sentenced in Circuit Court for **Isle of Wight County, VA**, to 30 years imprisonment (suspended) and an indefinite period of probation; was ordered to perform 500 hours of community service; was ordered to pay \$24,283 in restitution to various social service agencies, including \$10,825 to HUD; and was ordered not to apply for or receive any social service benefits, including

federal housing assistance, for a period of seven years. Uzzle’s sentence followed her June 2003 guilty plea to six felony counts, including three counts of grand larceny from HUD, related to her submitting false statements concerning her household income while obtaining various social services and housing assistance.

Defendants Robert and Sabrina Guthrie, former Section 8 tenants, pled guilty in **DuPage County, IL** Court to state benefits fraud. The Guthries submitted false statements about their family income in order to receive rental assistance at Chateau Village Apartments, a HUD insured, Section 8 subsidized development. On the same day, they were sentenced to 240 hours of community service, two years probation, and \$10,502 in joint restitution.

Defendant Vicky Bogard signed a pretrial diversion agreement in **Little Rock, AR**, in Federal Court for the Eastern District of Arkansas, admitting to making false statements to HUD. Bogard agreed to perform 75 hours of community service and pay restitution of \$9,436 in return for 18 months of deferred adjudication. From August 1999 to October 2002, Bogard failed to report to West Scenic Apartments the income she earned working as a teacher. She signed annual Section 8 recertification forms knowing this income was omitted. As a result of her fraud and false statements, she received \$7,412 in multifamily project-based Section 8 benefits to which she was not entitled.

Defendant Maxine Gordon, a former multifamily Section 8 recipient, pled guilty in **Pittsburgh, PA**, in U.S. District Court for the Western District of Pennsylvania, to using false identities to obtain Section 8 and Social Security benefits. Gordon was previously indicted on eight counts, and subsequently fled the area to avoid prosecution. She was apprehended in April 2003 after spending 17 months on the run. HUD paid Gordon, under a fictitious identity, nearly \$38,000 in Section 8 subsidies between 1994 and 2001. The Social Security Administration paid her more than \$87,000 under two fictitious identities during this same period. Gordon will be sentenced on December 5, 2003.

A one-count information was filed in **Topeka, KS**, in Federal Court for the District of Kansas, against defendant Cynthia Edwards. Edwards, a former multifamily project manager, allegedly made a false statement or representation when she signed schedules of tenant assistance payments for Ripley Park (Timberlee) Apartments. The schedules in question represented that several tenants were entitled to receive rental subsidy payments when in truth they no longer lived at the complex. The scheme resulted \$90,918 in fraudulent payments to Timberlee Apartments. Edwards turned herself in prior to appearing in Court.

Prior to the filing of charges, Timberlee Apartments, through its attorney, submitted a \$40,000 payment to HUD and agreed to make \$5,000 payments beginning on September 15, 2003, until the total \$90,918 claim has been paid.

Defendant Blondy R. Haycraft, president and agent of *U.H.M. Management Services, Inc.*, a Kentucky corporation which managed operations for the J.O. Blanton House, was indicted in **Louisville, KY**, in Federal Court for the Western District of Kentucky. Blanton House is a high-rise rental property with 206 of its 256 units designated for Section 8 housing for elderly or disabled individuals. As managing agent for Blanton House, Haycraft was required to pay the HUD insured mortgage, loan payments, employee salaries, and vendor invoices for goods and services provided to the property and to use the funds for reasonable expenses only. From February 7, 2000, to January 12, 2001, Haycraft knowingly and willfully made false statements and entries to pay invoices from vendors he certified had provided goods and services to Blanton House, when he knew that the forms contained false entries.

On or about March 22, 2001, and April 23, 2001, Haycraft knowingly executed a scheme to obtain monies, funds, credits, and assets owned by and under the custody and control of River City Bank, the deposits of which were insured by the Federal Deposit Insurance Corporation under false pretenses. Haycraft used his position as president of *U.H.M.* and falsely represented to River City Bank that he was the sole owner of misplaced certificates of deposits issued to Blanton House, when in fact

he knew the certificates of deposits were not misplaced. On or about January 1, 2000, to June 30, 2001, Haycraft stole property valued at more than \$5,000 owned by and under the custody of Blanton House.

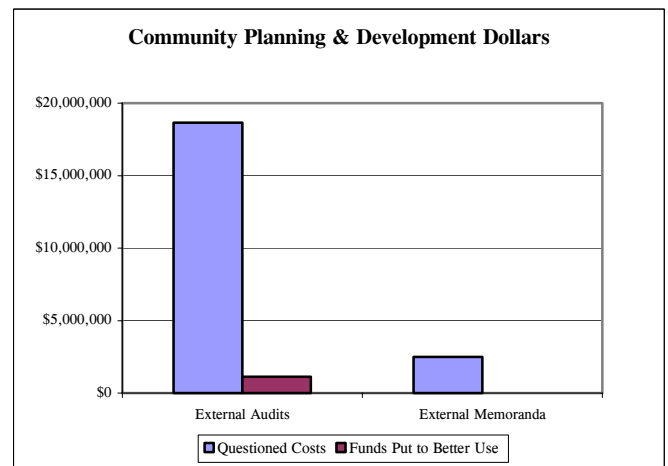
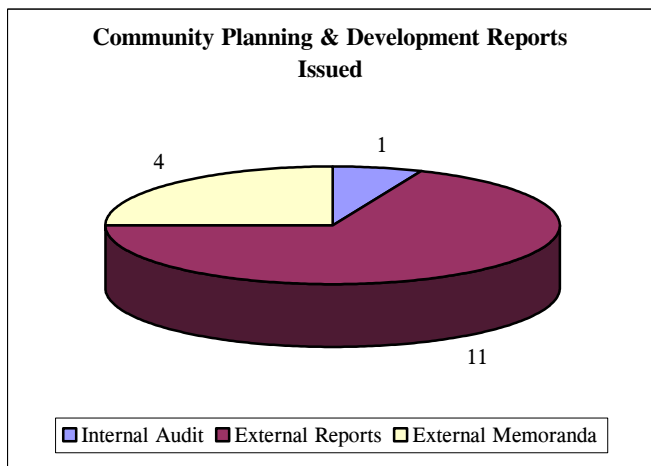
Defendant Shau Ling Yam, a HUD Section 236 Program participant, was arrested in **New York, NY**, on nine state counts of grand larceny and fraud. Yam posed as a HUD management agent for a multifamily housing complex. She made false promises to immigrants in Chinatown by claiming she would assist them in obtaining public housing. Yam charged between \$1,000 and \$17,500 for initial fees to obtain an apartment, and used HUD recertification forms to make her scheme appear more legitimate. Yam never provided the victims with apartments. She has defrauded over 33 victims out of \$150,000.

Chapter 5 – HUD’s Community Planning and Development Programs

The Office of Community Planning and Development (CPD) seeks to develop viable communities by promoting integrated approaches that provide decent housing, a suitable living environment, and expanded economic opportunities for low- and moderate-income persons. The primary means toward this end is the development of partnerships among all levels of government and the private sector.

Audits

During this reporting period, the OIG issued 16 reports in the Community Planning and Development Program area: one internal audit, 11 external audits, and four memoranda. These reports disclosed about \$21 million in questioned costs and over \$1.1 million in recommendations that funds be put to better use.



We audited Community Development Block Grant Disaster Assistance Funds in the State of New York; the Empowerment Zone, HOME, HOME Investment Partnership, Community Development Block Grant (CDBG), and Housing Rehabilitation Programs; a Section 108 loan and an Economic Development Initiative grant; and the Housing Opportunities for Persons with AIDS and Supportive Housing Programs. The results of our more significant audits are described below.

Disaster Assistance Funds – State of New York

We are performing ongoing audits of the administration of the CDBG Disaster Assistance Funds provided to the State of New York as a result of the terrorist attacks on the World Trade Center in New York City. These funds are being administered by two entities, the Empire State Development Corporation (ESDC) and the Lower Manhattan Development Corporation (LMDC). We plan to issue an audit report on each entity every six months and include the results in the Inspector General’s Semiannual Report to Congress in order to comply with Congress’ request that the OIG periodically audit and semiannually report on the expenditure of these CDBG Disaster Assistance Funds. We previously reported on the operations of the ESDC on March 25, 2003, and recently completed our first review of the operations of the LMDC.

The objectives of both the ESDC and LMDC reviews were to determine whether the entities: (1) disbursed CDBG funds to eligible applicants in accordance with the HUD Approved Action Plan; (2) disbursed CDBG funds to applicants in a timely manner; and (3) had financial management systems that adequately safeguard the

funds. Both reviews covered the period between October 1, 2002, and March 31, 2003. The reviews disclosed that both ESDC (Report No. 2003-NY-1005) and LMDC (Report No. 2003-NY-1006) generally met these requirements. However, we found processing deficiencies at both ESDC and LMDC for which we recommended corrective actions to ensure that proper payments are made and to enhance the efficiency of the administration of the CDBG funds.

The recent reviews represent our second review of ESDC's operations. Generally, we found that ESDC continued to make substantial progress developing and implementing programs to address the immediate economic needs of numerous businesses that suffered economic losses and property damage in the terrorist attacks on September 11, 2001. At March 31, 2003, the ESDC had disbursed over \$641 million of the \$1.05 billion in CDBG Disaster Assistance Funds it is administering, as shown below:

Program	Budget as of 3/31/03	Disbursements as of 3/31/03	Balance as of 3/31/03
Bridge Loan Program	\$6,760,000	\$0	\$6,760,000
Business Recovery Loan Fund	\$41,140,000	\$5,772,798	\$35,367,202
Business Recovery Grant Program	\$489,860,000	\$478,084,202	\$11,775,798
Small Firm Attraction & Retention Grants	\$155,000,000	\$26,513,750	\$128,486,250
Grants to Technical Assistance Providers	\$5,000,000	\$1,490,456	\$3,509,544
Large Firm Job Creation & Retention	\$320,000,000	\$110,244,000	\$209,756,000
Compensation for Economic Losses to Other Businesses	\$13,240,000	\$12,732,591	\$507,409
Business Information	\$5,000,000	\$2,241,078	\$2,758,922
Administration	\$14,000,000	\$4,807,285	\$9,192,715
TOTALS	\$1,050,000,000	\$641,886,160	\$408,113,840

ESDC Action Plan as approved by HUD.

However, we noted processing deficiencies in ESDC's grant programs that need to be resolved to enhance the efficiency of its administration of the funds. Our review of statistically selected samples from the Small Firm Attraction and Retention Grant Program disclosed that overpayments were made to certain grant recipients. Specifically, we found that three of 110 sampled applicants received overpayments totaling nearly \$28,000.

We reviewed grants provided under the Business Recovery Grant (BRG) Program by statistically selecting a sample of 308 BRGs, which represent BRG disbursements of over \$30 million. We identified some of the same issues as reported in our previous audit. Specifically, we found overpayments of nearly \$209,000 and one duplicate payment of \$34,000.

Also, we noted accounting procedures that need to be strengthened to prevent misclassification of costs and incorrect calculations of indirect costs. Although some weaknesses may have resulted from the fast pace required of the ESDC to implement the Disaster Assistance Programs, other deficiencies appear to exist because of weak accounting procedures. Specifically, we found that business information expenses of over \$184,000 were misclassified as administrative costs, indirect overhead charges were calculated incorrectly, and a portion of a Technical Assistance Service Grant payment of nearly \$81,000 lacked adequate supporting documentation.

We recommended, among other things, that HUD: (1) ensure that the ESDC has properly recorded and accounted for reimbursement of any overpayments; (2) instruct the ESDC on whether the funds we determined to be ineligible should be reimbursed to the BRG Program from non-federal funds; (3) instruct the ESDC to reimburse the program for the duplicate payment; and (4) instruct the ESDC to establish accounting procedures to

ensure that costs are correctly classified, that indirect costs are based on actual cost data, and that all grant disbursements are adequately supported with documentation. (Report No. 2003-NY-1005)

This review represents our first review of LMDC’s operations, which disclosed that LMDC had drawn down over \$219 million of the almost \$656 million approved by HUD, as shown below:

Program	LMDC Partial Action Plan No. 1	LMDC Partial Action Plan No. 2	TOTAL	Drawn Down as of 3/31/03
Residential Grant Program	\$280,500,000	\$0	\$280,500,000	\$68,180,816
Employment Training Assistance Program	\$10,000,000	\$0	\$10,000,000	\$8,259
Design & Installation of Interim Memorial	\$350,000	\$0	\$350,000	\$0
WTC Business Recovery Grant Program		\$150,000,000	\$150,000,000	\$143,529,756
Small Firm Attraction & Retention Grants		\$50,000,000	\$50,000,000	\$0
Large Firm Job Creation & Retention		\$150,000,000	\$150,000,000	\$0
Administration	\$15,042,500	\$0	\$15,042,500	\$7,506,362
TOTALS	\$305,892,500	\$350,000,000	\$655,892,500	\$219,225,193

LMDC’s first and second Partial Action Plans as approved by HUD.

While we found that LMDC generally disbursed CDBG Disaster Assistance Funds to eligible applicants in accordance with the HUD Approved Action Plan, we noted processing deficiencies in LMDC’s Residential Grant Program that need to be resolved to enhance the efficiency of LMDC’s administration of funds, and to prevent duplicate payments and other related administrative deficiencies from recurring. We found that LMDC’s program administrator was unable to provide adequate documentation to fully support the eligibility of 37 grant recipients that received nearly \$78,000, and made either an over or under payment to ten additional recipients. We also found that, contrary to program requirements, checks of nearly \$101,000 were prepared for 31 individuals who were either approved to receive a grant check under two different identification numbers or reside in the same household with a grant recipient.

We recommended that LMDC and/or its program administrator be instructed to obtain and maintain all missing documentation to support all grant recipients’ eligibility, seek reimbursement from recipients who either are ineligible or received overpayments, and make the required payments to those recipients who were underpaid. We also recommended that LMDC and/or its program administrator take immediate steps to prevent the preparation of duplicate grant checks, recover the amount of all duplicate payments disbursed, and return the recovered funds to the CDBG Disaster Assistance Funds. In addition, we made recommendations that will encourage compliance with HUD requirements and the HUD Approved Action Plans. (Report No. 2003-NY-1006)

Empowerment Zone Program

The OIG completed a multi-location audit of the Office of CPD’s oversight of the Empowerment Zone Program to determine whether HUD had an effective system for oversight and control of the program. The audit was conducted in response to two requests from Congress. The audit was conducted at HUD Headquarters, six Zones, and HUD’s Field Offices of CPD having jurisdiction for the six Zones we reviewed. The six Zones were as follows:

Empowerment Zone	Report Number	Issue Date
Cincinnati, Ohio	2003-CH-1009	January 28, 2003
Cleveland, Ohio	2003-CH-1016	April 25, 2003
Huntington, West Virginia/Ironton, Ohio	2003-CH-1006	December 31, 2002
Minneapolis, Minnesota	2003-CH-1007	January 3, 2003
Norfolk/Portsmouth, Virginia	2003-PH-1001	December 20, 2002
St. Louis, Missouri/East St. Louis, Illinois	2003-KC-1003	December 26, 2002

We concluded that HUD's Office of CPD lacked an adequate system of oversight and control over its Empowerment Zone Program. Specifically, CPD needs to improve its oversight of the Cities' use of HUD funds (Empowerment Zone, Section 108 Loan Guarantee, and Economic Development Initiative Grant) for the program. HUD did not adequately confirm that the Cities' projects complied with the respective federal requirements and their contracts with the projects' administering entities regarding the use of HUD funds. Five of the six Zones we reviewed inappropriately used some of their HUD funds for the program.

We also found that CPD did not effectively assess the status and progress of the Cities' programs by adequately verifying the accuracy of the June 2001 and/or June 2002 Annual Reports submitted by the Cities. The six Cities we reviewed provided inaccurate information to HUD for 38 of the 50 activities (76 percent) we evaluated from the 2001 and/or 2002 Annual Reports. These Reports contained inaccuracies regarding the outputs of 32 projects, milestones of 26 projects, and sources and/or uses of funds of 20 projects.

As a result: (1) HUD lacks assurance that the Cities were efficiently and effectively using their HUD funds; (2) HUD lacks accurate information to assess the Zones' progress on meeting the goals of their Strategic Plans; and (3) the impression exists that the benefits of the program were greater than what was actually achieved.

We recommended that the Office of CPD implement procedures and controls to ensure HUD funds for the Empowerment Zone Program are used efficiently and effectively, issue additional guidance regarding the use of HUD funds to ensure the funds benefit Zone residents, and implement procedures and controls to ensure that verifications of Annual Reports are conducted as required. (Report No. 2003-CH-0001)

Of the six Empowerment Zones we reviewed during our multi-location audit, one Zone audit report, **Cleveland, OH**, was issued during this reporting period. In Cleveland, we found that: (1) controls over HUD funds were not adequate; (2) accomplishments were inaccurately reported; (3) Zone residents were not benefiting from projects; and (4) program income was not properly managed. All 10 of the projects we reviewed incurred inappropriate or unsupported expenditures. The City inappropriately used nearly \$6.9 million of HUD funds that did not benefit the City's Zone Program or were not matched with in-kind contributions. The City also lacked documentation to support that another \$4.7 million in HUD funds paid benefited the program. As of November 2002, the City spent \$22 million of HUD funds for its Zone Program on the 10 projects.

The audit also found that the City inaccurately reported the actual status and/or progress for eight of the 10 (80 percent) projects in its June 30, 2001 Annual Report. The report contained inaccuracies related to the eight projects' progress on projected outputs, milestones, and sources and/or uses of program funds. In addition, the City used \$13.2 million of the \$13.7 million in HUD monies committed for its program to fund three projects that have not provided benefits to Zone residents or benefited only 25 percent of Zone residents as of November 2002. The three projects are scheduled for completion in December 2004. Since the three projects spent 96 percent of their HUD funds committed, benefits to Zone residents would be expected. However, this has not occurred.

Feds want Cleveland to pay back millions from neighborhood plan

MIKE TOBIN
AND ANGELA TOWNSEND
Plain Dealer Reporters

The federal government wants Cleveland to repay \$11.6 million for badly managing projects meant to help people in its poorest neighborhoods.

City officials objected yesterday to the findings of a new audit and defended their handling of the empowerment zone program, a vehicle for pumping federal money into struggling neighborhoods.

"These are worthy projects that have made improvements to the landscape of the city," said Economic Development Director Steven Sims. "They've removed blight and serve as catalysts for projects."

The auditors recommend that the city repay the money to the U.S. Department of Housing and Urban Development, but Sims is optimistic that the figure can be

reduced or eliminated.

The city has 120 days to respond to HUD's findings. Similar audit findings in other cities have taken more than a year to resolve, said Finance Director Robert Baker, who does not expect Cleveland's case to be resolved any quicker.

Cleveland recently hired the Deloitte & Touche accounting firm to review the empowerment zone program and recommend ways to improve its management.

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The City did not follow its Economic Development Initiative Grant Agreement with HUD and its contract with Fairfax Renaissance Development Corporation (FRDC) to ensure that program income was remitted to the City and deposited into its loan repayment account. The account was established by the City as security for the repayment of its loan guarantee. FRDC is fully funded with initiative grant funds from the City's Empowerment Zone Program and Community Development Block Grant funds, and receives fees for development services it performs. FRDC received over \$1.1 million in development fees between 1996 and 2002.

We recommended that the Office of CPD assure that the City reimburses its Empowerment Zone Program for the nearly \$6.9 million of inappropriately used HUD funds, provides documentation to support over \$4.7 million of unsupported payments, and implements controls to correct the weaknesses cited in this report. (Report No. 2003-CH-1016)

HOME, HOME Investment Partnership, Community Development Block Grant, and Housing Rehabilitation Programs

In response to a request from HUD's Caribbean Office of CPD, we performed an audit of the Puerto Rico Department of Housing's (Department) State HOME Investment Partnership Program in **San Juan, PR**. We found that the Department's HOME grants were unauditible and its financial management system was inadequate. Although these deficiencies were identified in prior independent public accountant reports and HUD monitoring reviews, they continued to exist because the Department did not provide sufficient staff and training to correct the problems and disregarded program requirements. We identified nearly \$1.7 million of ineligible program funds.

The Department did not accomplish its intent for two of three new housing development/rehabilitation projects tested. For the Paseo Horizonte II project, we found that HOME funds were spent for work not performed or that was incomplete, and for excessive costs. Over \$29,000 of the \$656,000 in HOME funds disbursed to the developer were ineligible and the remaining \$627,000 were unsupported. Our visit to the project found the site abandoned and unkempt. We found an eroded landfill, overgrown grass and bushes, and a missing manhole grill cover, exposing a hazardous hole four feet deep.



View of Paseo Horizonte II showing the abandoned site.



Partial view of houses under construction at Vilar Development project.

HOME funds expended for the Vilar Development project were inadequately supported, and the files lacked construction permits and other required documents showing building compliance for a housing project located in a flood zone. Our visit to the project showed that the site appeared to have been abandoned for some time.

We recommended that HUD suspend disbursements of any further HOME awards until the Department can demonstrate accountability and compliance for all HOME grants. We also recommended that the Department be required to reimburse HUD ineligible costs of nearly \$1.7 million, determine the eligibility of \$627,000 in unsupported costs, and determine the status of the projects and possibly save over \$1 million. (Report No. 2003-AT-1006)

We audited the City of **Bridgeport, CT**'s HOME Investment Partnership Program and identified nearly \$1 million in unsupported costs. The City: (1) could not demonstrate that rehabilitation costs for 13 projects, funded with \$1 million in HOME funds, were justified and reasonable; (2) allowed developers to contract with identity of interest contractors contrary to its written agreement; (3) failed to ensure that HOME Program funds were used efficiently, resulting in potentially excessive rehabilitation costs and developer profits upon sale of the properties to homebuyers; (4) failed to properly apply recapture/resale provisions/amounts in the event of resale for projects; (5) imposed incorrect periods of affordability for projects; (6) did not maintain adequate documentation demonstrating that the projects were sold to and/or occupied by low-income families; and (7) did not adequately monitor the tenants' eligibility and condition of the HOME assisted properties.

The City concurred that mistakes were made in the administration of the HOME Program; nonetheless, units were produced, met local codes and housing quality standards, and have been maintained. The City contends that the costs were reasonable for the units. Therefore, the City only concurred that \$50,000 should be repaid due to income ineligibility of one recipient.

We recommended, among other things, that the City be required to provide documentation to justify the necessity and reasonableness of project costs or reimburse the HOME Program nearly \$1 million from non-federal funds. (Report No. 2003-BO-1003)

In response to a citizen's complaint, we conducted an audit of the Upfront Grant and the HOME loan provided to the Spanish Village Community Development Corporation (SVCDC) in **Houston, TX**. The complainant alleged wrongful expenditures of government funds, violations of grant and loan agreements, failure by HUD and the City of Houston to follow Upfront Grant and HOME loan guidelines, and political influence that prevented HUD from declaring the SVCDC in default of its agreements. We concluded that several of the citizen's allegations were valid.

We found more than \$90,000 of ineligible and unsupported expenses charged to a federal loan. We also found that, possibly because it lacked the administrative capacity to complete renovations, the SVCDC violated grant and loan agreements and could not even start HUD funded renovations on the Spanish Village Apartments until long after the renovations were supposed to be completed. Neither HUD nor the City of Houston Housing and Community Development Department had a plan for ensuring completion of the renovation project even after the project was more than four years overdue. SVCDC finally completed the first phase of the renovations in January 2001; however, the renovations did not meet HUD standards and work ceased again with no restart date planned. As a result, the residents of Spanish Village continue to live in substandard units. Our audit did not substantiate any undue political influence.

HUD issued SVCDC a default letter on March 12, 2003, with options for SVCDC to return the property back to HUD or sell it to a buyer with the capacity to complete the renovations and operate the property as low-income housing. Therefore, we recommended that HUD continue with its remedial action by establishing a plan and timeframes for action if SVCDC does not comply with the terms of the default letter. Further, in order that the funds can be put to better use, we recommended that HUD deobligate the remaining Upfront Grant of about \$1.4 million to SVCDC, and require the City of Houston to reimburse its HOME investment trust fund the amount expended on the incomplete project and to deobligate a \$498,000 HOME loan to SVCDC. (Report No. 2003-FW-1004)

In response to a Congressional request, we performed an audit of the City of **Montgomery, AL's** CDBG Program activities related to the Madison Park sewer project. The Congressional request was based on a citizen's complaint alleging misappropriated funds, suspected improprieties, and inadequate controls over the project. We found that the City did not: (1) use its CDBG funds prudently for the Madison Park community to connect 25 residences to sewer facilities after it spent over \$700,000 to do so; and (2) maintain adequate records on CDBG activities for Madison Park.

We recommended that HUD require the City to: (1) connect residents to existing sewer facilities in the Madison Park community; and (2) establish an adequate recordkeeping system and other basic controls to ensure its activities are in accordance with applicable HUD requirements. (Report No. 2003-AT-1005)

In response to a Hotline complaint, the OIG audited the CDBG Program of Oakwood Neighborhood Association in **Kalamazoo, MI**. The complainant alleged that the Association's former board treasurer misused program funds. The Association is a subrecipient of the City of Kalamazoo's Block Grant Program.

We found that the Association did not adequately account for the source and use of CDBG funds. Specifically, the Association: (1) did not maintain complete and accurate accounting books and records; and (2) submitted inaccurate monthly expense claims to the City for reimbursement. We attributed these deficiencies to the fact that the Association's former board treasurer lacked an adequate segregation of his assigned duties, a knowledge of accounting principles, and established accounting policies and procedures.

We recommended that HUD require the Association to implement procedures and controls to segregate accounting duties over the program to the extent practical; maintain bank and accounting records on-site; and provide periodic financial reports to its board. In addition, HUD should require the City of Kalamazoo to discontinue providing CDBG Program funds to the Association until it develops and maintains written accounting procedures, source documents, a chart of accounts, a cash receipts and disbursements journal, and a general ledger, and segregates duties over the program. (Report No. 2003-CH-1015)

Following a citizen complaint to Congress, we audited Housing Continuum, Inc.'s Homebuyers Assistance Program. The complainant alleged that Housing Continuum, located in **Geneva, IL**, failed to ensure that rehabilitated homes met HUD requirements. HUD's HOME Investment Partnership Program funded Housing Continuum's Homebuyers Assistance Program.

We found that Housing Continuum did not ensure that rehabilitated homes met HUD's housing quality standards and/or requirements of the State of Illinois. Specifically, Housing Continuum failed to sufficiently document the required cost analysis and did not assess the reasonableness of the rehabilitation contractors' proposed contract prices. Housing rehabilitation work was not authorized, not provided, or was improperly performed. Also, contractors did not obtain construction permits in a timely manner, as required.

We recommended that HUD assure that the Housing Continuum reimburses its Homebuyers Assistance Program nearly \$68,000 for the inappropriate use of HUD funds, implements controls and procedures to ensure that the procurement of housing rehabilitation services meets all applicable requirements, and requires contractors to obtain the necessary permits. (Report No. 2003-CH-1017)



Example of housing rehabilitation work that was improperly performed at one of Housing Continuum's projects. Electrical wiring not installed in conduit.

Section 108 and Economic Development Initiative

In response to a request from HUD's Georgia State Office, Office of CPD, we audited the City of **Atlanta, GA's** administration of a Section 108 loan and an Economic Development Initiative grant totaling \$7.2 million. The project is known as Historic Westside Village. The City and its subrecipient, the Atlanta Development Authority (ADA), did not adequately manage and control the project. The City allowed significant violations of HUD requirements to occur without early detection or prompt corrective action, and failed to adequately monitor the performance of subrecipients to ensure compliance with HUD program requirements.

The City and ADA improperly allowed an ADA affiliate, Inner City Development Corporation (ICDC), to perform as a grant subrecipient without executing a subrecipient agreement. ICDC improperly paid \$1.35 million of Section 108 funds for non-competitively selected service vendors and over \$163,000 for other ineligible and unsupported costs. The City and ADA did not competitively procure 22 service contractors and did not execute a contract with a "for-profit" company, Historic Westside Partners (HWP), to perform as the project's exclusive development and management agent. The City and ADA also allowed "for-profit" affiliates of HWP and ICDC to become exclusive developers with ownership interests in project land and leases without competition, and without compensation to the City or the Section 108 Program. The opportunity to collect at least \$1.7 million of program income from the sale of one land parcel was not pursued, and project related revenue totaling more than \$403,000 was not properly recorded as project revenue. In addition, the City and ADA did not comply with HUD requirements pertaining to project budget approvals and accounting.

We recommended that HUD initiate sanctions against City, ADA, and ICDC officials responsible for program violations. We also recommended that HUD require the City to: (1) provide evidence that its management control and accounting systems comply with HUD requirements before awarding any further funding; (2) recover land or appropriate program income from those parcels; and (3) repay \$1.65 million of non-competitively procured services and ineligible and unsupported costs. (Report No. 2003-AT-1004)

Entangled in Vine City

'The city lost control': Officials scramble to save project to renew Historic Westside Village.

By DAVID PENDERED
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Atlanta city officials are scrambling to salvage what they can of a major development project designed to restore a historic black community so blighted that heroin dealers and hookers work openly just blocks away.

Located near the Georgia Dome in an area known as Vine City, the Historic Westside Village was planned as a showcase of government-designed urban renewal. After 25 years on the

drawing board, Westside Village was to open fully by 2002 as a mini-city providing up to 1,500 jobs, new housing, retail, offices, a multiplex movie theater and a six-story hotel.

But the project, with the Atlanta Development Authority as master developer, was loaded with so many expectations that it is imploding. The federal government has issued a scathing report on the city's oversight, the primary developer has pulled out, a bank has called for early payment of part of its loan because a construction

deadline was missed, and the only buildings on the site house a Blockbuster, Publix, SunTrust branch bank and a restaurant where workers are finishing the interior.

"The city lost control of the project," is the blunt assessment in a recent audit by the federal Department of Housing and Urban Development, which provided a loan and grant to the project totaling \$7.2 million.

The audit charges the city gave private developers land that should have been sold to pay off HUD loans, spent \$1.35 million without competitive bids or contracts, lost records related to expenditures and paid above-market

► Please see WESTSIDE, E6

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HOPWA and Supportive Housing Programs

Safe Space, Inc., a nonprofit in **New York, NY**, could not provide adequate assurances that \$2.2 million (over \$537,000 for the Housing Opportunities for Persons with Aids (HOPWA) Program and \$1.67 million for the Supportive Housing Program (SHP)) in costs either paid with grant funds or allocated to activities were actually applicable to the grant programs. An OIG review of the grantee's books and records pertaining to its HOPWA and SHP Programs disclosed that the grantee did not maintain adequate books and records to account for expenditures charged to the programs, or adequate documentation to support that grant funds were only expended for eligible program activities. Specifically, the grantee failed to properly maintain accounting records to document the basis for allocating costs charged to individual grant programs. This occurred because grantee officials failed to comply with federal requirements and regulations pertaining to charging of costs to grant programs, which provide that actual conditions must be taken into account when selecting a base to be used in allocating costs to each grouping of benefiting functions.

We recommended that HUD instruct the grantee to obtain an independent public accounting (IPA) firm to evaluate the manner in which costs were allocated to the various HUD grant programs and other funding sources. The IPA should certify whether the method used to allocate costs produced allocated amounts that were commensurate with the benefits derived. HUD should also instruct the grantee to reimburse to HUD any amount of the \$2.2 million that the IPA does not certify to as being an eligible cost that is allocable to the HUD funded grant programs. In addition, we made recommendations to improve the grantee's controls and enhance compliance with HUD requirements and regulations. (Report No. 2003-NY-1802)

In **Denver, CO**, the OIG reviewed the Colorado Coalition for the Homeless' administration of its SHP grants. The audit was initiated based on a complaint regarding the Coalition's administration of HUD grant funds. We found that the Coalition's management controls were not adequate to ensure that HUD grant monies were being used for eligible and supported program costs.

Contrary to HUD requirements, the Coalition did not adequately support the source and application of HUD funded activities. The Coalition used various budgets and/or estimates for charging direct and indirect salaries and other operating and supportive services to its SHP grants. Subgrantees carrying out various segments of supportive housing for the HUD funded programs were not allocating costs on a properly supported basis and

for the actual costs of providing housing to program grant recipients. In addition, the Coalition charged various miscellaneous ineligible costs to its HUD grants. As such, the Coalition cannot fully support that the charges to the HUD grants represent the actual amount expended for each individual grant and program activity.

HUD requires that part of the SHP costs be funded by the grantee and used for eligible grant program activities. In the most current Annual Performance Reports for nine of the Coalition's SHP grant projects, the Coalition reported that over \$283,000 in cash match funds were provided and used for eligible program activities. However, the cash match funds reported were not supported as expenditures of the particular SHP project, nor were the funds recorded on the individual grant project's books of account.

The Coalition charged the maximum five percent administrative allowance for its administrative fee under the two SHP projects we reviewed, rather than an amount based on actual supported costs. The Coalition based the five percent administrative total on the yearly budgets and estimates of its total general administrative costs, and as such, considers the maximum five percent amount as justified. However, the \$148,000 charged to the two SHP projects during the audit period is not supported by actual supported costs.

We recommended that the Coalition: (1) implement an adequate direct cost allocation system that properly allocates its salary and other related costs to the various HUD SHP grants and activities in conformity with HUD and OMB requirements; (2) revise its provisionally HUD approved indirect cost proposal to equitably allocate its administrative and indirect costs in conformity with HUD requirements; (3) submit its cash match during the implementation of the grant activities and use such monies for eligible program activities; and (4) repay the ineligible amounts charged to the HUD funded grants. (Report No. 2003-DE-1006)

The OIG completed a limited review of the 1736 Family Crisis Center's (FCC) SHP operations and found that FCC, located in **Los Angeles, CA**, did not have adequate controls in place to ensure it would meet federal and grant agreement require-

ments. Specifically, FCC did not: (1) adequately account for grant funds; (2) sufficiently establish procedures to ensure only eligible and applicable expenditures were charged to SHP grants; and (3) promptly establish a cost allocation plan to properly allocate indirect cost pools. During the review, with the exception of the implementation of a cost allocation plan, we noted that FCC had already established and implemented accounting systems and procedures to correct these control weaknesses.

We recommended that HUD determine the eligibility of about \$91,000 in direct operating costs, and follow up on FCC's implementation of its indirect cost allocation plan to ensure it is being implemented as planned. (Report No. 2003-LA-1802)

Investigations

During this reporting period, the OIG opened 48 investigation cases and closed 13 cases in the Community Planning and Development Program area. Final judicial action taken on these cases during the period included \$303,396 in recoveries/receivables, \$123,065 in restitution, \$26,400 in fines, 13 convictions, pleas, and pre-trial diversions, 15 indictments/informations, 19 administrative sanctions, 16 arrests, and 108 months in prison. The results of our more significant investigations are described below.

Disaster Assistance Funds – State of New York

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

Defendant Bryan Fuhr was sentenced in **New York, NY**, in Federal Court for the Southern District of New York, to one year probation and 200 hours of community service, and was fined \$2,000. Fuhr

previously pled guilty to theft of federal government money. He participated in a scheme to defraud HUD and the Lower Manhattan Development Corporation (LMDC). LMDC was created by the State and City of New York after the September 11, 2001 terrorist attacks to coordinate the rebuilding and revitalization of Lower Manhattan. LMDC received over \$2.7 billion from HUD to fund the grant program.

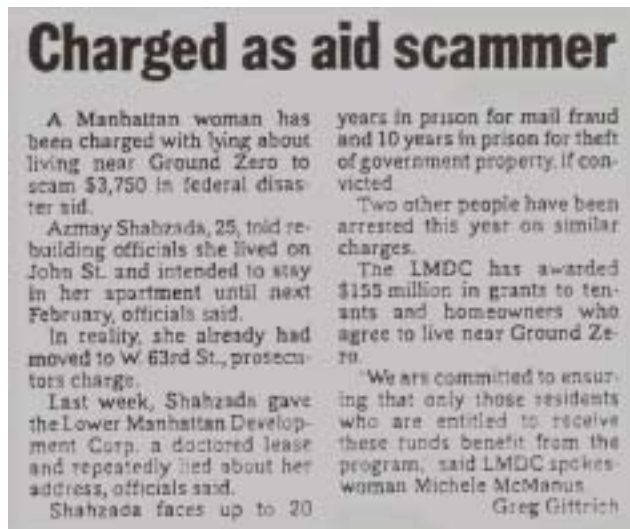
Defendant Allan Klein pled guilty in **New York, NY**, in Federal Court for the Southern District of New York, to one count of theft of government money and one count of mail fraud in connection with a scheme to defraud HUD and the LMDC. Klein devised a scheme to fraudulently obtain money from a grant program.

In **New York, NY**, an attorney representing defendant David Zimmer submitted a check for \$280,000 to the U.S. Attorney's Office for the Southern District of New York. The check was made payable to the Empire State Development Corporation (ESDC). Zimmer, a resident of Maryland, was previously arrested and charged with theft of government money and wire fraud. On the same day, a seizure warrant was issued out of the U.S. Attorney's Office, Southern District of New York, and \$169,991 was seized from a bank account maintained by Zimmer. The \$280,000 constitutes a return of the grant money on two applications submitted to ESDC by Zimmer.

In **New York, NY**, in Federal Court for the Southern District of New York, an attorney for the mother of deceased David Corea reimbursed \$23,396 to ESDC upon realizing that Corea's estate was not entitled to the World Trade Center Business Recovery Grant (WTCBRG). After the terrorist attacks, the WTCBRG Program was established by ESDC to provide assistance to certain businesses in lower Manhattan that were adversely impacted by the attacks. The WTCBRG Program is funded through a \$375 million appropriation from HUD.

Defendants Jobim Rose, Azmay Shahzada, and Allan Klein were indicted in **New York, NY**, in Federal Court for the Southern District of New York, on charges of theft of government funds and mail fraud in connection with a scheme to defraud

HUD and the LMDC of federal grant funds. The defendants allegedly devised a scheme to fraudulently obtain money from this program designed to retain and attract residents to Lower Manhattan.



The Daily News, June 27, 2003

Investigations Involving Public Officials

Defendant Martin Barnes, the former mayor of Paterson, was sentenced **Newark, NJ**, in Federal Court for the District of New Jersey, to 37 months in prison, three years supervised release, and 200 hours of community service for accepting between \$200,000 and \$300,000 in bribes and gratuities during his tenure as mayor. Barnes accepted free travel to places that included Rio De Janeiro and Aruba; took tax deductions for trip expenses paid by his corrupt association with *United Gunite Construction, Inc.*, of Irvington, NJ; accepted female companionship paid for by *United Gunite*; and accepted home improvements, including a custom swimming pool and waterfall in his backyard, along with clothing and cash. Barnes' corrupt behavior started on almost his first day in office and continued as a systematic and routine way of business during his terms as mayor. He pled guilty in July 2002 to one count of mail fraud and one count of subscribing to a false tax return.

Defendants David W. Moore, former mayor of **Beaumont, TX**, and John K. Davis, former Beaumont city councilman, were sentenced in Federal Court for the Eastern District of Texas. Moore

received 20 months in prison and two years supervised release, while Davis received 33 months in prison and three years supervised release. Both were ordered to pay \$30,000 jointly in restitution to the City of Beaumont. The defendants were convicted in November 2002 of accepting bribes from San Antonio, TX businessman Terry Samuel in return for their support of Samuel's application on a small business loan from the City. This City money consisted of HUD Community Development Block Grant Program funds. Moore was convicted on 13 counts and Davis on 11 counts of conspiracy, bribery, money laundering, and fraud.

Defendant Sara Bost, former mayor of **Irvington, NJ**, was sentenced in Federal Court, District of New Jersey, to 12 months incarceration, two years probation, and 150 hours of community service, was fined \$2,000, and ordered to pay \$100 in special assessment fees. In April 2003, Bost pled guilty to one count of attempted corruption of a witness. She admitted that in April 1999, she attempted to persuade a government witness to provide false or misleading information to federal authorities conducting an investigation into the use of Community Planning and Development funds to rehabilitate a recreation center. Bost admitted that she attempted to persuade this witness into giving false testimony about her acceptance of a kickback from a paving contractor involved with the rehabilitation project.

In **Milwaukee, WI**, in Federal Court for the Eastern District of Wisconsin, defendant LaRosa Roberta Cameron, also known as Roberta Allen, former executive director of the Williamsburg Heights Community Block Club Association (WH), and the daughter of former City of Milwaukee alderman Rosa Cameron, pled guilty to participating in a scheme to conceal a material fact in relation to the award of Community Development Block Grant funds by the City of Milwaukee to WH. LaRosa Roberta Cameron was charged in a four-count indictment in October 2002 to which she ultimately pled guilty. The fourth count of that indictment charged both LaRosa Roberta Cameron and her sister, LaZanda Moore, with participating in a scheme with their mother, Rosa Cameron, to hide the immediate family conflict of interest relationship

between the daughters on behalf of WH and the mother, in her positions as member of the City's Community Development Committee and member of the Common Council, on behalf of the City. The other three counts of the indictment were additional charges against Rosa Cameron. Rosa Cameron has already been sentenced pursuant to this indictment and is currently serving her prison sentence. Trial for LaRosa Roberta Cameron and her sister, LaZanda Moore, was scheduled to begin on August 11, 2003; however, due to the sudden development of serious medical problems in the family of a defense attorney, Moore's trial is now expected to be substantially delayed. LaRosa Roberta Cameron is scheduled to be sentenced on October 29, 2003.

Theft/Embezzlement

A four-count complaint was unsealed in **Manhattan, NY**, in Federal Court for the Southern District of New York, charging Rabbi Milton Balkany, also known as Yahoshua Balkany, with misappropriating \$700,000 in federal grant money. Balkany, president and director of Bais Yaakov, a Jewish day school in Brooklyn, applied for and later received a \$700,000 Economic Development Initiative (EDI) grant from HUD. He allegedly represented to HUD that the entire grant amount would be used to pay off a mortgage on a building located on the Bais Yaakov property for an entity called the "Children's Center of Brooklyn" to house educational and therapeutic programs for disabled preschool children.

In November 2001, OIG began a preliminary investigation of several EDI grants that had been awarded in the New York metropolitan area, including the "Children's Center" grant, and learned that the "Children's Center" had failed to file any of the regular progress reports required by HUD. Balkany refused to provide OIG with access to the school's books and records. Records subsequently obtained from Chase Manhattan Bank showed that all the money received from HUD in December 1999 had been withdrawn in early February 2000, a two-month period in which Balkany wrote more than 250 checks against the account. One check was used to pay down a mortgage against the Bais Yaakov property, which at the time of the grant totaled more than \$1 million. The complaint states further that

Balkany diverted funds to several individuals and entities who were not entitled to the funds. For example, \$300,000 was diverted to a corporation in which Balkany's son-in-law was an officer, and \$80,000 was diverted to a variety of other Rabbis and Jewish schools and organizations in Brooklyn. Another \$78,000 in checks were made payable to Rabbi Balkany. Balkany surrendered to the authorities on August 26, 2003.

In addition to the \$700,000 grant, Bais Yaakov received over \$2.7 million in other EDI grants from HUD for FYs 1999, 2001, and 2002. Another grant application in the amount of \$1.5 million for FY 2003 has been withheld by HUD pending the outcome of the investigation.

Defendant Betty Jane Anderson, former property manager of the Becker County Economic Development Authority (EDA), was sentenced in Becker County Criminal Court, **Detroit Lakes, MN**, to 23 months incarceration and \$73,599 in restitution following her earlier guilty plea to theft by swindle for her role in embezzling EDA funds. Anderson stole EDA checks made out to tenants, landlords, and vendors. She then set up fictitious bank accounts and subsequently deposited the stolen funds in those accounts.

Defendant Edward Scarborough was arrested and pled guilty in **New York, NY**, in Federal Court for the Southern District of New York, to one count of theft of government property. Scarborough received approximately \$320,545 in Supportive Housing Program funds from HUD's Office of Community Planning and Development. He also received approximately \$84,000 in grant monies from the New York State Department of Labor provided by the Department of Health and Human Services. Scarborough created an organization called the Institute for Development of Disabled Americans which was to provide training for disabled veterans in the culinary arts. These monies were converted for his own use.

In **Reno, NV**, defendant Mary Long, the former managing director of Pahrump Family Resource Center, a nonprofit, pled guilty in the Fifth Judicial District Court of the State of Nevada to two counts of forgery and embezzlement. Between October 2000

and August 2002, Long cashed checks for her personal use from the account of the nonprofit totaling between \$60,000 and \$85,000. During that period, the nonprofit received \$29,427 in Housing Opportunities for Persons With AIDS funds from HUD via the City of Las Vegas.

In **Kansas City, MO**, defendant Sylvester Holmes, former president of the Black Economic Union, pled guilty in Federal Court for the Western District of Missouri to two counts of theft concerning programs receiving federal funds. The Black Economic Union is a not-for-profit community development corporation dedicated to the redevelopment and revitalization of distressed or blighted communities within Kansas City. As president, Holmes solicited bribes and diverted payments from the Union to personal bank accounts.

Defendant Terry Lee Rhodes was arrested in **Las Vegas, NV**, and was transported to Los Angeles, CA. Rhodes, who was indicted in 2002, was an employee of Toney Chisum, Jr., president of *American Philanthropy Association (APA)*. Defendant Chisum was previously found guilty in **Los Angeles, CA**, in Federal Court for the Central District of California, of one count of conspiracy, five counts of making false claims to HUD, five counts of theft of federal government funds, and one count of making false statements to HUD. *APA* owned and operated three homeless shelters in Los Angeles. Chisum and Rhodes submitted homeless shelter attendance logs that included fraudulent and fictitious names in order to receive federal funds from the Los Angeles Homeless Services Authority's Winter Shelter Program. The City and County of Los Angeles funded the Winter Shelter Program using Emergency Shelter Grant dollars provided by HUD. *APA* received more than \$500,000 under the Winter Shelter Program between 1994 and 1998. Rhodes was a fugitive prior to his recent arrest. Chisum is scheduled for sentencing November 17, 2003.

In **Salt Lake City, UT**, defendant Christy Marie Martinez was indicted in Federal Court for the District of Utah on four counts of theft of government funds. Martinez, a former caseworker for the Salt Lake Community Action Program's Housing

Opportunities for Persons with AIDS (HOPWA) Program, allegedly embezzled over \$50,000 in program funds. She created false supporting documentation to justify HOPWA payments to “vendors” on behalf of HOPWA clients, and diverted payments prepared for HOPWA “clients” to her personal benefit. As an example, Martinez used HOPWA funds for her vacation, a car loan, payments to a family member, credit card payments, car repairs, and utility bills.

False Statements

Defendant Thomas E. Keehn, Jr., the president of *Certified, Inc.*, a home improvement company incorporated in the State of Maryland, was sentenced in **Baltimore, MD**, in Federal Court for the District of Maryland, to six months with an electronic monitor, five years probation, fined \$20,000, and ordered to pay \$31,000 in restitution to the District of Columbia’s Department of Housing and Community Development. Keehn was also ordered to notify all jurisdictions in which he holds home improvement licenses of his conviction and to provide proof to the court of those notifications. Keehn previously pled guilty to participating in a fraud scheme in which he submitted false proposals on behalf of other contractors to the Department of Housing and Community Development in order to win 15 home repair contracts worth over \$220,000. Keehn used the Postal System to courier some of the false bids to the government agency for evaluation.

In **Albany, GA**, in Federal Court for the Middle District of Georgia, defendant Everett Cordy was sentenced to two years probation, fined \$1,000, and ordered to pay a \$100 special assessment fee. Cordy submitted false statements to HUD on two grant applications on behalf of Albany State University, which requested matching funds for the benefit of the Consumer Credit Counseling Service of Southwest Georgia.

Defendant William McQuinn Jackson pled guilty in **San Antonio, TX**, in Federal Court for the Western District of Texas, to one count of mail fraud. Jackson, a co-defendant in the case, produced false income tax return statements for other defendants (Pedro Octavio Estevez, vice president of *Estevez Monroe and Associates (EMA)*; Juan Carlos

Estevez, president of *EMA* and *Estevez Monroe, Inc. (EMI)*; Ricardo M. Estevez, secretary of *EMI*; and the corporations *EMA* and *EMI*). Jackson prepared these fraudulent tax returns for Pedro Estevez and the corporations *EMA* and *EMI* (to include the other two brothers) to secure \$285,909 in Rental Rehabilitation funds (HUD Community Development Block Grant funds) from the City of San Antonio. These funds were provided to the City to develop the Elmhurst Apartments in San Antonio and provide affordable housing for low- and moderate-income families. Estevez, the principal defendant, did not meet the terms of the loan and misused HUD funds. The development was unlawfully sold on April 7, 2000, prior to completion of the project. Jackson produced a falsified income tax return statement to misrepresent the other defendants’ financial positions to the City and to HUD by making false statements that they had the collateral to pay for the loan and to rehabilitate Elmhurst Apartments. Defendants Juan Carlos Estevez and Ricardo Estevez pled guilty to mail fraud on May 13, 2002; their sentencings are pending.

Illegal Disposition of Asbestos

A **Coos County, NH** Grand Jury returned an eight-count indictment against developer Kevin Craffey and foreman Jose Fonseca for illegally disposing of asbestos. Charges include endangerment and reckless conduct for exposing workers to asbestos hazards; conspiring to remove asbestos materials in violation of regulations; conspiring to illegally dispose of asbestos waste; and illegal disposal, removal, and abatement of asbestos. A \$1 million Community Development Block Grant was provided to the Town of Whitefield, NH, to enable Craffey to purchase and rehabilitate an historic hotel in the community. Craffey was to refurbish water and sewer lines.

OIG Offices of Audit and Investigation — Joint Efforts

Defendant Bradley D. Jones was sentenced in **Utica, NY**, in Federal Court for the Northern District of New York, to six months home detention, five years probation, and 100 hours of com-

munity service, and was ordered to pay \$63,065 in restitution. In February 2003, Jones pled guilty to a one-count felony information for theft of property from an organization receiving federal assistance. Jones was the controller for *Utica Community Action, Inc.*, a federally funded, nonprofit agency providing anti-poverty programs to the Utica area. This investigation into *Utica Community Action's* financial activities was conducted in response to a Congressional inquiry. The audit/investigation found 25 suspicious checks payable to Jones. Jones admitted that, while employed as controller, he issued agency checks payable to himself, cashed those checks, and used the proceeds for his personal benefit.

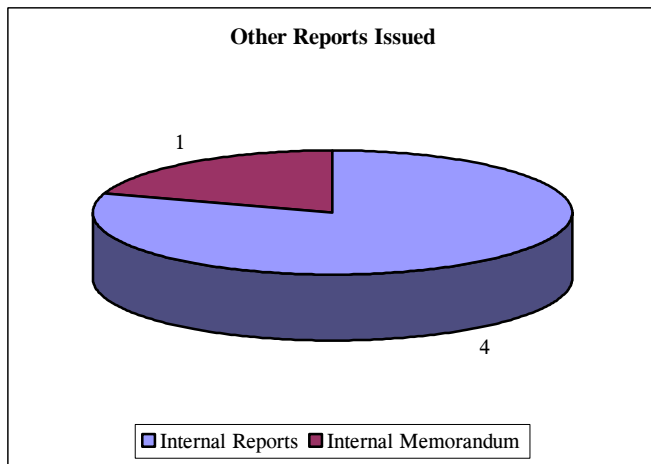
Defendants Nuru and Zem Zem Abdulkadir entered into a civil settlement with the **Houston, TX** U.S. Attorney's Office, Southern District of Texas, in connection with a false claims fraud investigation. The Abdulkadirs misrepresented their household income in order to receive mortgage down payment assistance through the City of Houston under the HUD HOME Program. The Abdulkadirs agreed to repay a lump sum of \$4,250.

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Chapter 6 — Other Significant Audits and Investigations

Audits

During this reporting period, the OIG issued four internal audits and one internal memorandum involving areas of HUD operations that do not fall under major HUD programs reported in previous Chapters.



We audited HUD's Training Academy, Staffing Efforts, Information Security Program, administration of Section 3 of the HUD Act of 1968, and the administrative operations of the Office of Federal Housing Enterprise Oversight. The results of these audits are described below.

HUD Training Academy

In response to an anonymous hotline complaint, we audited the HUD Training Academy's (HTA) acquisition practices. The complaint included numerous allegations. However, based on the results of our survey work, we determined that only the allegations related to HTA's acquisition practices had merit.

HTA did not comply with applicable acquisition regulations when obtaining services from outside sources. Specifically, with assistance from HTA, Watson Wyatt Worldwide (www), a subcontractor of Marasco Newton Group (Marasco), prepared the statement of work (SOW) and an unsolicited proposal to perform the work outlined in the SOW. Based on the unsolicited proposal, the Office of Personnel Management (OPM) awarded a \$500,000

contract to Marasco noncompetitively. In addition, HTA inappropriately acquired government specific training. Furthermore, HTA had no documents supporting its decision to noncompetitively select www. These deficiencies occurred because the HTA administrator and staff circumvented the federal acquisition regulation and HUD procurement policy when awarding services to www. As a result, Marasco was awarded a \$500,000 contract noncompetitively, and www received nearly \$150,000 without competing for the services.

We recommended that the Deputy Assistant Secretary for Administration, Office of Human Resource Management: (1) cancel the Marasco Newton Group contract for the HTA Core Competencies Project under HUD's Interagency Agreement with OPM; (2) recompetete the HTA Core Competencies Project contract but exclude Marasco Newton Group and www from the competition; (3) take appropriate action against the HTA administrator and remove her authority to execute service contracts; (4) take appropriate action against the HTA director for allowing the contractor to receive an award for a SOW it had prepared; (5) train the HTA administrator, directors, and government technical monitors regarding contract solicitation requirements and the appropriate methods for acquiring contract services; and (6) ensure that all staff responsible for acquiring training services and products adhere to appropriate procedures.

During our review, the Assistant Secretary for Administration approved several changes that should prevent the recurrence of the deficiencies described in this report. Among those changes were the reassignment of the HTA administrator and deputy administrator to positions outside the HTA, and the requirement that all purchases exceeding \$2,500 must be approved by the Assistant Secretary or Deputy Assistant Secretary. (Report No. 2003-AO-0002)

Staffing 9/30

Between July and September 2002, HUD undertook Staffing 9/30, a large-scale recruiting and hiring

effort. The goal of Staffing 9/30 was to maximize the staffing levels of the Department before the end of FY 2002 by filling mission critical positions. An OIG audit found that because Staffing 9/30 was inadequately planned and directed, information used to track hiring levels was unreliable, and HUD hired too many people. In particular, HUD exceeded its staffing level set forth in the FY 2003 budget by about 300. As a result, a significant number of the positions filled were not mission critical positions as intended, and HUD had to reprogram over \$20 million to cover additional personnel costs. In other words, the results of Staffing 9/30 were inconsistent with program requirements and staffing needs. Moreover, the hiring actions were not based on the Resource Estimation and Allocation Process, which was to be the means to estimate, justify, and allocate staffing resources.

We recommended that HUD implement the corrective action plan submitted to Congress to ensure compliance with full-time equivalent ceilings in the future. (Report No. 2003-AO-0004)

HUD's Information Security Program

The Federal Information Security Management Act of 2002 (FISMA) requires the OIG to perform an annual independent evaluation of HUD's information security program and practices. Our review found HUD in general compliance with the requirements of FISMA except for Section 3544(b)(7)(C)(i). This section requires notification of the OIG on security incidents. HUD has no procedure for notifying the OIG of such incidents. Furthermore, HUD lacks adequate policies and procedures for documenting incident response activities. In the previous fiscal year (FY 2002), HUD reported 51 denial of service attacks, 24 probes, and 330 Internet service provider attacks. In FY 2003, only one incident has been reported. Given the number of incidents reported in FY 2002, HUD's network vulnerabilities recently identified by a HUD subcontractor, and the numerous public warnings about worms affecting systems using Microsoft products, there may have been incidents during this fiscal year that have gone unreported. No recommendations were made in this audit. (Report No. 2003-DP-0803)

Administration of Section 3 of the HUD Act of 1968

We completed a survey of HUD's administration of Section 3 of the Housing and Urban Development Act of 1968 to determine if HUD is administering Section 3 in accordance with the Act. The purpose of Section 3 is to provide, to the greatest extent feasible, jobs and economic opportunities to low-income and very low-income persons, particularly public housing residents. Section 3 also provides contracting opportunities for businesses that are owned by low-income people or that provide employment to low-income people. We found that HUD does not have adequate controls in place to ensure it is meeting the intended purpose of Section 3 of the Act. However, at the time of our review, HUD was in the process of taking action to address the control weaknesses.

The Office of Fair Housing and Equal Opportunity needs to develop and implement necessary controls to ensure the Section 3 program is functioning as intended, as well as a timeframe to ensure controls are implemented expeditiously. At a minimum, these controls should include: (1) developing a system to track recipients; (2) developing a method to evaluate the recipient reporting system; and (3) developing a system to monitor recipients that ensures that contracts contained in the Section 3 clause, recipient reporting system, are effective and that Section 3 residents are informed of and given available job and training opportunities.

The Office of Fair Housing and Equal Opportunity agreed with the two recommendations we made and developed various corrective actions and timeframes to correct the program weaknesses. (Report No. 2003-KC-0001)

Administrative Operations, Office of Federal Housing Enterprise Oversight

OIG audited certain administrative operations of the Office of Federal Housing Enterprise Oversight (OFHEO), the safety and soundness regulator for the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. We found that OFHEO did not ensure that it used its funds at optimum efficiency, as the Office paid for lodging

costs above the maximum per diem rate and leased office space in excess of the government recommendations and averages. In some cases, OFHEO did not detect travel card misuse or travel voucher errors by its employees. We concluded that OFHEO's compensation levels are comparable to other regulatory organizations.

We recommended that the Director of OFHEO improve its policies and procedures in order to ensure that its funds are used efficiently, and ensure procedural changes that have been initiated for the review of travel related expenditures are fully implemented and effective. (Report No. 2003-KC-0002)

Investigations

During this reporting period, the OIG opened 27 investigation cases and closed 24 cases involving areas of HUD operations that do not fall under specific program categories. Final judicial action taken on these cases during the period included \$4.4 million in restitution, one conviction, nine indictments/informations, one administrative sanction, and 37 months in prison. The results of some of these investigations are described below.

Defendant Enos Ying, controller of *Financial Research Services (FRS)*, was sentenced in **Miami, FL**, in Federal Court for the Southern District of Florida, to 37 months imprisonment and three years supervised release, and was ordered to pay \$4,414,813 in restitution to HUD/Ginnie Mae. Ying was previously convicted of 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. Ying engaged in a conspiracy with Robert Barrera, the owner of *FRS*, to defraud Ginnie Mae and investors who purchased mortgage-backed securities. Barrera and Ying were able to place 15 fictitious mortgages, totaling \$1,294,270, in several Ginnie Mae pools, resulting in a loss to Ginnie Mae. In addition, they kept the loan pay-off proceeds on 39 mortgages amounting to \$3,173,247 and continued to make the monthly mortgage payments so that Ginnie Mae would not discover the fraudulent scheme. Ginnie Mae was required to reimburse investors over \$4.4 million as a result of the scheme. Barrera pled guilty in October

2002 to conspiring to commit mail and wire fraud and submitting false statements to HUD/Ginnie Mae, was sentenced to 27 months imprisonment and two years supervised release, and was ordered to pay \$4,467,517 in restitution to HUD/Ginnie Mae.

Defendant Andrew Johnson, a HUD construction analyst, was indicted in **Houston, TX**, in Harris County District Court, on two counts of felony forgery of a commercial instrument. Johnson allegedly passed two counterfeit cashiers' checks, each for \$10,000, as the down payment for a conventional home loan. Johnson has indicated that the counterfeit checks were given to him as payment for architectural work he allegedly performed during non-duty hours for an outside party.

Defendants Frank DeMarc and Christopher Jones were indicted in **East Brunswick, NJ**, in the County of Middlesex Court, on 10 counts of fraudulent use of a credit card and burglary in connection with the theft of a HUD OIG credit card. In February 2003, DeMarc and Jones broke into an OIG vehicle and stole a satchel containing an OIG credit card. They used the credit card to make numerous purchases. One of the merchants had a videotape of an individual using the stolen card; the tape was used to identify Jones and he, in turn, identified DeMarc as his accomplice. Jones failed to appear at his May 30 arraignment; he was subsequently arrested.

In **Oklahoma City, OK**, Vernita Smith, an investigator with the HUD Office of Fair Housing and Equal Opportunity, was given a letter proposing 14 days off without pay for misleading HUD's National Relocation Center (NRC) into believing that her family moved with her to and from Mississippi. In June 1998, Smith completed the standard NRC moving questionnaire and reported that her spouse and four children were moving with her to Jackson, MS. She subsequently filed vouchers and received funds for her and her family to move to Mississippi the same year. In reality, Smith was the only person who moved to Mississippi. In February 2000, Smith again filled out a questionnaire claiming that she and her family were moving back to Oklahoma from Mississippi; she received funds for her family to move back. Smith has admitted that her family did not make both moves. The NRC calculated the loss to be approximately \$10,000.

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Chapter 7 — Outreach Efforts

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

- Inspector General Kenneth Donohue, Deputy Assistant Inspector General for Investigation Daniel Salas, Deputy Assistant Inspector General for Audit Michael Phelps, Regional Inspector General for Audit (RIGA) Heath Wolfe, and Assistant Special Agent in Charge (ASAC) Ray Espinosa met with HUD management staff and representatives from the U.S. Marshals Service, the FBI, the Secret Service, and the IRS Criminal Investigation Division in **Columbus, OH**, to discuss the OIG's role in the Southern District of Ohio relative to our audit, fraud, and fugitive felon missions.
- Inspector General Donohue addressed the annual meeting of the Connecticut Chapter of the National Association of Housing and Redevelopment Officials (NAHRO) in **Uncasville, CT**, and the HUD Supervisory Monitoring Training Group in **Cambridge, MA**. The theme of Mr. Donohue's remarks was the need for cooperative efforts between NAHRO/HUD program staff and the OIG. He discussed instances where HUD, public housing agencies, and the OIG have been successful in working together, and noted recent collaborative efforts between HUD and the OIG, such as the memorandum of understanding between the Office of General Counsel and the OIG on enforcement issues.

In addition, at the NAHRO meeting, ASACs Maureen Nelting and Diane DeChellis, along with Assistant Regional Inspectors General for Audit (ARIGAS) Cristine O'Rourke and Michael Motulski, made a presentation at one of the break-out sessions, providing an overview of the OIG and discussing examples of fraud in public housing. After Mr. Donohue's address at the HUD conference, ASAC Maureen Nelting and ARIGA Cristine O'Rourke made a presentation about the OIG and fraud schemes in various HUD programs.

- Inspector General Donohue addressed the Public Housing Authorities Directors Association at their conference in **Las Vegas, NV**. The IG asked the executive directors for their support for OIG's initiative to reduce income underreporting by public housing residents. He also announced the OIG's Fugitive Felon Initiative. From Las Vegas, Inspector General Donohue traveled to **Salt Lake City, UT**, to address the Bankruptcy Fraud Working Group organized by the Department of Justice. The OIG has considerable involvement with bankruptcy fraud as part of our white collar crime investigations into both Single Family and Multifamily Housing Program activities.
- In **Washington, DC**, Inspector General Donohue was host to Mark Graham, Assistant Director for Modernizing Services of the Northern Ireland Housing Executive. Their discussion touched on fraud by residents and developers and crime in multifamily housing. The Housing Executive is a quasi-public corporation responsible for 100,000 units of housing in Northern Ireland and has 3,000 employees and a \$600 million budget.
- Inspector General Donohue, Assistant Inspector General for Investigation (AIGI) Joe Haban, and Special Agent in Charge (SAC) of the Criminal Investigation Division John Dupuy visited the Financial Crimes Enforcement Center (Fincen) in **Vienna, VA**, as the guests of Fincen Director James Sloan. Fincen briefed the group on its

mission and made presentations on the Analytical System for Investigative Support (AS IS) and the Visual Links Systems software. Inspector General Donohue and AIGI Haban presented plaques to analysts from the AS IS and Proactive Targeting Section of the FincEN Office of Investigative Support. The plaques recognized FincEN's support for OIG efforts at FincEN.

- Inspector General Donohue, SAC Barry McLaughlin, AIGI Joe Haban, Deputy AIGA Mike Phelps, and RIGA Health Wolfe visited the HUD **Detroit, MI** Field Office and met with the FBI, Marshals Service, U.S. Attorney's Office, and HUD program and OIG staff. Among those items discussed were ongoing OIG cases, law enforcement partnerships, the Fugitive Felon Initiative, and OIG's commitment to working with HUD staff on program related issues.
- Following opening remarks by HUD Secretary Martinez and Deputy Secretary Jackson, approximately 65 OIG and HUD program staff met in **Philadelphia, PA**, for a Forum on Fraud, Waste and Abuse. In their remarks, the Secretary and Deputy Secretary reaffirmed the Department's commitment to ethics and accountability in HUD programs and operations. Inspector General Donohue addressed the attendees on the challenge of finding innovative solutions to long-standing Departmental problems. Forum participants were divided into five panels on Single Family Housing, Multifamily Housing, Community Planning and Development, Public and Indian Housing, and HUD Administration and Operations. Panelists discussed the extent of fraud, waste and abuse in their respective areas along with root causes and proposed solutions. OIG will provide a leadership role in working with HUD program staff on these issues.
- AIGA Jim Heist made a presentation at the Mid-Atlantic Intergovernmental Audit Forum in **Ocean City, MD**. He discussed the Mid-Atlantic Region's June 2002 audit of FHA single family property sales to owner/occupants. The presentation illustrated how the OIG used data mining techniques to analyze various databases to target

potential areas of fraud, waste, and abuse in this area of FHA's property disposition process.

- In **Washington, DC**, OIG conducted an orientation session for interns from Virginia Polytechnic Institute and State University. In addition to a discussion on the OIG mission given by Inspector General Kenneth Donohue, Mike Stephens, Deputy Inspector General, discussed the implementation of the President's Management Agenda, Jim Heist, AIGA, and Joe Haban, AIGI, provided overviews of the Offices of Audit and Investigation, Sandra Elion, Director, Headquarters Audits Division, explained exactly what the OIG is about, Patrick Bannon, Senior Auditor, discussed HUD's Continuum of Care Program, and Doris Denmon, Program Analyst, described the OIG Hotline and its functions.



Participants in Virginia Tech (VT) orientation session. From l to r: Alvin Manalo, VT Summer Intern; Marianne Nazzaro, Presidential Management Intern, University of Pittsburgh; Kenneth M. Donohue, HUD Inspector General; Amber Rhodes, VT Summer Intern; and Russell Mills, VT Summer Intern.



Participants in Virginia Tech (VT) orientation session. From l to r around table: Saundra Elion, Director, OIG Headquarters Audits Division; Alvin Manalo, VT Summer Intern; Amber Rhodes, VT Summer Intern; Russell Mills, VT Summer Intern; Marianne Nazzaro, Presidential Management Intern, University of Pittsburgh; Sarah Abramson, VT Summer Intern; Myphoung Nguyen, Computer Specialist, OIG Technical Oversight and Planning Division; and Kieu-Hanh Vu, Computer Specialist, OIG Information Systems Audits Division.



Norfolk State University President Dr. Marie V. McDemmond presents Cluster Member Organization of the Year Award to OIG. From l to r: Dr. McDemmond; Saundra Elion, Director, OIG Headquarters Audits Division; and Donna Hawkins, Assistant Director, OIG Headquarters Audits Division.

- Under the leadership and efforts of Saundra Elion, Director, OIG Headquarters Audits Division, the OIG has emerged as an active partner in the **Norfolk, VA State University's (NSU's)** Cluster Program. The Cluster Program is an association of academics and businesses partnering to offer and preserve high quality educational and professional experiences for students and faculty at NSU. The NSU president presented the HUD OIG with the Cluster Member Organization of the Year Award. This award represents NSU's highest honor to a partnering organization. The criteria for being selected for this award are long-term commitment to creating opportunities for NSU students in the areas of employment, internships, mentoring, and continuing education; contributions to the academic life of NSU through curriculum advising and opportunities for research and professional development of faculty and students; and contributions to the Cluster Program in areas of leadership and broad-based participation.

During the last semiannual reporting period, Director Elion hosted two NSU accounting students on a three-day job shadowing experience at HUD Headquarters. In addition, Elion exposed the students to activities outside of OIG, including a hearing on Capitol Hill, to expand their knowledge of accounting principles and auditor independence, a meeting with the president of a nonprofit organization who discussed how the results of a recent audit positively impacted the organization's operations, and an address by HUD Secretary Martinez to members of the National Community Reinvestment Coalition.

- OIG completed the last of five outreach sessions that were performed with HUD's Office of Multifamily Housing over a two-week period in **Scranton, Hershey, and Philadelphia, PA, and Wilmington, DE**. OIG representatives, including SAC Robert Brickley, ASAC Rene Febles, and Senior Special Agent Daniel Ellis, spoke to over 300 managers and owners of HUD assisted developments about our mission and priorities, including our new Section 8 investigative initiative, and the importance of working effectively with both OIG and HUD program staff to reduce fraud, waste, and abuse in the Rental Assistance Program. OIG's message dovetailed with the HUD Office of Multifamily Housing's presentation on the new occupancy guidelines that impose stricter

requirements regarding tenant leaseholds and income recertifications.

- RIGA Nancy Cooper addressed members of the Florida Association of Housing and Redevelopment Officials (FAHRO) at their Annual Conference in **St. Augustine, FL**. At FAHRO's request, RIGA Cooper discussed how the OIG selects organizations to audit, what constitutes typical findings at public housing authorities, what housing authorities can do to minimize deficiencies, and the process to resolve audit report findings. She also provided tips to prevent fraud in housing authority operations. Senior Auditors Tony Bailey and Barry Shulman also participated in the conference.
- In **Dallas, TX**, ASAC Robert Tighe and ARIGA Windell Durant represented OIG in a meeting with the Northern District of Texas Bankruptcy Fraud Working Group. U.S. Attorney Jane J. Boyle, Northern District of Texas, chaired the meeting. Other attendees included representatives from the U.S. Trustee's Office, IRS Criminal Investigation Division, FBI, Social Security Administration, and the U.S. Attorney's Office. The participants discussed methods to facilitate the investigation and prosecution of bankruptcy fraud cases in the Northern District of Texas. Also discussed was an upcoming training session for trustees and special agents on working these cases. All attendees agreed to have a representative available for monthly meetings to discuss referrals from the U.S. Trustee's Office.
- ARIGA Robert Woodard and Senior Auditor Rose Capalungan attended the Pacific Northwest Regional Workshop for the Welfare to Work Voucher Program (WTW) in **Portland, OR**. ABT Associates sponsored the workshop. Participants included HUD program staff in Portland, HUD Headquarters officials, numerous public and Indian housing authority representatives, state representatives of the Temporary Assistance for Needy Families (TANF) Program from Alaska, Oregon, and Washington, and ABT staff. The workshop included plenary and breakout sessions to discuss strategies and incentives for linking WTW participants to HUD's Family Self-Sufficiency Program and TANF welfare reform, its impact on WTW, and challenges and opportunities to clarify program accomplishments and measure achievements. In response to workshop participants' requests, ARIGA Woodard and Senior Auditor Capalungan also discussed the ongoing Moving to Work and upcoming Welfare to Work internal audits.
- ASAC Brad Geary and RIGA Heath Wolfe made a presentation to a group of 20 Community Planning and Development representatives from various cities and municipalities in the **Chicago, IL** area. Specifically, they discussed the OIG's role in audits and investigations of HOME funds, which are disbursed from HUD for the revitalization and rehabilitation of single family homes.
- Senior Special Agent Daniel Ellis spoke before the Commonwealth of Pennsylvania's Real Estate Commission in **Harrisburg, PA**, and the South Central Pennsylvania Predatory Lending Task Force in **Middletown, PA**. The State Real Estate Commission grants and renews real estate licenses and administers and enforces the laws of the Commonwealth relating to real estate transactions. The Predatory Lending Task Force is responsible for developing and implementing a regional program to identify and prevent predatory lending, and assisting victims of predatory lending. Agent Ellis spoke about the mission of the OIG Office of Investigation and our success in identifying and reporting fraudulent real estate activity. In addition, he discussed the OIG's commitment to identifying and investigating those who engage in fraud.
- ASAC Max Eamiguel and ARIGA Windell Durant were invited by representatives from the Offices of Freddie Mac and the City of **Dallas, TX**, to give a presentation on predatory lending practices. The audience was made up of public and private housing providers and fair housing enforcement agency representatives in the Dallas area. The purpose of the presentation was to inform attendees about OIG investigative efforts in addressing loan origination fraud and illegal property flipping. Also present were John Loza, Deputy Mayor, City of Dallas, Vaughn Irons,

National Director of Community Development, Freddie Mac, Congressional and HUD representatives, and case workers.



ASAC Max Eamiguel and ARIGA Windell Durant make presentation on predatory lending practices in Dallas, TX.

- Senior Special Agent Daniel Ellis spoke to staff members of the Housing Authority of the City of **York, PA**. Agent Ellis discussed the OIG's aggressive and proactive stance in identifying and prosecuting Public Housing and Housing Choice Voucher Program tenants who fraudulently receive housing assistance subsidies by failing to report their true income, and allowing unauthorized person(s) to reside with them in their subsidized residences. Agent Ellis provided instructions to the attendees in identifying and documenting fraud, how to contact the OIG and report suspected fraud, and how the OIG will work with them as a team to investigate and prosecute violators, as well as terminate any violators' subsidies. As a result of Agent Ellis' proactive enforcement activities in York public housing, the Housing Authority of the City of York has developed a fraud committee which identifies and gathers information on suspected tenant fraud and notifies the OIG.

On the same day, Agent Ellis was invited by the Housing Authority of the City of York, police officials, and community leaders to participate in National Night Out. National Night Out is an annual event designed to heighten crime and drug prevention awareness; generate support and participation in anti-crime efforts; strengthen neighborhood spirit and police/community relations; and send a message to criminals letting them know that neighborhoods are organized and

will fight back against crime. Agent Ellis was invited as a result of his outreach to the Housing Authority and police department and his proactive enforcement against fraud in York public housing. His efforts have resulted in tenants being prosecuted for fraud and/or terminated from the Public Housing Program for engaging in fraud, criminal, or drug activities.

- ASAC Brad Geary participated in a cable television program with an FBI Agent and two representatives from Attorney's Title Guaranty, a local title company in **Chicago, IL**. The program, called "Real Estate Roundtable," discussed various fraud schemes, how HUD is affected by unscrupulous real estate transactions such as flipping and predatory lending, and what law enforcement is doing to crack down on real estate fraud.
- SAC Peter Emerzian, ASAC Maureen Nelting, and Special Agent Brian Gosselin attended a meeting of the Vermont Public Housing Authority Executive Directors held at the **Barre, VT** Housing Authority. SAC Emerzian discussed the OIG's mission, told the group about types of fraud in public housing, and solicited attendees to contact the OIG if they need assistance with respect to fraud matters.
- ASAC Herschell Harvell, Jr., was the guest speaker for the Inland Empire Chapter of the California Association of Mortgage Brokers in **Los Angeles, CA**. ASAC Harvell provided an historical perspective of the OIG, our mission, current organizational structure, and the investigative resources of the Los Angeles OIG Office, and gave an overview of current mortgage fraud crime trends. ASAC Harvell has been asked to be a guest speaker at the California Association of Mortgage Brokers State Conference in San Diego in October 2003.
- In **Washington, DC**, Senior Special Agent Daniel Ellis was selected by the Federal Trade Commission (FTC), through the American Association of Residential Mortgage Regulators (AARMR), to participate as a panelist at the FTC's Unfair and Deceptive Subprime Lending Summit. Agent

Ellis was recognized as an expert by the AARMR in identifying and investigating mortgage fraud. The AARMR also nominated Ellis to serve on their National Mortgage Fraud Task Force Symposium. He participated on a panel that discussed the broadening law enforcement efforts to target unfair and deceptive practices of home mortgage brokers and appraisers. Agent Ellis spoke about the OIG's proactive efforts to identify and prosecute appraisers who engage in fraudulent activities, how to identify fraudulent appraisals, and what areas to focus on in pursuing prosecution against these perpetrators.

- ASAC Marc Montague and FBI Special Agent Verna Kessler made a presentation to 150 members of the American Escrow Association (AEA) at their National Conference in **Anchorage, AK**. The presentation was an overall view of mortgage fraud, including indicators and types of schemes, and how members of the AEA can help prevent and report fraudulent activities within the real estate industry. The presentation also focused on a recently completed OIG loan origination fraud investigation in Boise, ID.
- In **Marquette, MI**, ASAC Brad Geary and ARIGA Tom Towers participated in a public housing fraud panel attended by 100 representatives from public housing authorities around the State of Michigan. They discussed the OIG's role in both audits and investigations of housing authorities in relation to embezzlements and Section 8 fraud.
- Senior Special Agent Daniel Ellis was invited by the Pennsylvania Association of Housing and Redevelopment Associations to speak at their Spring Conference and Exhibition in **Seven Springs, PA**. The attendees included representatives from public housing agencies (PHAs) throughout the Commonwealth of Pennsylvania. Agent Ellis discussed the OIG's role in identifying and prosecuting Public Housing and Housing Choice Voucher Program tenants who fraudulently receive housing assistance subsidies. He also provided instructions on how to identify and document fraud, how to contact the OIG and report suspected fraud, and how the OIG will

work with PHAs to investigate, prosecute, and terminate tenants' subsidies.

- ARIGA Ron Huritz made a presentation before existing and new grantee applicants for HUD's Office of Community Planning and Development's annual Supportive Housing Program Conference in **Chicago, IL**. ARIGA Huritz gave the approximately 25 attendees an overview of the OIG's functions and how the audit process works. This overview gave potential grant recipients an understanding of the Office of Audit's role and objectives when it performs an audit of a HUD grantee.
- In **Bellaire, MI**, ASAC Brad Geary made a presentation on real estate fraud to the Michigan Land Title Association. Approximately 100 people were in attendance. Topics included basic fraud found in FHA loan files, red flags, and schemes affecting the title industry.
- The **Chicago, IL** Region OIG Office of Investigation hosted a meeting of the Association of Financial Crimes Investigators (AFCI). The AFCI is a group of federal, state, and municipal investigators as well as bank and retail investigators. On a monthly basis, the AFCI shares information of interest for the purposes of combating and detecting fraud mutually beneficial throughout the AFCI community.
- In **Burlington, VT**, ASAC Maureen Nelting and Special Agent Brian Gosselin met with Peter Hall, U.S. Attorney, District of Vermont. ASAC Nelting explained the OIG's mission and the focus of our current workload, and advised about the positive impact of a recent federal indictment, which was reported in the local press, of a subsidized tenant for not reporting true occupancy and income. ASAC Nelting and Agent Gosselin also discussed cases currently assigned to the U.S. Attorney's Office.
- As Chapter president, RIGA Heath Wolfe presided over a meeting of the Association of Government Accountants in **Chicago, IL**. As part of the meeting, SAC Barry McLaughlin, ASAC Ray Espinosa, and ASAC Brad Geary gave the 30

attendees an informative presentation on mortgage fraud and identity theft.

- In **Bangor, ME**, SAC Peter Emerzian, ASAC Maureen Nelting, and Special Agent Stephen Tufts met with Paula Silsby, U.S. Attorney, District of Maine. In addition to describing the organization and role of the OIG New England Regional Office, SAC Emerzian discussed the OIG's mission and the focus of our current workload, as well as cases currently assigned to the U.S. Attorney's Office in Maine.
- In **East St. Louis, IL**, Chicago ARIGA Ron Huritz addressed 95 members of the Illinois Association of Housing Authorities at their annual meeting. ARIGA Huritz's presentation introduced the group to the OIG's mission and objectives as they relate to public housing authority audits. He also stressed the importance of housing quality standards unit inspections, and responded to questions about what triggers OIG audits and how long the audit process generally takes.
- As part of a HUD Headquarters sponsored training program, OIG Special Agent Steve McCool made a presentation on interviewing techniques to 25 field staff from HUD's Quality Assurance Division in **Alexandria, VA**. The presentation included legal aspects of interviewing, suggestions for recognizing and overcoming possible deception by persons being interviewed, obtaining written statements, and testifying in court. Over the past year, OIG has provided several such presentations as a part of Quality Assurance Division training classes.
- RIGA Heath Wolfe, SAC Barry McLaughlin, ARIGA Tom Towers, and Special Agents Mike Wixted and Mike Catinella met with the new HUD **Detroit, MI** Field Office Director, Toni Schmiegelow, and made a presentation on the mission, goals, and purpose of the OIG. The meeting and presentation gave OIG staff an opportunity to establish a bridge of communication and partnership between the OIG and HUD.
- ARIGA Ron Farrell conducted an outreach session with HUD staff in **Loudonville, OH**, several of whom were HUD program directors. The group was gathered to discuss their Business Operating Plan for 2004. ARIGA Farrell's presentation provided an overview of the role of the OIG and how that role impacts HUD programs.
- RIGA Heath Wolfe and SAC Barry McLaughlin joined HUD's **Chicago, IL** Regional Director Joseph Galvan, Deputy Regional Director Beverly Bishop, and eight of their Field Office Directors at HUD's Region V Field Office Directors Meeting. RIGA Wolfe and SAC McLaughlin made a presentation on OIG operations. In addition, RIGA Wolfe discussed the current focus of the OIG's Chicago Office of Audit on mortgagees, nursing homes, and equity skimming, and the upcoming audit resolution training.
- RIGA Heath Wolfe and Administrative Officer Jennifer Houghton provided training relating to the HUD handbook on the Audits Management System. In particular, they discussed the implementation of audit recommendations. Their presentation provided HUD program staff in **Detroit, MI, Minneapolis, MN, Indianapolis, IN, and Milwaukee, WI**, with specific information regarding their role, as well as the OIG's role, in reaching resolution on audit recommendations. HUD staff response has been positive and attendance has averaged about 20 individuals per session.
- In **Grand Rapids, MI**, Chicago RIGA Heath Wolfe spoke to over 100 individuals from real estate related areas on the mission and functions of the OIG. This presentation was made in conjunction with HUD sponsored training on "Buying and Selling HUD Homes."
- RIGA Mike Beard chaired the Investigative Audit Committee meeting at the Southwest Intergovernmental Audit Forum in **South Padre Island, TX**. RIGA Beard gave a presentation on using the mail fraud statute to make good criminal cases from good civil cases.

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Chapter 8 – Regulations 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 123 regulations, funding notices, and other HUD directives and proposals. This Chapter highlights some of the resultant OIG recommendations.

Regulations

Empowerment Zones: Resident Benefit and Economic Development Standards for Grants

This rule proposes to establish review standards for determining whether grant funds provided to Empowerment Zones will provide a sufficient level of benefit to residents and also be used in conjunction with economic development activities consistent with the strategic plan for each Empowerment Zone.

We noted the need for a definition of an "empowerment zone resident" in the proposed rule change. In some of our recent audits, i.e., audits of the Huntington, WV and Ironton, OH Empowerment Zones, we questioned the interpretation of who was counted as an "empowerment zone resident." The earlier rule defined an empowerment zone resident as anyone within the zone either prior to or after receiving assistance with zone funds. Our audit questioned the appropriateness of creating housing within the zone and then bringing in residents from outside the zone. We requested adding a more specific definition of "empowerment zone resident" to ensure that empowerment zone funds serve their intended beneficiaries.

This proposed rule had not been finalized as of the close of the semiannual reporting period.

Notices

FY 2003 HOPE VI Notice of Funding Availability (NOFA)

HUD issued a NOFA to competitively distribute HOPE VI funds. The draft notice stated that any public housing agency awarded a HOPE VI grant must use a portion of the funds to establish a neighborhood network. We questioned the authority to combine the HOPE VI funding with neighborhood network funding. HUD's Appropriation Act allocated a separate \$5 million for neighborhood networks. The Appropriation Act mandated that HUD issue a separate NOFA to distribute the \$5 million of neighborhood network funding. This funding assists families in obtaining job skills by supporting local service providers and assisting resident in becoming self-sufficient.

HUD's Office of Public Housing agreed with our assessment and plans to issue a separate NOFA for neighborhood networks. The Department plans to award about \$180,000 to each successful grantee. HUD will fund 10 to 15 more neighborhood networks than originally planned.

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

HUD Notice: Authorization for Approval of Compromises and Write-Offs of Secretary Held Mortgages

HUD prepared a Notice authorizing the National Servicing Center (NSC) to approve compromising offers and write-offs of Secretary held mortgages. The Notice also outlined certain conditions required before NSC can write off a mortgage. For example, NSC can write off costs, not to exceed \$5,000, without government technical representative approval, if HUD or the contractor caused an error. Authorization had been granted to field offices through previous Notices, but this Notice was prepared to grant the authority to NSC and therefore superseded the previous Notices. This Notice specifically identified the Notices it was to supersede, but Notice numbers were incorrect.

HUD's Office of Housing had not responded to OIG regarding this Notice and therefore the Notice had not been finalized as of the close of the semiannual reporting period.

HUD Standard Forms

Revised FHA Multifamily and Health Care Closing Documents

As reported in our last Semiannual Report to Congress, the closing documents for multifamily rental projects and health care facilities have not been updated since the 1960s. Therefore, the Department prepared 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 rental Regulatory Agreement for rental housing projects (Sections 202 and 811 will have a separate agreement 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 Mortgagor's Certificate. Most notably, the Regulatory Agreement for health care facilities makes lessees responsible for the same level of financial reporting, securing of all personal property, and agreeing that the certificate of need and license cannot be transferred from the project. This change is made in part based on management decisions made in response to a prior OIG audit.

We nonconcurred 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 and some are not required by their state or local government to be licensed. The health care facilities' Regulatory Agreement does not cover rental issues and vice versa. HUD's Offices of Housing and General Counsel stated that they would correct this by having each Region amend its nursing home Regulatory Agreement based on the requirement for each state at the time of endorsement. We accepted this based on guidance for preparing the amendment to ensure consistency and completeness.

We also nonconcurred with the form in regard to where the Mortgagee's Certificate (Form HUD-92434) discusses 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 and the balance is for building repairs. Owners are using the entire Reserve for Replacement balance on major moveable equipment without regard to reserving funds for future major repairs. The Offices of Housing and General Counsel will specifically spell out these requirements in the Regulatory Agreement and Mortgagee's Certificate so that a bifurcated account exists limiting the use of each of these balances.

We also requested that the mortgagor be responsible for submitting to HUD any transaction funds received after a foreclosure is finalized. This would reach beyond the Regulatory Agreement period to cut HUD's losses and would cover excess bond funds.

HUD made acceptable changes and we lifted our nonconurrence. The closing documents had not been finalized as of the close of this semiannual reporting period.

Testimony

Federal Debt Collection: Mid-Year Update on Debt Collection Progress

In order to comply with the Debt Collection Improvement Act of 1996, the Department of Treasury has implemented a remarkably successful government-wide debt collection program. The Financial Management Service serves as the government's central administrative debt collection agency. We are aware that HUD is one agency currently using the debt collection tool and has been successful in directing its efforts in the Administrative Wage Garnishment debt area. The Department of Treasury requested comments on its testimony before the House Government Reform Committee.

To improve the process, we commented that the new debt collection tool should be tied into and interfaced with the Department's new Audit Resolution and Corrective Action Tracking System

(ARCATS). ARCATS, along with the soon to be replaced Departmental Automated Audits Management System, are the systems for tracking management decisions and should be linked to the new debt collection system. This link would allow an electronic interface for entering these debt collection transactions from the recommendation and management decision system into the debt collection system.

OIG comments were submitted to the Department of Treasury during this reporting period.



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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 and where management decisions were revised. It also contains a status report on HUD's implementation of the Federal Financial Management Improvement Act of 1996. In addition to this Chapter on audit resolution, see Appendix 2, Table A, "Audit Reports Issued Prior to Start of Period With No Management Decision at 9/30/03," and Table B, "Significant Audit Reports Described in Previous Semiannual Reports Where Final Action Had Not Been Completed as of 9/30/03."

Delayed Actions

Audits of HUD's FY 1991 through 2002 Financial Statements

First issued June 30, 1992. HUD has been preparing consolidated 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 execution 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 fiscal 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 and Atlanta

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

On September 9, 2002, the Deputy Assistant Secretary for Operations, CPD, sent a letter to the HHS Director of Community Services outlining the outstanding issues relating to the 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. HHS did not respond 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. HHS' June 30, 2003 response provided only information needed to resolve outstanding issues relating to the City of Philadelphia's Empowerment Zone Program. Consequently, the issues regarding the Cities of Atlanta and Chicago remain unresolved. While HUD has no control over HHS' actions, we will prepare a letter to the Deputy Secretary in October 2003 suggesting that he pursue the matter with HHS. (Report Nos. 1998-CH-1005 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 Community 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 then 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 (DEC) for appropriate enforcement action. The DEC staff in Los Angeles completed their review in June 2003 and submitted their recommendations to the Headquarters DEC for a final determination. Additional supporting documentation was requested and provided to the Headquarters DEC in September 2003. The DEC has been evaluating the merits of the case for over seven months; accordingly, we plan to prepare a memorandum in October 2003 to the DEC urging resolution of this long-standing matter. (Report No. 1999-SF-1003)

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

Issued October 20, 2000. The Authority mismanaged its Section 8 and Public Housing Programs and incurred over \$1 million in questioned and ineligible costs. Specifically, the Authority spent over \$795,000 of its Section 8 reserves for questionable public service activities, including police protection, recreation, and code enforcement that the City should have provided from its local tax revenues. Also, the Authority spent over \$2 million in a failed effort to construct a women's and children's housing resource center, including nearly \$210,000 in excessive fees and permits paid to the City. The delayed project put the Authority at risk of losing most of the \$5.8 million in bond funds originally committed to the project, and deprived the low-income community of needed housing and social services. In addition, the Authority had not complied with HUD requirements concerning Section 8 rent reasonableness, lease execution, and utility allowance payments, and had not implemented corrective actions to comply with procurement requirements. We recommended that HUD require the Authority to: (1) obtain additional supporting documentation or recover the \$1 million paid to the City; (2) submit evidence that it has the financial capability and commitment to complete construction of the center within a reasonable time; and (3) establish the necessary controls to improve its operations.

On February 13, 2001, the OIG agreed with management decisions proposed by the Florida State Office for the 14 report recommendations. HUD obtained final action on seven recommendations. HUD did not meet the February 13, 2002 target completion dates for the remaining seven recommendations that are now over 18 months past due. HUD disallowed over \$1 million in ineligible expenditures and continues to support the management decisions. For example, HUD has sent several letters to the Authority to obtain final resolution and the Authority and the City have had several meetings in an attempt to resolve the issues. However, the Authority has not obtained a repayment plan because the City refuses to pay or provide additional services in lieu of repayment. HUD instructed the Authority to continue to work with the City to recover the funds, but did not impose mile-

stone or target dates for the Authority to obtain a repayment plan or specify a plan of action should the City refuse to repay the funds. Meanwhile, the Authority and City continue to meet and debate the issues, while HUD has not pursued administrative actions to ensure collection of the funds. (Report No. 2001-AT-1001)

Significant Revised Management Decisions

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

Colonial Oaks Apartments, Houston, TX

Issued July 3, 2003. The owners of Colonial Oaks Apartments were not adequately managing the project. Although the owners kept the mortgage current, they did not establish or maintain controls, procedures or financial records that met HUD's requirements. As a result, the owners were in technical default of their mortgage. Since these problems were of an ongoing nature dating from the owners' assumption of the project, we recommended that HUD terminate the owners' self-management and require them to obtain the services of an independent property management agent. HUD agreed with our recommendation and directed the owners to hire an independent management agent by August 1, 2003. The owners hired a new on-site manager on August 1, 2003, but did not hire the required independent management agent.

HUD's Office of Asset Management, with the support of the Houston Multifamily Program Center and the Fort Worth Multifamily HUB, recommended, in August 2003, that HUD direct the mortgagee to accelerate the mortgage in order to proceed to foreclosure due to Regulatory Agreement violations. Foreclosure and sale of the property is the only available tool that the Department has to secure the asset and protect the Secretary's interest. Therefore,

the need for hiring an independent management agent is no longer necessary. HUD believes that it will potentially recover 50 percent of the mortgage amount at the foreclosure sale. As a result, approximately \$500,000 will be put to better use. On September 10, 2003, we agreed with HUD's revised management decision on this audit memorandum. The revised date for completion of corrective actions is October 1, 2004. (Report No. 2003-FW-1806)

Foster and Associates, Kalispell, MT

Issued September 28, 2001. Although Foster and Associates, management agent for Clark Fork Manor and Whitefish Manor, executed the needed certifications and collected management agent fees, it had not fulfilled the terms of the management certificates or administered the projects in full compliance with HUD requirements. The management agent had not ensured that the projects established and used required accounting records and obtained required annual financial audits. Additionally, management agent officials were serving as full time project employees and receiving salaries from the management agent. Receiving both management agent fees and full time administrative salaries is a violation of HUD requirements. Further, the boards of directors for the two projects did not take adequate actions to meet their overall responsibilities for ensuring that the projects were operated in conformity with HUD requirements. This included ensuring that the management agent was providing the required services for the projects. We recommended that the board of directors for each project take the necessary steps to implement proper administrative oversight for the projects.

We concurred with the Denver Office of Multifamily Housing's initial management decision, which was effective on January 16, 2002, with a planned final action target date of September 30, 2003. This decision stated that current management operations for the projects administered by Foster and Associates were not satisfactory, and HUD would require the projects' board of directors to replace the management agent.

On September 25, 2003, the Denver Office of Multifamily Housing requested that we agree to a revised management decision. Instead of replacing

Foster and Associates as management agent, HUD agreed with the board's request to retain the company with changes to its personnel and clear definitions of its duties and responsibilities and fee structure. HUD proposed that we close the recommendation based on HUD's approval of these changes. On September 29, 2003, we concurred with the revised management decision and closing action. (Report No. 2001-DE-1003)

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 their mediation plan required by FFMIA. In April 1998, HUD determined that 38 of its systems were not in substantial compliance with FFMIA. At the end of FY 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. HUD's next report on the status of its financial systems will be included in its FY 2003 Performance and Accountability Report, currently scheduled to be completed in December 2003.

Appendices

APPENDIX 1 - AUDIT REPORTS ISSUED

FOR THE PERIOD

APRIL 1, 2003 THROUGH SEPTEMBER 30, 2003

Internal Reports

Single Family

2003-AO-0003
2003-SE-0001

Audit Reports

Title I Loan Remittances Processed by the U. S. Department of Housing and Urban Development's (HUD's) Cash Management Branch, 08/12/2003.
Federal Housing Administration (FHA) Case File Review - Underwriting Practices and Loan Characteristics Contributing to FHA Loan Performance, 05/15/2003.

PIH

2003-DP-0001

Audit Report on the Public and Indian Housing Information Center (PIC) System, 09/10/2003.

CPD

2003-CH-0001

HUD's Oversight of the Empowerment Zone Program, 05/07/2003.

Miscellaneous

2003-AO-0002
2003-AO-0004
2003-KC-0001
2003-KC-0002

HUD Training Academy, 07/15/2003.
Review of the Department of HUD Staffing 9/30 Initiative, 08/14/2003.
Survey of HUD's Administration of Section 3 of the HUD Act of 1968, 06/24/2003.
Administrative Operations of the Office of Federal Housing Enterprise Oversight, 07/29/2003.

Single Family

2003-KC-0802
2003-NY-0801

Audit Memoranda*

Inappropriate Home Ownership Center Instructions, 07/31/2003.
Corrective Action Verification, Asset Control Area Program, Audit Report Number 2002-NY-0001, 09/30/2003.

Multifamily

2003-FW-0803

Equity Skimming from HUD Supported Projects: Haverstock I, II, & III, & Colonial Oaks, Houston, TX, 04/22/2003.

Internal Reports - continued

PIH

Audit Memoranda*

2003-SE-0802 Review of Complaints Regarding the Alaska Office of Native American Program's (ONAP's) Funding of Indian Housing Block Grants and Awarding Indian Community Development Block Grant Funds, 7/08/2003.

Miscellaneous

2003-DP-0803 Annual Evaluation of HUD's Information Security Program, 09/22/2003.

External Reports

Single Family

Audit Reports

2003-DE-1005 MortgageStream Financial Services, LLC, Non-Supervised Direct Endorsement Lender, Greenwood Village, CO, 09/15/2003. Questioned: \$141,934; Unsupported: \$73,843; Better Use: \$940,764.
 2003-KC-1006 Horizon Consulting, Inc., Lansdowne, VA, 06/24/2003. Better Use: \$12,360,078.
 2003-KC-1007 Management Solutions of America, Inc., Atlanta, GA, 07/31/2003. Better Use: \$7,004,323.
 2003-NY-1004 Colban Funding, Inc., Non-Supervised Mortgagee, Liverpool, NY, 07/24/2003. Questioned: \$214,889; Better Use: \$658,880.

Multifamily

2003-FW-1004 Citizen Complaint, Spanish Village Community Development Corporation, Upfront Grant and HOME Investment Partnership Program Loan, Houston, TX, 04/28/2003. Questioned: \$90,509; Unsupported: \$4,210; Better Use: \$1,975,710.
 2003-LA-1001 Jack Hall Waipahu, Westlake, and Kulana Nani Projects, Managed by Chaney, Brooks and Company, Honolulu, HI, 07/28/2003. Questioned: \$194,815.
 2003-SE-1004 CWCcapital, LLC, Multifamily Accelerated Processing Lender, Needham, MA, 09/25/2003.

PIH

2003-AT-1007 Citizen's Complaint, Mount Airy, NC Housing Authority, 07/31/2003.
 2003-BO-1004 Review of the Portability Features of the Section 8 Housing Choice Voucher Program, Brockton, MA Housing Authority, 07/17/2003. Questioned: \$416,740.
 2003-CH-1018 Chicago, IL Housing Authority, Outsourced Property Management Contracts Review, 07/18/2003. Questioned: \$11,223,024; Unsupported: \$11,223,024.

External Reports - continued

PIH

Audit Reports - continued

2003-CH-1019	Fayette County Housing Authority, Section 8 Housing Program, Connersville, IN, 07/25/2003. Questioned: \$721,549; Unsupported: \$44,804.
2003-CH-1021	Hamtramck, MI Housing Commission, Public Housing Program, 09/30/2003. Better Use: \$60,908.
2003-FW-1005	Housing Authority of the Seminole Nation of Oklahoma, Procurement of Housing Rehabilitation Services, Land, and Mobile Homes, Wewoka, OK, 09/10/2003. Questioned: \$780,447; Better Use: \$90,840.
2003-LA-1002	The Housing Authority of the County of San Mateo, Belmont, CA, 09/12/2003. Questioned: \$323,530; Unsupported: \$90,000.
2003-PH-1003	Housing Authority of Baltimore City, MD, HOPE VI Program, 09/04/2003. Questioned: \$2,083,574; Unsupported: \$15,937; Better Use: \$1,712,953.
2003-PH-1004	Housing Authority of Baltimore City, MD, Review of the HOPE VI Relocation Process, 09/04/2003. Questioned: \$97,697.
2003-PH-1005	Portsmouth, VA Redevelopment and Housing Authority, 09/23/2003. Questioned: \$8,092,936; Unsupported: \$8,092,936.
2003-PH-1006	Scranton, PA Housing Authority, Low-Income and Section 8 Programs, 09/25/2003. Questioned: \$297,491.
2003-SE-1003	Seattle, WA Housing Authority's Administration of the Welfare-to-Work Section 8 Tenant-Based Assistance Program, 05/29/2003. Questioned: \$130,391.

CPD

2003-AT-1004	Historic Westside Village, Section 108 Loan and Economic Development Initiative Grant, Atlanta, GA, 06/06/2003. Questioned: \$1,513,395; Unsupported: \$148,147.
2003-AT-1005	City of Montgomery, AL, Community Development Block Grant (CDBG) Program - Madison Park, 06/11/2003.
2003-AT-1006	Puerto Rico Department of Housing, State HOME Investment Partnership Program, San Juan, PR, 07/30/2003. Questioned: \$2,314,499; Unsupported: \$627,015; Better Use: \$1,029,814.
2003-BO-1003	City of Bridgeport, CT, HOME Investment Partnership Program, 05/16/2003. Questioned: \$989,929; Unsupported: \$989,929.
2003-CH-1015	Oakwood Neighborhood Association, CDBG Program, Kalamazoo, MI, 04/24/2003.
2003-CH-1016	City of Cleveland, OH, Empowerment Zone Program, 04/25/2003. Questioned: \$12,798,332; Unsupported: \$5,907,087.
2003-CH-1017	Housing Continuum, Inc., Homebuyers Assistance Program, Geneva, IL, 06/13/2003. Questioned: \$67,541.
2003-CH-1020	Indiana State Department of Health, Housing Opportunities for Persons with AIDS (HOPWA) Program, 07/29/2003. Questioned: \$171,716; Unsupported: \$84,699.

External Reports - continued

CPD

Audit Reports - continued

2003-DE-1006	Colorado Coalition for the Homeless, Supportive Housing Program Grants, Denver CO, 08/26/2003. Questioned: \$440,317; Unsupported: \$430,786.
2003-NY-1005	Empire State Development Corporation, CDBG Disaster Assistance Funds, New York, NY, 09/30/2003. Questioned: \$270,948.
2003-NY-1006	Lower Manhattan Development Corporation, CDBG Disaster Assistance Funds, New York, NY, 09/30/2003. Questioned: \$82,342; Unsupported: \$72,483; Better Use: \$93,214.

Multifamily

Audit Memoranda*

2003-CH-1802	Federal Property Management Corporation, Civil False Claims and Multifamily Equity Skimming, Indianapolis, IN, 09/29/2003. Questioned: \$400,000.
2003-FW-1806	Colonial Oaks Apartments, Houston, TX, 07/03/2003. Questioned: \$14,627; Unsupported: \$9,262; Better Use: \$504,525. Meadowbrook Manor of Topeka, KS, Section 232 Nursing Home Review, 06/04/2003.
2003-KC-1804	Shawnee Hills, Inc., Charleston, WV, 09/04/2003.
2003-PH-1802	

PIH

2003-BO-1801	Review of the Portability Feature of the Section 8 Housing Choice Voucher Program, Revere, MA Housing Authority, 05/02/2003.
2003-CH-1801	Citizens' Complaint, Oneida, NY Indian Nation, 04/03/2003.
2003-CH-1803	J.T. Eaton & Company, Inc., Civil False Claims, Twinsburg, OH, 09/30/2003. Questioned: \$79,298.
2003-FW-1804	Congressional Request, Housing Authority of the City of San Angelo, TX, 05/23/2003. Questioned: \$82,554.
2003-LA-1801	The Housing Authority of the City of Las Vegas, NV, Procurement and Contract Activities, 06/09/2003. Questioned: \$158,705; Unsupported: \$101,705.
2003-NY-1801	Union County, NJ, Division Of Community Development, Section 8 Housing Assistance and CDBG Programs, 05/12/2003. Questioned: \$282,635; Unsupported: \$73,165.
2003-PH-1803	Philadelphia, PA Housing Authority, Utilization of Tenant-Based Section 8 Funds, 09/24/2003.

External Reports - continued

CPD

Audit Memoranda* - continued

2003-DE-1802	Boulder, CO Community Planning and Development Programs, 07/22/2003.
2003-FW-1805	Citizen Complaint, Albuquerque, NM Housing Rehabilitation Program, Department of Family and Community Services, 07/02/2003.
2003-LA-1802	1736 Family Crisis Center (FCC), 09/12/2003.
2003-NY-1802	Safe Space, Inc., Housing Opportunities for Persons with AIDS (HOPWA) and Supportive Housing Programs, New York, NY, 07/24/2003. Questioned: \$2,213,000; Unsupported: \$2,213,000.

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

TABLE A

AUDIT REPORTS ISSUED PRIOR TO START OF PERIOD WITH
NO MANAGEMENT DECISION AT 09/30/03

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

TABLE B

SIGNIFICANT AUDIT REPORTS DESCRIBED IN PREVIOUS SEMIANNUAL REPORTS WHERE FINAL ACTION HAD NOT BEEN COMPLETED AS OF 09/30/03

Report Number	Report Title	Issue Date	Decision Date	Final Action
1995-CH-1009	Alliance Mortgage Corporation, Single Family Mortgage Insurance Program, Villa Park IL	08/08/1995	11/30/1995	Note 1
1997-CH-1010	Major Mortgage Corporation, Section 203(K) Rehabilitation Home Mortgage Insurance Program, Livonia, MI	09/17/1997	01/06/1998	06/01/2005
1998-CH-1005	City of Atlanta, GA, Empowerment Zone Program	09/28/1998	09/20/1999	Note 1
1999-NY-1004	Homestead Financial Services, Inc. Non-Supervised Mortgagee, Syracuse, NY	02/17/1999	06/25/1999	Note 1
1999-FO-0003	U.S. Department of HUD Fiscal Year 1998 Financial Statements	03/29/1999	09/30/1999	Note 2
1999-SF-1003	City of Lynwood, CA CDBG & Home Programs	08/19/1999	12/16/1999	Note 1
1999-CH-1803	Fairfield County, Community Housing Improvement Program, Lancaster, OH	09/15/1999	01/13/2000	Note 1
1999-NY-1007	Alliance Mortgage Banking Corp., Non-Supervised Mortgagee, Rochester, NY	09/27/1999	02/16/2000	Note 1
1999-DE-0001	Nationwide Review of HUD's Loss Mitigation Program	09/30/1999	03/31/2000	Note 2
2000-DP-0002	Initial Development Efforts of the Departmental Grants Management System	11/04/1999	09/19/2001	10/31/2004
2000-NY-1002	Target V Phase I Development Associates, Multifamily Housing Program, Bronx, NY	12/08/1999	05/08/2000	Note 1
2000-FO-0002	Federal Housing Administration, Audit of Fiscal Year 1999 Financial Statements	02/29/2000	08/09/2000	12/31/2005
2000-FO-0003	Attempt to Audit the Fiscal Year 1999 Financial Statements, U.S. Department of HUD	03/01/2000	09/29/2000	Note 2
2000-AT-1005	Benson, NC Housing Authority, Public Housing Programs	03/27/2000	09/13/2000	05/30/2004
2000-SF-0001	Single Family Production	03/30/2000	01/19/2001	Note 2

Report Number	Report Title	Issue Date	Decision Date	Final Action
2000-SF-1001	San Francisco, CA Housing Authority, Low-Income Housing and Section 8 Programs	03/31/2000	09/01/2000	Note 1
2000-DP-0804	Department's September 2000 Purchase of COTS Financial Management System	09/29/2000	03/30/2001	Note 1
2000-KC-0002	Housing Subsidy Payments	09/29/2000	02/21/2001	09/30/2005
2000-SE-0003	Final Report of Nationwide Audit, Use of and Disposition of Residual Receipts	09/29/2000	08/15/2001	12/30/2003
2001-AT-1001	Housing Authority of the City of Miami Beach, FL	10/20/2000	02/13/2001	Note 1
2001-SF-1802	HUD Earthquake Loan Program Funds (HELP), Woodland Hills, CA	02/08/2001	06/14/2001	Note 1
2001-DP-0801	Review of the Department's Internet Privacy Status	02/21/2001	04/23/2001	Note 1
2001-FO-0002	Federal Housing Administration, Audit of Fiscal Year 2000 Financial Statements	03/01/2001	07/24/2001	12/21/2006
2001-FO-0003	Audit of HUD Fiscal Year 2000 Financial Statements	03/01/2001	07/18/2001	Note 2
2001-CH-1005	London, OH Metropolitan Housing Authority, Safeguarding of Monetary Assets and Inventory	03/22/2001	07/18/2001	03/17/2004
2001-SF-1803	Supportive Housing Program Grant, Los Angeles, CA	03/23/2001	07/24/2001	Note 1
2001-FO-0004	Review of HUD's Internal Controls Over Fiscal Year 1999 Annual Performance Data	03/28/2001	07/24/2001	01/31/2004
2001-NY-1002	Belmax Management Corp., Management Agent, Brooklyn, NY	04/17/2001	07/13/2001	Note 1
2001-PH-1005	Housing Authority of the City of Pittsburgh, PA	05/03/2001	02/06/2002	10/31/2003
2001-SF-1804	Supportive Housing Program Grant, County of Orange, Santa Ana, CA	05/09/2001	09/26/2001	Note 1
2001-CH-1007	Detroit, MI Housing Commission, Hope VI Program	05/16/2001	09/13/2001	03/31/2006
2001-PH-0803	Philadelphia, PA Home Ownership Center, Single Family Disposition Activities	06/14/2001	06/14/2001	Note 2
2001-AT-0001	Nationwide Audit Results on the Officer/Teacher Next Door Program	06/29/2001	01/29/2002	12/31/2003

Report Number	Report Title	Issue Date	Decision Date	Final Action
2001-FW-1005	Harmony House, Inc., Harrison AR, Supportive Housing Program	08/27/2001	12/21/2001	Note 2
2001-AO-0003	Drug Elimination Funds Used for the Creative Wellness Program	08/29/2001	01/22/2002	12/31/2003
2001-DP-0003	Real Estate Management System (REMS)	09/28/2001	01/30/2002	Note 2
2001-KC-1005	First Community Resources, Inc., St. Louis, MO, Section 203(b) Home Mortgage Insurance Program	09/28/2001	01/17/2002	03/16/2004
2002-SF-0001	Nonprofit Participation, HUD Single Family Program	11/05/2001	08/30/2002	Note 2
2002-CH-1801	Housing Authority of the City of Evansville, IN	01/29/2002	05/18/2002	05/15/2005
2002-FO-0002	Federal Housing Administration, Audit of Fiscal Years 2001 and 2000 Financial Statements	02/22/2002	05/30/2002	12/31/2006
2002-NY-0001	Nationwide Audit - Asset Control Area Program, Single Family Housing	02/25/2002	06/17/2002	Note 2
2002-FO-0003	U.S. Department of HUD, Audit of Fiscal Years 2001 and 2000 Financial Statements	02/27/2002	08/16/2002	01/30/2004
2002-DE-0001	Nationwide Review HUD's Loss Mitigation Program (Follow-up)	02/28/2002	06/28/2002	Note 2
2002-PH-1001	City of Williamsport, PA, CDBG and HOME Investment Partnership Programs	03/19/2002	09/04/2002	Note 2
2002-NY-1001	City of Ithaca, NY, Community Planning and Development Programs	03/21/2002	07/23/2002	Note 2
2002-CH-1001	Ypsilanti, MI Housing Commission, Safeguarding Monetary Assets and Inventory	03/26/2002	07/24/2002	12/31/2003
2002-BO-1001	City of Worcester, MA, CDBG Program	03/27/2002	08/29/2002	07/01/2005
2002-BO-1003	Newport, RI Resident Council, Inc.	04/30/2002	09/16/2002	01/15/2008
2002-PH-0002	Single Family Sales To Owner-Occupant Purchasers	06/10/2002	09/30/2002	Note 2
2002-AT-1002	City of Tupelo, MS Housing Authority, Housing Programs Operations	07/03/2002	10/31/2002	04/30/2010
2002-AO-0001	The Grants Management Center's Operations	07/12/2002	11/18/2002	10/31/2003

Report Number	Report Title	Issue Date	Decision Date	Final Action
2002-AT-1003	National Scholarship Service and Veteran's Opportunity and Resource Center, Atlanta, GA, Supportive Housing Program Grant	07/25/2002	10/21/2002	02/28/2004
2002-KC-0002	Nationwide Survey of HUD's Office of Housing Section 232 Nursing Home Program	07/31/2002	11/22/2002	06/30/2004
2002-SF-0801	HOME Investment Partnerships Program, City of Stockton, CA, and San Joaquin County, CA	07/31/2002	12/06/2002	Note 2
2002-DE-1004	Housing Advocacy Coalition, Colorado Springs, CO, Outreach and Training Assistance Grant	08/26/2002	03/31/2003	12/31/2003
2002-SF-1002	Oakland, CA Housing Authority, Rehabilitation of the 49 th Street Housing Development	09/17/2002	02/06/2003	10/15/2003
2002-FW-1002	Houma, LA Housing Authority, Low-Rent Housing Program, Cash & Procurement Controls	09/18/2002	01/16/2003	11/30/2003
2002-KC-1003	Iowa Coalition for Housing and the Homeless, Des Moines, IA, Outreach and Training Assistance Grant	09/19/2002	03/31/2003	12/31/2003
2002-AT-1808	Homeless and Housing Coalition of Kentucky, Inc., Frankfort, KY, Outreach and Training Assistance Grant	09/20/2002	03/31/2003	12/31/2003
2002-NY-1004	Ironbound Community Corporation, Newark, NJ, Outreach and Training Assistance Grant and Public Entity Grant	09/23/2002	03/31/2003	12/31/2003
2002-NY-1005	The Legal Aid Society, New York, NY, Outreach and Training Assistance Grant and Public Entity Grant	09/23/2002	03/31/2003	12/31/2003
2002-DE-1005	Crossroads Urban Center, Salt Lake City, UT, Outreach and Training Assistance Grants	09/25/2002	03/31/2003	12/31/2003
2002-SF-1003	Los Angeles, CA Community Development Bank, Economic Development Initiative Grant/ Section 108 Loan Guarantee Program	09/25/2002	01/27/2003	12/01/2003
2002-AT-1004	Ashley Crossings Apartment Homes, Largo, FL	09/26/2002	09/26/2002	10/31/2003
2002-SF-1005	Housing Rights Committee of San Francisco Tides Center, San Francisco, CA, Outreach and Training Assistance Grants	09/26/2002	03/31/2003	12/31/2003

Report Number	Report Title	Issue Date	Decision Date	Final Action
2002-AT-1005	North Carolina Low-Income Housing Coalition, Inc., Raleigh, NC, Outreach and Training Assistance Grant and Intermediary Training Assistance Grant	09/27/2002	03/31/2003	12/31/2003
2002-AT-1006	Ridgeview Manor Apartments, Hopkins, SC	09/30/2002	11/19/2002	11/01/2003
2002-BO-1004	Anti-Displacement Project, Springfield, MA, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	12/31/2003
2002-DE-1002	Affordable Housing and Homeless Alliance, Honolulu, HI, Outreach and Training Assistance Grant and Intermediary Outreach and Training Assistance Grant	09/30/2002	03/31/2003	12/31/2003
2002-FW-1003	New Mexico Public Interest Education Fund, Albuquerque MN, Outreach and Training Assistance Grant and Public Entity Grant, Albuquerque NM	09/30/2002	03/31/2003	12/31/2003
2002-PH-1002	Virginia Poverty Law Center, Richmond, VA, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	12/31/2003
2002-PH-1003	Delaware Housing Coalition, Dover, DE, Outreach and Training Assistance Grant and Intermediary Training Assistance Grant	09/30/2002	03/31/2003	12/31/2003
2002-PH-1004	Tenants' Action Group of Philadelphia, PA, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	12/31/2003
2002-PH-1006	Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	12/31/2003
2002-PH-1007	Legal Aid Bureau, Inc., Baltimore, MD, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	12/31/2003
2002-SF-1004	Low-Income Housing Fund, Oakland, CA, Intermediary Training Assistance Grant	09/30/2002	03/31/2003	12/31/2003
2002-SF-1006	Legal Aid Society of Honolulu, HI, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	12/31/2003
2002-SF-1007	Southern Arizona People's Law Center, Tucson, AZ, Outreach and Training Assistance Grant	09/30/2002	03/31/2003	12/31/2003
2003-DE-1002	Delta, CO Housing Authority, Low-Rent Housing and Section 8 Housing Assistance Payments	10/07/2002	01/29/2003	12/31/2004
2003-DE-1001	Sicangu Wicoti Ananyakape Corp., Rosebud, SD, Indian Housing Block Grant Program	10/08/2002	02/28/2003	12/31/2004
2003-AT-1801	South Carolina Regional Housing Authority No. 3, Barnwell, SC	10/09/2002	02/06/2003	9/15/2004

Report Number	Report Title	Issue Date	Decision Date	Final Action
2003-DE-1003	Audit of June 1998 Memorandum of Understanding Between HUD's Office of Multifamily Housing and the Corporation for National Service, Washington, DC	10/28/2002	03/31/2003	12/31/2003
2003-CH-1003	Tenants United for Housing, Inc., Chicago, IL, Outreach and Training Assistance Grants	10/29/2002	03/31/2003	12/31/2003
2003-DP-0801	Annual Evaluation of HUD's Information Security Program	10/30/2002	01/21/2003	11/01/2003
2003-CH-1004	Indiana Coalition on Housing and Homeless Issues, Indianapolis, IN, Outreach and Training Assistance Grant	10/31/2002	03/31/2003	12/31/2003
2003-SE-1001	Community Alliance of Tenants, Portland, OR, Outreach and Training Assistance Grant	10/31/2002	03/31/2003	12/31/2003
2003-KC-1801	University Forest Nursing Care Center, University City, MO	11/14/2002	02/24/2003	12/03/2003
2003-SE-1002	Tenants Union, Seattle, WA, Outreach and Training Assistance Grant and Intermediary Training Assistance Grant	12/02/2002	03/31/2003	12/31/2003
2003-AO-1001	National Center of Tenants Ownership, Washington, DC, Intermediary Training Assistance Grant	12/03/2002	03/31/2003	12/31/2003
2003-DP-0802	General Information Technology Controls at Affiliated Computer Services – Governmental Services, Inc. (ACS)	12/03/2002	06/05/2003	Note 2
2003-AO-1002	National Housing Trust, Washington, DC, Outreach and Training Assistance Grant	12/09/2002	03/31/2003	12/31/2003
2003-PH-1001	Norfolk and Portsmouth VA, Review of the Joint Empowerment Zone Program	12/20/2002	03/24/2003	10/30/2003
2003-KC-1003	St. Louis, MO/East St. Louis, IL Empowerment Zone Program	12/26/2002	04/18/2003	12/30/2003
2003-CH-1006	Cities of Huntington, WV and Ironton, OH Empowerment Zone Program	12/31/2002	08/08/2003	01/31/2004
2003-CH-1007	City of Minneapolis, MN Empowerment Zone Program	01/03/2003	08/08/2003	01/31/2004
2003-AT-1001	Northwestern Regional Housing Authority, Boone, NC, Public Housing Programs	01/09/2003	06/02/2003	03/10/2004
2003-KC-1004	First Horizon Home Loans, Irving, TX, Non-Supervised Direct Endorsement Lender	01/17/2003	04/28/2003	01/16/2004

Report Number	Report Title	Issue Date	Decision Date	Final Action
2003-FO-0002	Federal Housing Administration, Audit of Fiscal Years 2002 and 2001 Financial Statements	01/21/2003	05/22/2003	Note 2
2003-CH-1008	City of Cleveland Heights, OH, Housing Preservation Program	01/23/2003	06/10/2003	12/31/2003
2003-PH-1002	Philadelphia, PA Housing Authority, Contracting and Purchasing Activity	01/27/2003	06/11/2003	12/31/2003
2003-CH-1009	City of Cincinnati, OH Empowerment Zone Program	01/28/2003	08/08/2003	01/31/2004
2003-FO-0004	Audit of HUD's Financial Statements, Fiscal Years 2002 and 2001	01/31/2003	05/22/2003	02/28/2005
2003-NY-1001	Marion Scott Real Estate, Inc., Management Agent, New York, NY	02/12/2003	06/13/2003	12/31/2003
2003-FW-1001	Housing Authority of the City of Morgan City, LA, Low-Rent Program	02/21/2003	06/20/2003	08/17/2004
2003-AT-0001	Ginnie Mae Review of Internal Controls, Washington, DC	03/05/2003	03/05/2003	12/30/2003
2003-BO-1001	Farmington Health Care Center, Farmington, CT	03/07/2003	07/15/2003	02/28/2004
2003-KC-1005	Choice Enterprises, Inc., Denver, CO	03/10/2003	08/15/2003	03/22/2004
2003-BO-1002	People to End Homelessness, Providence, RI, Outreach and Training Assistance Grants	03/12/2003	03/31/2003	12/31/2003
2003-KC-0801	Inappropriate Home Ownership Center Instructions, Denver, CO	03/18/2003	08/08/2003	03/18/2004
2003-AT-1002	Procurement of Management Agents, Puerto Rico Public Housing Administration, San Juan, PR	03/21/2003	07/17/2003	12/31/2003
2003-CH-1010	Coshocton, OH Metropolitan Housing Authority, Section 8 Housing Program	03/21/2003	05/30/2003	12/31/2008
2003-AT-1003	Fairfield, AL Housing Authority, Housing Programs	03/24/2003	07/22/2003	07/01/2004
2003-CH-1011	Coshocton, OH Metropolitan Housing Authority, Comprehensive Improvement Assistance Program	03/24/2003	06/10/2003	12/31/2062
2003-KC-1803	Richmond Terrace Retirement Center, Richmond Heights, MO	03/24/2003	06/19/2003	10/31/2003
2003-CH-1012	Coshocton, OH Metropolitan Housing Authority, Tenant Opportunities Program	03/25/2003	05/30/2003	12/01/2003

Report Number	Report Title	Issue Date	Decision Date	Final Action
2003-NY-1003	Empire State Development Corporation, New York, NY, CDBG Disaster Assistance Funds	03/25/2003	07/16/2003	01/15/2005
2003-CH-1013	Coshocton, OH Metropolitan Housing Authority, Public Housing Drug Elimination Program	03/26/2003	07/01/2003	12/31/2003
2003-DE-1004	Pryme Investment and Mortgage Brokers, Inc. , Murray, UT, Nonsupervised Loan Correspondent	03/27/2003	06/27/2003	12/31/2004
2003-CH-1014	Coshocton, OH Metropolitan Housing Authority, Public Housing Program	03/28/2003	07/28/2003	06/30/2005
2003-DE-0001	HUD Office of Multifamily Housing Assistance Restructuring's (OMHAR) Oversight of the Section 514 Program Activities	03/31/2003	03/31/2003	Note 2

AUDITS EXCLUDED:

- 22 audits under repayment plans
- 19 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 09/30/2003
(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	19	\$11,053	\$1,686
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	7	\$29,178	\$15,354
A3 For which additional costs were added to reports in beginning inventory	—	\$3,326	0
A4 For which costs were added to non-cost reports	1	50	0
B1 Which were issued during the reporting period	30	\$46,689	\$30,202
B2 Which were reopened during the reporting period	0	0	0
Subtotals (A + B)	57	\$90,296	\$47,242
C For which a management decision was made during the reporting period	30 ¹	\$46,657	\$19,373
(1) Dollar value of disallowed costs:			
Due HUD	6 ²	\$408	\$260
Due Program Participants	25	\$41,480	\$16,614
(2) Dollar value of costs not disallowed	10 ³	\$4,769	\$2,499
D For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	6	\$13,149	\$4,799
E For which no management decision had been made by the end of the reporting period	21 < 48 > ⁴	\$30,490 < \$30,490 > ⁴	\$23,070 < \$23,070 > ⁴

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

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

³ 8 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 09/30/2003
(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	7	\$1,168,558
A2 For which litigation, legislation or investigation was pending at the commencement of the reporting period	3	\$521,211
A3 For which additional costs were added to reports in beginning inventory	---	0
A4 For which costs were added to non-cost reports	1	317
B1 Which were issued during the reporting period	11	\$26,432
B2 Which were reopened during the reporting period	0	0
Subtotals (A + B)	22	\$1,716,518
C For which a management decision was made during the reporting period	10 ¹	\$1,172,264
(1) Dollar value of recommendations that were agreed to by management:	7 ²	\$1,157,489
Due HUD	3	\$12,795
Due Program Participants		
(2) Dollar value of recommendations that were not agreed to by management	4 ³	\$1,980
D For which management decision had been made not to determine costs until completion of litigation, legislation or investigation	3	\$520,302
E For which no management decision had made by the end of the reporting period	9 < 11 > ⁴	\$23,952 < 23,952 > ⁴

¹ 5 audit reports also contain recommendations with questioned costs.

² 1 audit report also contains recommendations with funds due program participants.

³ 3 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.

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.

Report **fraud, waste** and **mismanagement** in
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Washington, DC 20024

Emailing the OIG Hotline: hotline@hudoig.gov

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**All information is confidential and
you may remain anonymous.**

*Semiannual Report to Congress
as of September 30, 2003*

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U.S. Department of Housing and Urban Development

